Mr. Ren Yong, the General Manager

Business Environment

In 2004, the overall PRC economy maintained a steady pace of rapid growth, hitting an annual GDP growth rate of 9.5%. A series of macroeconomic control measures adopted by the State targeting at overheated investments in certain industries had effectively contained the localized over-investment situation to a certain extent, minimizing the occurrence of redundant implementation.

The State had adopted the following macroeconomic control measures towards the cement industry: to continue enhancing the policy of industry restructuring; to reinforce the assessment and approval of project implementation; to raise the entrance barrier into the industry; to focus support for places equipped with adequate resources to construct clinker bases having a daily production capacity of more than 4,000 tonnes and adopting new drying methods; and to encourage the elimination of rudimentary production.

The abovementioned macroeconomic control measures had shown gradual effects since the second half of the year. On one hand, the total fixed assets investments in society began to go down, leading to demand downturn and pressure of lower margin in the overall cement industry. On the other hand, over-investment within the cement industry was suppressed, with a slowdown in the growth of its total capacity. As a result, the over-development of rudimentary production, representing the toughest part of the long-term restructuring the PRC's cement industry was considerably alleviated, whereas cement production capacity by new drying methods was expanded and picking up bigger market share in line with the direction of the industry restructuring. Although cement produced by new drying methods still faces vicious competition from cement production made by rudimentary techniques in the short run, it is expected that the elimination of rudimentary production will be accelerated with the strengthening of

Business Environment *(Continued)*

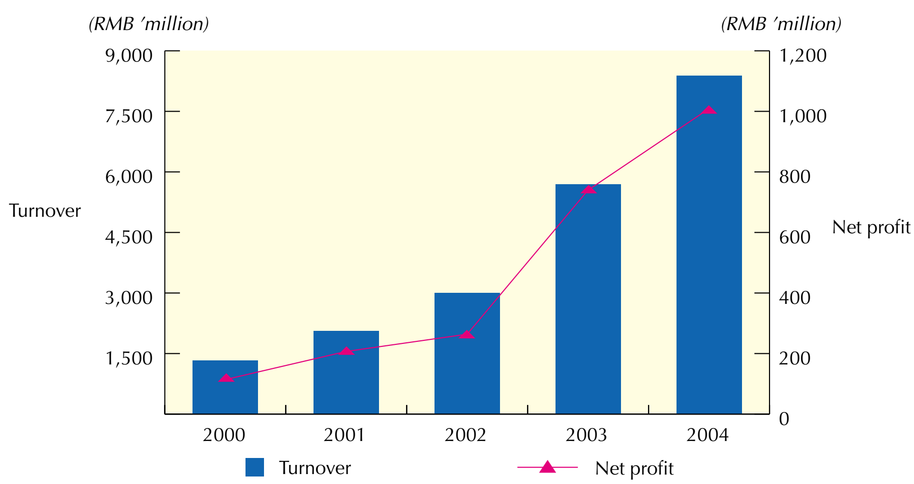
the State's macroeconomic control measures and the narrowing of the profit margin in the cement industry. As such, competition for resources and energy within the industry will lessen, and cement production companies adopting new drying methods will account for an increased market share. In the long run, the macroeconomic control measures will enhance the cement industry concentration and hasten the restructuring of the industry, opening ways for the stable and healthy development of the PRC cement industry in the future.

Analysis of Operating Position

Highlights of operation

The Company advanced one big step in laying out its production and sales networking strategies in 2004. All the construction projects planned complied with the State's industry requirements and were classified as large scale production lines welcomed under the State's policies, whereby production expansion plans were completed smoothly and sales networks were enhanced. Parallel to its efforts to continually fortify its management, the Company successfully minimized the pressure of increasing costs (including coal, electricity, oil and transportation costs) by fully leveraging on the guaranteed preferential electricity supply policy and other supportive measures from local governments. In addition, we significantly improved our competitiveness and increased our market share by maximizing the effects of economies of scale and taking advantage of the recent decrease in the price of cement in the PRC market. 2004 marked the seventh consecutive year in which the Company recorded stable growth in its production scale, production volume, sale volume, and operating revenue of cement and clinkers.

Based on the PRC Accounting Standards, the Company's operating income from principal operations in 2004 amounted to RMB8,384.95 million, representing an increase of 47% compared to last year. Net profit amounted to RMB1,008.83 million, representing an increase of 36% compared to last year. Earnings per share were RMB0.803. Based on the IAS, net sales revenue amounted to RMB8,334.81 million, representing an increase of 47% compared to last year. Profit after tax and minority interests amounted to RMB960.92 million, representing an increase of 29% compared to last year. Earnings per share were RMB0.77.



