Business Environment

In the first six months of 2004, the Chinese economy maintained rapid growth with a GDP growth rate of about 9.7%. Some regions saw excessive growth in fixed asset investments, resulting in tight supply of coal, electricity, oil and transportation capacity. In view of this situation, the government made an important decision by adopting a series of austerity measures to ensure ongoing, stable and healthy development of the national economy, and such measures had achieved initial results.

The austerity measures prompted the restructuring of the cement industry and hastened the pace of elimination of production activities employing outdated technologies, imposing a stricter barrier to entry. In the process of eliminating small-volume cement production, there was a combination of government guidance and market adjustment. Some provincial and municipal authorities promulgated policies and medium-to-long-term planning for restructuring their cement industries. Zhejiang Province, for example, made plans to close down 50% of technologically backward vertical kilns currently in operation in the province by 2005, and the remaining ones by 2007. In Shanghai, it was planned that 20 small-capacity cement factories (i.e. with an annual production capacity of less than 1 million tonnes) will be closed down by 2006. In the medium to longer term, the Group will benefit from the current austerity measures.

Highlights of Operations

During the Reporting Period, the Group strictly followed the government's policies on austerity measures to deal with adverse factors such as tight supply of coal and electricity and generally overloaded transportation. The group increased its profitability by proactively responding to market changes, realigning its marketing strategies and expanding market share in a prudent manner.

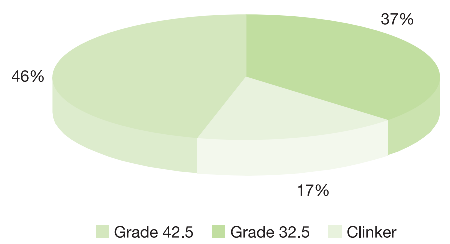
According to the PRC Accounting Standards, the Group's operating income from principal operations for the six months ended 30 June 2004 amounted to 3,815.91 million, representing an increase of 79% compared to the corresponding period last year. Profit after tax and minority interests amounted to 791.92 million, representing a 257% growth compared to the corresponding period last year. Earnings per share were 0.63. According to IFRS, net sales revenue amounted to 3,788.92 million, representing a 79% growth compared to the corresponding period last year. Profit after tax and minority interests amounted to 794.26 million, representing a 255% growth compared to the corresponding period last year. Earnings per share were 0.63.

During the Reporting Period, the following clinker production lines were completed and commenced operations: the clinker production line of Huaining Conch with daily production capacity of 5,000 tonnes, the first clinker production line of Tongling Conch with daily production capacity of 10,000 tonnes and the clinker production line of Zongyang Conch with daily production capacity of 10,000 tonnes. The clinker production line with daily production capacity of 10,000 tonnes at Tongling Hailuo is the first of its kind in China, filling a gap in the domestic cement industry in this regard and is a benchmark for attaining the international advanced technical standard in the cement industry. During the Reporting Period, the "Conch" trademark was designated as a "Famous Brandname in China" by the State Administration for Industry and Commerce, being the only brand name in the cement industry to have received such accreditation in China.

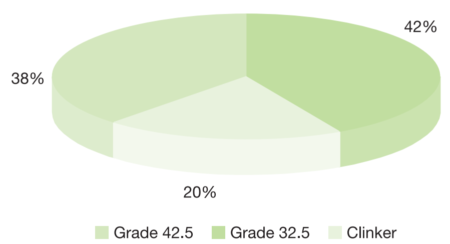
The Group's net sales volume for the Reporting Period amounted to 14.56 million tonnes, representing a 32% increase compared to the corresponding period last year. The Group's sales in major target markets continued to surge and our market share was further consolidated and increased. Meanwhile a total of 320,000 tonnes of clinker was exported, representing an increase of 39% compared to the amount of annual export for last year, reflecting proactive efforts to explore the international market.