Analysis of Operating Position *(Continued)*

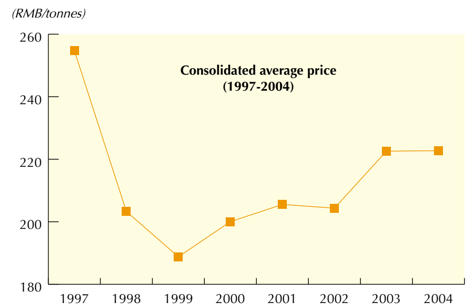
An Overview of Production and Sales

With continued large-scale capital input by the Company for years, as at 31 December 2004, the Group's total clinker productivity in 11 clinker production bases in Eastern and Southern China reached 36.5 million tonnes, and the total cement productivity of 23 cement grinding mills reached 41.5 million tonnes. In respect of single-line production capacity, the Company owns 15 production lines of over 5,000 T/D. Of the 7 existing cement and clinker production lines of 10,000 T/D over the world, the Company owns 3. During the reporting period, the 3 cement and clinker production lines of 10,000 T/D of the Group not only were completed and commenced operations successfully, but also achieved their targets within short term, which forcefully drove the technological advancement and restructuring of the cement industry in the PRC. In particular, the completion and full operation of 2 production lines of 10,000 T/D of Tongling Conch increased the productivity of this single plant to ten million tonnes. This proves that the Company owns the super large-scale cement production lines with technologies and equipment attaining the internationally-advanced standards today, and is also a benchmark for the international status and image of the PRC cement industry. In 2004, the Group produced a total of 31.99 million tonnes and 31.84 million tonnes cement and clinker respectively, representing an increase of 53% and 52% as compared to last year. The Group's sales amounted to 37.58 million tonnes, representing an increase of 47% compared to last year.

The two clinker production lines with a daily production capacity of 10,000 tonnes located in Tongling, Anhui

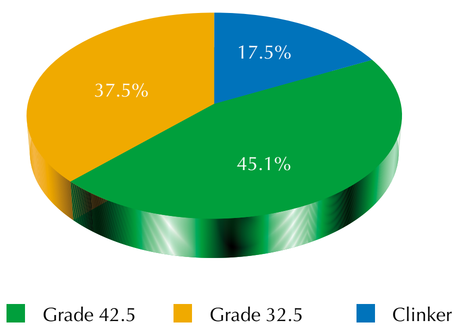
Analysis of Operating Position *(Continued)*

Under the influence of the macroeconomic control measures, the product price exhibited a gradual downward trend during the reporting period. However, the average price throughout 2004 still amounted to RMB222.7 per tonne, basically remaining at the same level as last year.

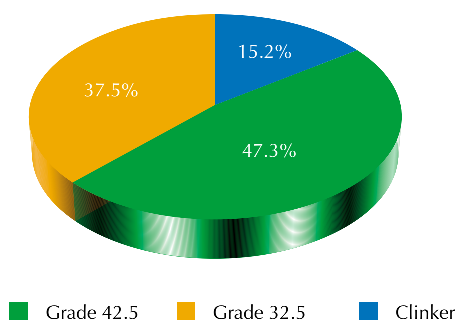


During the reporting period, the respective sales of the Group by products were: 15.79 million tonnes for grade 42.5 cement, 14.94 million tonnes for grade 32.5 cement and 6.85 million tonnes for clinker.

Percentage of sales amount by products



2004



2003

During the reporting period, the Company remained adhered to its cash-on-delivery sales policy, aggressively expanding small-to-medium urban and rural markets in order to maintain its competitive edges in the markets, so that the sales of cement and commodity clinker maintained a quarter-on-quarter growth. The sales growth rate in Jiangsu, Zhejiang, Jiangxi and Anhui amounted to 66.1%, 40.1%, 74.3% and 58.7% respectively. Meanwhile, the Company actively explored the Hunan market. The Shuangfeng project was completed and commenced operations in late 2004. With the productivity of the project to reach full scale in 2005, sales in the region will be further increased.

Analysis of Operating Position *(Continued)*

Sales amount by region *(RMB' million)*

	2004		2003		
Region	***Sales amount***	***Percentage***	*Sales amount*	*Percentage*	**Difference**
		(%)		*(%)*	*(%)*
Shanghai City	**1,101**	**13.0**	1,050	18.4	4.9
Jiangsu Province	**2,813**	**33.2**	1,694	29.7	66.1
Zhejiang Province	**1,931**	**22.8**	1,378	24.2	40.1
Fujian Province	**210**	**2.5**	185	3.3	13.5
Jiangxi Province	**657**	**7.7**	377	6.6	74.3
Anhui Province	**1,542**	**18.3**	972	17.1	59.5
Hunan Province	**37**	**0.4**			
Export	**186**	**2.2**	39	0.7	376.9
Total	**8,485**	**100.0**	5,695	100.0	47.0

In 2004, the Company actively explored the international markets and the American standard cement produced has been successfully sold to the US, further enhancing the Company's reputation and influence in the international market. As at 31 December 2004, a total of 960,000 tonnes of cement and clinker was exported, representing an increase in sales amount of 377% compared to last year.

A scene at the cement export at Yangwan Pier, Taizhou

Taizhou Yangwan Conch is the largest cement export pier in the Mainland that produces 3.20 million tonnes high quality cements per annum and self-owns a pier berthing vessels with 30-50 thousands tonnes capacity.

Analysis of Operating Position *(Continued)*

Profit

Based on the PRC Accounting Standards, the Company's operating income from principal operations in 2004 amounted to RMB8,384.95 million, representing an increase of 47% compared to last year. Net profit amounted to RMB1,008.83 million, representing an increase of 36% compared to last year. Based on the IAS, net sales revenue amounted to RMB8,334.81 million, representing an increase of 47% compared to last year. Profit after tax and minority interests amounted to RMB960.92 million, representing an increase of 29% compared to last year.

Major items in the Group's income statement (prepared in accordance with the PRC Accounting Standards)

Item	**2004 *Amount* *(RMB'000)***	2003 *Amount* *(RMB'000)*	**Increase (+) Decrease (-)** *(%)*
Income from principal operations	**8,384,947**	5,695,032	47.2
Profit from principal operations	**2,752,053**	2,348,281	17.2
Total profit	**1,941,730**	1,649,166	17.7
Net profit	**1,008,827**	739,566	36.4
Net cash flow from operating activities	**1,429,620**	2,490,246	(42.6)

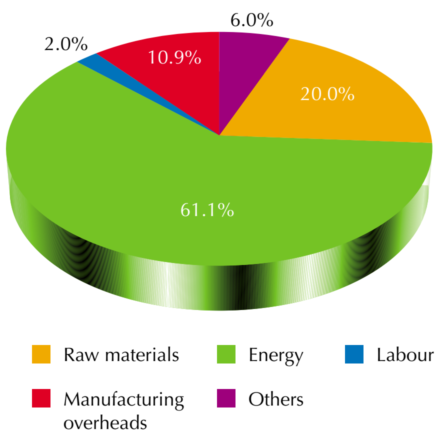
Major items in the Group's income statement (prepared in accordance with the IAS)

Item	**2004 *Amount* *(RMB'000)***	2003 *Amount* *(RMB'000)*	**Increase (+) Decrease (-)** *(%)*
Net sales revenue	**8,334,811**	5,653,986	47.4
Sales gross profit	**2,746,386**	2,353,507	17.5
Profit after tax and minority interests	**1,966,527**	1,654,669	18.8
Net profit	**960,919**	743,404	29.3

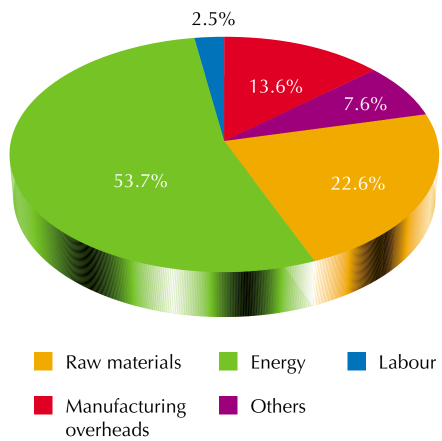
From the perspective of cost, energy expenditure accounted for 61% of the total cost, representing an increase of 7 percentage points compared to last year. The main reason is the various extent of cost hikes in coal and electricity during the reporting period, of which coal prices increased by approximately 50% compared to last year, and electricity prices increased by RMB0.025/kWh. In view of price hikes in energy, the Company fully realised its productivity and expanded production and sales and amortised fixed costs. Apart from strengthening the cost management of various production procedures continuously, the Company also actively optimised the original coal supply channels, reduced procurement costs and lowered intermediate costs. All these partially offset the adverse effects resulting from price hikes in energy.