Percentage of sales volume by products

January to June 2004



January to June 2003



Breakdown of sales amount by products

(Amount: '000)

Item	From January to June 2004 Amount	From January to June 2004 Percentage (%)	From January to June 2003 Amount	From January to June 2003 Percentage (%)
Cement				
Grade 42.5	**1,936,403**	**50.75**	913,786	42.87
Grade 32.5	**1,345,408**	**35.25**	867,011	40.68
Sub-total	**3,281,811**	**86.00**	1,780,797	83.55
Clinker	**534,095**	**14.00**	350,487	16.45
Total	**3,815,906**	**100.00**	2,131,284	100.00

Breakdown of sales of product by region:

(Amount: '000)

Item	From January to June 2004 Amount	Percentage (%)	From January to June 2003 Amount	Percentage (%)	Difference in Amount (%)
Jiangsu Province	**1,195,638**	**31.33**	692,429	32.49	72.67
Zhejiang Province	**981,757**	**25.73**	500,020	23.46	96.34
Shanghai City	**618,859**	**16.22**	417,988	19.61	48.06
Anhui Province	**553,165**	**14.50**	313,533	14.71	76.43
Jiangxi Province	**309,250**	**8.10**	116,756	5.48	164.87
Fujian Province	**96,914**	**2.54**	90,558	4.25	7.02
Export	**60,233**	**1.58**	—	—	—
Total	**3,815,906**	**100.00**	2,131,284	100.00	79.04

Profit Analysis

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

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

(Amount: '000)

Item	Amount: From January to June 2004	From January to June 2003	Increase/Decrease over the same period of last year (%)
Income from principal operations	**3,815,906**	2,131,284	79.04
Profit from principal operations	**1,803,312**	773,435	133.16
Total profit	**1,495,875**	473,655	215.82
Net Profit	**791,924**	221,808	257.03
Net cash flow from operating activities	**877,793**	897,300	-2.93

During the Reporting Period, the profit from the Group's principal operations was 1,803.31 million, representing an increase of 133% compared to the corresponding period last year. Total profit for the Group amounted to 1,495.88 million, representing an increase of 216% compared to the corresponding period last year. The larger growth in total gross profit as compared to the growth in profit from principal operations underpinned the benefit of further economies of scale, as ongoing capacity expansion of the Group's subsidiaries resulted in substantial increase in production and sales.

Prices

The Company's efforts to rationalise its market distribution and develop a marketing network are paying off well to ensure steady increase in the Company's sales and prices, with significant growth in the Group's operating income and profit. Consolidated average unit price of the Group's products for the Reporting Period increased by 35.5% as compared to the corresponding period last year. The Group was able to maintain selling prices at a higher level underpinned by traditionally strong demands in the first quarter. The consolidated price of 277 per tonne was 44% higher as compared to the corresponding period last year. In response to oversupply and fierce competition in the second quarter, the Company took the initiative to adjust prices in a bid to increase sales. Although the consolidated average price dropped by 9.7% in the second quarter as compared to the first quarter, sales increased by 15%.

Cost

The major factor affecting the Company's results during the Reporting Period was coal supply. Coal prices paid by the Group was 31% higher as compared with the corresponding period last year, as undersupply in the coal market resulted in substantial price hikes. The Group ensured its production requirements by improving the organisation of coal procurement and distribution and as a result its production was not affected by problems in coal supply. The Group succeeded in bringing costs under effective control by enhancing the utilisation rates of equipment, implementing standardised cost controls, reducing consumption, pursuing technological upgrades and adopting other management measures. As a result, consolidated costs increased by only 12% on a year-on-year basis.

Gross Profit Margin

During the Reporting Period, the consolidated gross profit margin of the Group's products was 48%, which was 11 percentage points higher that the corresponding period last year. This was mainly attributable to the increase in product prices by a larger percentage than the inflation of costs, coupled with increased sales of Grade 42.5 cement, a product with a higher margin, in response to market demands. This product accounted for 46% of the Company's sales, which was 8 percentage points higher compared to the corresponding period last year.

Gross Profit for the period from January 2004 to June 2004 by products and comparison

(Amount: '000)

Product type	**Income from principal operations**	**Cost of principal operations**	**Gross profit margin for the Reporting Period** (%)	**Gross profit margin for the corresponding period last year** (%)	**Year-on-year change of percentage points in gross profit margin**
Grade 42.5	1,936,403	1,021,102	47.27	39.20	8.07
Grade 32.5	1,345,408	684,521	49.12	34.22	14.90
Clinker	534,095	279,982	47.58	37.90	9.68
Total	3,815,906	1,985,605	47.97	36.96	11.01

Expenses

During the Reporting Period, the Group's sales expenses continued to decrease as the bulk cement ratio increased to 73% by 10 percentage points compared to the corresponding period last year, resulting in a sales expense ratio of 1.16 percentage points lower than that in the corresponding period last year. Meanwhile the Company implemented rigid cost estimate controls to achieve an administrative cost ratio which was 1.76 percentage points lower than the corresponding period last year.

The Group's EBITDA for the Reporting Period was 1,857.45 million, or 0.49 as a ratio to income from principal operations, which was 0.13 higher compared to the corresponding period last year.

Financial Position

Assets-liabilities Structure

As at 30 June 2004, based on the PRC Accounting Standards, the Group's total assets, total liabilities and net assets amounted to 14,753 million, 8,230 million and 5,250 million, respectively.

The gearing ratio calculated in accordance with the PRC Accounting Standards was 55.78%, which represented a decrease of 1.44 percentage points as compared with that of the end of last year; while the debt-to-equity ratio calculated in accordance with the IFRS was 0.84, representing an increase of 0.20 as compared with that of last year. The main reason for the increase of net liabilities is the Group's rapid growth that led to further increase in the scale of credit facilities and moderate containment of cash reserves. However, the Group took initiative to reduce financial risks by monitoring key financial indicators and optimising funds applications while ensuring full collection of its sales proceeds. Moreover, the Group's interest coverage was higher at 13.8, as compared with 6.68 for the same period last year.

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

(Amount: '000)

Items	As at 30 June 2004	As at 31 December 2003	Increase/ decrease over the beginning of the year (%)
Fixed assets	**11,003,141**	9,627,089	14.28
Current and other assets	**3,750,166**	3,706,281	1.18
Total assets	**14,753,307**	13,333,370	10.65
Current liabilities	**4,838,349**	4,954,645	-2.35
Non-current liabilities	**3,391,558**	2,674,887	26.79
Minority interests	**1,273,287**	1,120,112	13.67
Shareholder's equity	**5,250,114**	4,583,726	14.54
Total liabilities and equity	**14,753,307**	13,333,370	10.65

Liquidity and source of funds

As at 30 June 2004, the Group's total current assets amounted to 3,159.72 million, while its total current liabilities amounted to 4,838.35 million, according to the PRC Accounting Standards. The current ratio, which is derived from dividing current assets by current liabilities, is 0.65.

As at 30 June 2004, the Group's total current assets amounted to 3,159.73 million, while its total current liabilities amounted to 4,838.36 million, in accordance with the IFRS. Net current liabilities amounted to 1,678.63 million.

Maturity analysis of bank loans of the Group as at 30 June 2004 is as follows:

	As at 30 June 2004 ('000)	As at 31 December 2003 ('000)
Due within 1 year	**2,813,689**	2,526,721
Due after 1 year but within 2 years	**894,269**	619,702
Due after 2 years but within 5 years	**2,351,360**	1,898,760
Due after 5 years	**80,000**	80,000
Total	**6,139,318**	5,125,183

As at 30 June 2004, the Group's loan balance in foreign currency amounted to approximately US$39,727,200 (equivalent to approximately RMB328.83 million), of which loans with maturity not exceeding one year amounted to US$25,727,200. The Group will monitor closely changes in the foreign exchange market and assess its exchange rate risks in a prudent manner.