Analysis of Operating Position *(Continued)*

2004 cost structure



2003 cost structure



Affected by price hikes in energy and the increase of cost, the gross profit margin of the Company's principal products in 2004 recorded decrease of various extent as compared to last year, with the gross profit margin of clinker decreasing by 13.6 percentage points.

2004 gross profit by products and comparison

Product type	Income from principal operations *(RMB'million)*	Cost of principal operations *(RMB'million)*	Gross profit margin *(%)*	Changes in income from principal operations over last year *(%)*	Changes in cost of principal operations over last year *(%)*	Year-on-year change of percentage points in gross profit margin
Grade 42.5 cement	3,963	2,623	33.81	54.39	86.05	(11.26)
Grade 32.5 cement	3,147	2,087	33.68	47.48	54.62	(3.06)
Clinker	1,275	873	31.56	28.21	60.03	(13.61)
Total	**8,385**	**5,583**	**33.42**	**47.23**	**68.92**	**(8.55)**

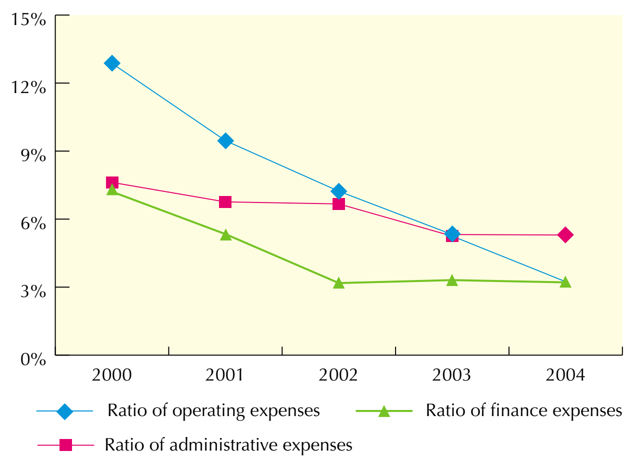
During the reporting period, the ratio of the administrative and operating expenses to the operating income both decreased compared to last year, while the ratio of finance expenses recorded relative stability when the State tightened grip on loans and increased interests rates.

Analysis of Operating Position *(Continued)*

Changes in expenses items
(prepared in accordance with the PRC Accounting Standards)

	Amount (RMB'000)		Ratio to operating income (%)	
Expenses for the period	**2004**	2003	**2004**	2003
Operating expenses	**443,763**	303,203	**5.29**	5.32
Administrative expenses	**274,444**	298,849	**3.27**	5.25
Finance expenses	**271,393**	188,235	**3.24**	3.31

Changes in ratios of various expenses to operating income



In addition, during the reporting period, the Group actively secured concession policies in respect of technological renovation and comprehensive utilisation of energy and resources, facilitating the growth in the Group's profitability.

During the reporting period, the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) was RMB2,833.45 million, representing an increase of 19.1% as compared to last year. EBITDA margin was 33.8%, representing a decrease of 8 percentage point as compared to last year.

Analysis of Financial Position

Assets-liabilities Structure

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

Item	2004	2003	Amount changed	Changes
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(%)*
Fixed assets	**11,705,104**	9,627,089	2,078,015	21.6%
Current and other assets	**4,362,066**	3,706,281	655,785	17.7%
Total assets	**16,067,170**	13,333,370	2,733,800	20.5%
Current liabilities	**6,113,975**	4,954,645	1,043,832	21.1%
Non-current liabilities	**3,314,733**	2,674,887	756,810	28.3%
Minority interests	**1,171,182**	1,120,112	51,069	4.6%
Shareholders' equity	**5,467,280**	4,583,726	882,088	19.2%
Total liabilities and equity	**16,067,170**	13,333,370	2,733,800	20.5%

As at 31 December 2004, based on the PRC Accounting Standards, the Group's total assets, net assets and total liabilities amounted to RMB16,067 million, RMB5,467 million and RMB9,428 million respectively, representing an increase of RMB1,800 million compared to the end of last year.