As at 30 June 2004, the Group's machinery and equipment with a net book value of approximately 94.90 million were pledged as security for short-term borrowings (as at 31 December 2003: machinery and equipment with a net book value of approximately 99.54 million were pledged as security for short-term borrowings).

As at 30 June 2004, capital commitments in respect of the purchase of machinery and equipment for production purposes that should be honoured but have not been provided for in the accounts were as follows:

	As at 30 June 2004 ('000)	As at 31 December 2003 ('000)
Authorised and contracted for	**601,114**	381,185
Authorised but not contracted for	**653,819**	973,517
Total	**1,254,933**	1,354,702

A summary of the Group's net cash flow in the first six months of year 2004 as calculated in accordance with PRC Accounting Standards is set out as follows:

	From January 2004 to June 2004 ('000)	From January 2003 to June 2003 ('000)
Net cash flow from operating activities	**877,793**	897,300
Net cash flow from investment activities	**–1,723,131**	–1,407,230
Net cash flow from financial activities	**333,746**	413,770
Net increase in cash and cash equivalents	**–511,592**	–96,160
Cash and cash equivalents at the beginning of the year	**2,248,604**	799,447
Cash and cash equivalents at the end of the reporting period	**1,737,012**	703,287

Net outflow of cash of the Group for the Reporting Period amounted to 511.59 million, representing an increase of 415.43 million compared to the corresponding period last year. The increase was due to the Group's increased investment in project construction in accordance with plans to expand its scale of production.

The Group currently has sufficient liquidity resources. As at 30 June 2004, cash on hand and bank deposits (as calculated in accordance with PRC Accounting Standards) amounted to 1,742.77 million, which is sufficient for the Group to meet its normal business commitments and loan repayment. Meanwhile, the Group continued to pursue a prudent financial management policy as well as an scientific approach to development. Coupled with the adoption of a stringent sales settlement policy and prudent planning in project investment, the Group secured a steady source of cash inflows from its operating activities. During the reporting period, net cash flow from operating activities amounted to 877.79 million.

Capital expenditure

The planned capital expenditure of the Group in 2004 was 2.7 billion. During the reporting period, the aggregate of investment activities and capital expenditure of the Group amounted to 1.76 billion, which was mainly applied in the acquisition of immovable assets, plant and equipment and the expansion of the Group's production capacity of clinker and cement grinding.

Project Investments of the Group

1. Investment projects financed by the proceeds from the placing of H Shares

Net proceeds from the Group's placing of 72,200,000 H Shares on 5 November 2003 (after deduction of the expenses of placing) amounted to 617.62 million, out of which 586.68 million had been invested in the development of the Group's principal cement operations and 30.94 million had been used as additional working capital for the Company. As at the end of the Reporting Period, the proceeds had been fully utilised. Details of projects financed by proceeds from the placing during the Reporting Period are set out as follows:

(Amount: '000)

No.	Project name	Proposed investment	Actual investment	Progress of the project	Whether scheduled progress and expected revenues are met
1.	3 million tonne per annum clinker project of Huaining Conch Co., Ltd	300,000	300,000	Under construction	Yes
2.	1.50 million tonne per annum cement and clinker project of Hunan Shuangfeng	136,680	136,680	Under construction	Yes
	Total	436,680	436,680		

2. Significant projects not financed by the proceeds from the placing of H Shares

(Amount: '000)