As at 31 December 2004, the gearing ratio calculated in accordance with the PRC Accounting Standards was 58.68%, representing an increase of 1.5 percentage points compared to the end of 2003. The reason is that the expansion in the scale of production and sales increased the scale of credit facilities. The net debt ratio calculated in accordance with the IAS was 0.80, representing an increase of 0.30 as compared to the end of last year. This is mainly due to the price hikes in coal and transportation resulted in the increase in the Group's prepayments and capital expenditure, which in turn led to a reduction in cash reserve compared to the beginning of the year.

During the reporting period, the Group closely monitored changes in its financial position. Risks were strictly controlled, and no new amount due was recorded. The Group's interest coverage continued to maintain at higher level at 8.2 time. As at 31 December 2004, the Group's total current assets amounted to RMB3,589.17 million, while its total current liabilities amounted to RMB6,113.97 million, according to the PRC Accounting Standards. The current ratio, based on current assets over current liabilities, was 0.59: 1.

From the perspective of data indicators, although an increase was recorded in the Company's liabilities, its financial position became healthier. The Company will continue to optimise its financial structure and increase the ratios of medium-to-long term loans appropriately.

Analysis of Financial Position *(Continued)*

Liquidity and Funding

Maturity analysis of bank loans of the Group as at 31 December 2004 is as follows:

	As at 31 December 2004 ***(RMB'000)***	As at 31 December 2003 *(RMB'000)*
Due within 1 year	**3,693,102**	2,530,611
Due after 1 year but within 2 years	**651,370**	626,452
Due after 2 years but within 5 years	**2,524,160**	1,888,120
Due after 5 years	**80,000**	80,000
Total	**6,948,632**	5,125,183

As at 31 December 2004, the Group's loan balance in foreign currency amounted to US$14 million (equivalent to approximately RMB116.05 million), of which loans with maturity within one year amounted to US$14 million. The Group will monitor closely fluctuations in the foreign exchange market and assess its exchange rate risks in a prudent manner.

As at 31 December 2004, the Group's machinery and equipment with a net book value of approximately RMB91.09 million were pledged as security for short-term borrowings (2003: the Group's machinery and equipment with a net book value of approximately RMB99.54 million were pledged as security for short-term borrowings), accounting for 0.78% of net assets.

The Group currently has sufficient liquidity resources. As at 31 December 2004, cash on hand and bank deposits (as calculated in accordance with the PRC Accounting Standards) amounted to RMB1,639.72 million, which is sufficient for the Group to meet its normal business commitments and repayment of matured loans.

Comparison of net cash flows
(prepared in accordance with the PRC Accounting Standards)

	2004 ***(RMB'000)***	2003 *(RMB'000)*
Net cash flows from operating activities	**1,429,620**	2,490,246
Net cash flows from investment activities	**(2,836,567)**	(2,807,296)
Net cash flows from financing activities	**785,172**	1,766,207
Net increase (decrease) in cash and cash equivalents	**(621,775)**	1,449,157
Cash and cash equivalents at the beginning of the year	**2,248,604**	799,447
Cash and cash equivalents at the end of the year	**1,626,829**	2,248,604

While having expanded substantially in scale, the Group continued to focus on minimising capital risks in 2004. The Group ensured a steady source of cash inflow from its operating activities through stringent control over cost settlement by cash and strict implementation of the cash-on-delivery sales settlement policy. During the reporting period, net cash flows from operating activities amounted to RMB1,429.62 million, representing a decrease of RMB1,060.63 million compared to last year; net cash and cash equivalents decreased by RMB621.78 million as compared to last year. The decrease in cash flows from operating activities as compared to last year was due to the tense situation in coal and transportation, which in turn led to increases in prepayments for coal and reserve.

Analysis of Financial Position *(Continued)*

Capital Expenditure

During the reporting period, the aggregate amount of investment activities and capital expenditure of the Group amounted to RMB2,869.87 million, of which approximately RMB42.10 million was attributable to expenditure for the acquisition of investment in a subsidiary, and approximately RMB2,401.77 million was attributable to capital expenditure for the acquisition of buildings, plant and equipment.

As at 31 December 2004, the Group's investment in an associate amounted to RMB171.52 million.

As at 31 December 2004, capital commitments in respect of the acquisition of machinery and equipment for suppliers that should be honoured but have not been provided for in the accounts were as follows:

	As at 31 December 2004 *(RMB'000)*	As at 31 December 2003 *(RMB'000)*
Authorised and contracted for	**683,522**	503,881
Authorised but not contracted for	**886,690**	188,356
Total	**1,570,212**	692,237

In 2005, the Group will arrange capital expenditure in a prudent manner to ensure there is sufficient operating capital for production. It is estimated that the capital expenditure of 2005 will be approximately RMB2.6 billion, which will be mainly spent on expanding the clinker and cement grinding production capacity of the Group, and energy-saving improvement projects such as waste-heat electricity generation. The above capital mainly comes from internal funds and bank loans.