No.	Project name	Progress of project	Amount invested during the reporting period
1.	3 million tonne per annum clinker production line No. 1 of Tongling Conch Cement Co., Ltd	Trial production	220,340
2.	3 million tonne per annum clinker production line No. 2 of Tongling Conch Cement Co., Ltd	Under construction	
3.	3 million tonne per annum clinker production line of Zongyang Conch Cement Co., Ltd	Trial production	129,390
4.	2 clinker production lines (1.50 million tonne per annum each) with ancillary cement grinding system of China Cement Co., Ltd	Under construction	217,220
5.	Technological upgrade and expansion project of 1.60 million tonne per annum cement grinding production line of Zhangjiagang Conch Cement Co., Ltd, Phase 3	Operation commenced	50,840
6.	Technological upgrade and expansion project of 1.10 million tonne per annum cement grinding production line of Nanjing Conch Cement Co., Ltd, Phase 3	Trial production	28,820
7.	1.50 million tonne per annum cement grinding production line of Huai'an Conch Co., Ltd	Trial production	49,610
8.	1.65 million tonne per annum cement grinding production line of Taicang Conch Cement Co., Ltd	Under construction	90,580
9.	1.65 million tonne per annum cement grinding production line of Taizhou Conch Cement Co., Ltd	Under construction	8,500

3. Establishment of Companies

(1) *Wujiang Conch Cement Co., Ltd*

On 8 January 2004, the Company together with its subsidiary, China Cement Co., Ltd, invested in Wujiang Conch Cement Co., Ltd in Wujiang City, Hunan Province, contributing 45 million, which account for 90% of its entire registered capital of 50 million.

(2) *Shuangfeng Conch Cement Co., Ltd*

On 29 February 2004, the Company invested in Shuangfeng Conch Cement Co., Ltd in Shuangfeng County, Hunan Province, contributing 136.68 million, which account for 51% of its entire registered capital of 268 million.

(3) *Jiangsu Baling Conch Cement Co., Ltd*

On 26 March 2004, the Company invested in Jiangsu Baling Conch Cement Co., Ltd in Yancheng City, Jiangsu Province, contributing 25.272 million, which account for 75% of its entire registered capital of 32.96 million.

(4) *Maanshan Conch Cement Co., Ltd*

On 7 April 2004, the Company together with its subsidiary, China Cement Co., Ltd invested in Maanshan Conch Cement Co., Ltd in Maanshan City, Anhui Province, and the Company held a portion of its registered capital of contributing 45 million, which account for 90% of its entire registered capital of 50 million.

(5) *Anhui Xuancheng Conch Cement Co., Ltd*

On 22 April 2004, the Company together with its subsidiary, Anhui Ningguo Cement Co., Ltd invested in Anhui Xuancheng Conch Cement Co., Ltd in Xuancheng City, Anhui Province, contributing 90 million, which account for 90% of its entire registered capital of 100 million.

Outlook for the second half of the year

While the Government is going to launch further austerity measures, it is not expected that the problems of coal and power shortage will be resolved radically in the immediate future. Nevertheless, austerity measures are not expected to have very material impact on the Company's expansion plans, as long as China's economy can maintain an overall trend of sustained growth.

While the Government will adopt more stringent approval procedures for project construction, all projects planned by the Company are technologically advanced large-scale production lines in line with State industrial policies. The Company has plans to commission 6 clinker lines in 2004, which will generate an additional capacity of approximately 13.50 million tonnes of clinker. The second clinker production line of Tongling Hailuo with daily production capacity of 10,000 tonnes and the production line with daily production capacity of 5,000 tonnes of each of China Cement and Shuangfeng Hailuo will also commence operation in the second half of the year.

In terms of funding, the Company's investments in new projects are unlikely to be affected by a tightened grip on loans, because there are sufficient funds at its disposal due to its prudent sales policies and risk control strategies.

While austerity measures will stifle market demands, there will be opportunities for the Company, backed by its strengths in production capacity and economies of scale, to consolidate selected regional markets and gradually increase its market share in the industry restructuring process through the elimination of small-volume cement plants. Meanwhile, the Company will also continue to increase its exports.

Looking to the second half of the year, the Group will focus on improving the quality of the operation of its production management system. It will continue to develop a production cost assessment system based on controllable costs, with a view to optimising and lowering consumption indicators, containing non-operating expenses and continuously enhancing the quality of operation. Meanwhile, substantial year-on-year growth in the Company's nine-month results is expected.