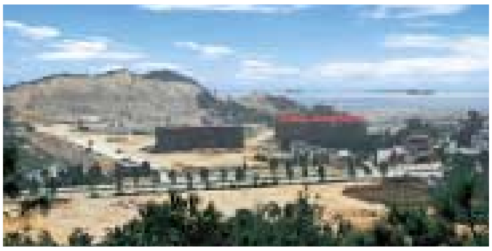
Outlook for 2005

In 2005, the State will implement proactive fiscal and monetary policies to maintain the sound development in its economy and society, reinforce and enhance the macroeconomic control measures, continue to tighten the approving procedures of credit facilities and land to contain the overgrowth of fixed asset investments. As such, the growth in cement demand will be decelerated, aggravating the discrepancies between phasic demand and supply, making it more difficult to alleviate the tense situations in coal, electricity, oil and transport in the short term and thereby intensifying the pressures on business development.

Under the influence of the global economic growth and the demand from the economic development in developing countries, the global demand for cement in general has seen an upward trend during the past three years. In particular, the demand became stronger in the Middle East, the United States, Brazil, West Africa and countries in Southeast Asia including Bangladesh, Vietnam, Brunei and Korea.

Outlook for 2005 *(Continued)*

In view of this, the Company will adopt active and responsive measures to develop strategies, expand markets, lower costs and increase efficiency, reduce various risks in operations, and keep enhancing the Company's operating efficiency.



Jiangmen Conch under construction

As its developing strategies, the Company will continue to perfect the "T" shape development strategy in Eastern China ("—" in "T" represents coastal area in Eastern China, " | " represents Changjiang), consolidate and strengthen the Company's competitive advantages in the markets of Eastern China, fully utilise the existing facilities and pencil bookings in established clinker production bases and further expand the scale of single plant to optimise the use of resources. In 2005, the Company will continue to expand the clinker production line of Baimashan Cement Plant with an annual productivity of 1.5 million tonnes. The expansion and new projects of some clinker bases in Anhui Province will be commenced soon. The Company will speed up the construction of cement grinding stations in Maanshan, Taizhou, Yancheng and Haimen, so as to further enhance the Company's market shares in Eastern China. Meanwhile, the Company will actively explore markets in Southern China, build clinker bases in the Pearl River Delta where rich limestone resources lie and build cement grinding stations in areas where market demands are high. By accelerating the construction of Yingde clinker base and Jiangmen cement grinding station, and fully utilise the capacity of Hunan Shuangfeng Conch, the Company seeks to enhance its market shares in Southern China through 2-3 years of development.

In 2005, the Company will also actively expand the international markets, fully realise the use of Yangwan Port of Taizhou as an export base to increase the market shares of Conch's cement in the international cement trading market, while speeding up the construction of export channels and technologically renovating self-owned piers with potential, with the aim to meet the export needs of the international markets. Substantial growth in export volume is expected.

Waste-heat electricity generator

The Company will increase its investment in energy-saving technological upgrade projects to use the waste-heat generated from clinker production to generate electricity in 2005. Currently, the Company has signed a total of 10 Technology Introduction Contracts for Waste-heat Electricity Generation Technological Devices for plants such as Ningguo and Tongling with Kawasaki, Japan. Total installed capacity amounts to 162,600 kWh. After the implementation of the project, the Company not only can recycle heat and improve the skills of clinker production lines, but also can further lower its production costs and enhance product competitiveness.

Outlook for 2005 *(Continued)*

In 2005, to lower consolidated operating costs and enhance operating effectiveness, the Company will further improve its internal management, enhance the professional basic management of newly-established companies, optimise the system of cost assessment and evaluation, tighten the cost assessment and result evaluation of various areas such as production, procurement, transport and sales.

2005 is a year full of opportunities and challenges ahead. The Company firmly believes that with good strategic distribution, sophisticated market networks and strong advantages of scale, the Company will continue to maintain the steady growth in the scale of production and sales, expand its market shares and create greater values for its shareholders from the restructuring.

Full view of the self-owned pier for vessels with 10 thousand tonnes capacity at Zhangjia Port Zhangjiagang Conch produces 3.20 million tonnes high quality cements per annum and its pier is equipped with re-export capability