Business Environment

2005 is a crucial year to the structural realignment of the Chinese economy. The overall national economy lingers at a high level, with investments and consumption demands regaining rationality as well as robust growth in net exports. China's GDP growth rate for the first half of 2005 was 9.5%.

At the same time, the State continued to strengthen and improve its proactive austerity policies in controlling excessive growth of fixed asset investments by overheated industries. Fixed asset investments nationwide grew 25.4% year-on-year, a drop of 3.2% points over the same period of last year. The growth rates of fixed asset investments made by some of the provinces in eastern China were lower than that of the national average, among which, the growth rates of Shanghai and Zhejiang Province were 15% points and 7.2% points below respectively.

With the implementation of the proactive austerity policies, the scale of fixed asset investments within the cement industry has been basically under control during the first half of 2005, which further hastened the pace of the industry's structural realignment. The ratio of using modern cement production method within the whole country went up to 33%, 62% of which were within eastern China. Industry concentration also went up despite the prevailing conflict due to excessive supply and declining demand. Because of the declines in fixed asset investments, the growth in market demand slowed down. The whole industry drifted further lower in view of the ferocious price competition among peers and the sustained high costs of coal and electricity. The overall return of the industry deteriorated as some of the cement enterprises were in loss or minimal profit position.

Highlights of Operations

During the first half of 2005, in response to changes in the external operating environment, the Group strengthened its internal foundation management and exercised stringent implementation measures over financial budgeting and cost controls. Whilst safeguarding the stable and efficient operation of equipment, the Group will focus on technical improvement projects in energy savings and consumption reductions in order to lower coal and electricity consumption targets and raise its energy utilisation efficiency and control its integrated operating costs. Externally, the Group consolidated its existing quality markets in all regions, fortified its expansion in medium to small urban and rural markets and maintained steady growth of its market share.

During the Reporting Period, the Group achieved sales volume of 24.21 million tonnes, representing an increase of 66% over the same period of last year. The Group's income from principal operations for the six months ended 30 June 2005 as reported in accordance with PRC Accounting Standards amounted to RMB4,533.064 million, representing an increase of 18.79% over the same period of last year; the net profit amounted to RMB107.665 million, representing a 86.4% decrease over the same period of last year; and the earnings per share were RMB0.086. When reported in accordance with IFRS, the Group's net sales amounted to RMB4,513.416 million, representing an increase of 19.12% over the same period of last year; the profit after tax and minority interests amounted to RMB91.414 million, representing a 88.49% decrease over the same period of last year; and the earnings per share were RMB0.07.

Breakdown of sales by products

(Amount: RMB'000)

	January to June 2005		January to June 2004	
Products	**Sales**	**%**	Sales	%
Cement				
Grade 42.5	**1,711,361**	**37.75**	1,936,403	50.74
Grade 32.5	**1,623,086**	**35.81**	1,345,408	35.26
Sub-total	**3,334,447**	**73.56**	3,281,811	86.00
Clinker	**1,198,617**	**26.44**	534,095	14.00
Total	**4,533,064**	**100.00**	3,815,906	100.00

During the Reporting Period, Zhejiang Province and Jiangsu Province continued to implement their policies of phasing-out outdated cement production capacity which led to the changeovers of some of the kiln cement enterprises to cement grinding factories, thereby increased the demands for clinker. As the clinker production capacity of the Group increased in a faster pace during the Reporting Period, there was a corresponding increase in supply. Meanwhile, due to the faster pace of construction in small cities and towns, the demands for cement in medium to small urban and rural markets were also pushed up. The Group has grasped such market opportunity to raise its sales of 32.5 grade cement.

Breakdown of sales by regions

(Amount: RMB'000)

Regions	January to June 2005 Sales	January to June 2005 %	January to June 2004 Sales	January to June 2004 %	Increase/(decrease) in sales %
Jiangsu Province	**1,483,981**	**32.74**	1,195,638	31.33	24.12
Zhejiang Province	**830,307**	**18.31**	981,757	25.73	(15.43)
Shanghai	**442,953**	**9.77**	618,859	16.22	(28.42)
Anhui Province	**650,291**	**14.35**	553,165	14.50	17.56
Jiangxi Province	**318,213**	**7.02**	309,250	8.10	2.90
Fujian Province	**93,337**	**2.06**	96,914	2.54	(3.69)
Hunan Province	**114,775**	**2.53**	—	—	—
Export	**599,207**	**13.22**	60,323	1.58	893.33
Total	**4,533,064**	**100.00**	3,815,906	100.00	18.79

During the Reporting Period, the Group's sales continued to surge significantly in all major target markets with steady increases in market share as a result of effective expansion in production capacity and market development.

Benefited by the effects of market integration emerging in Jiangsu Province and Anhui Province, the Group maintained larger increases in sales and a corresponding growth in regional sales. In view of the ferocious price competition in the markets of Zhejiang Province and Shanghai, regional sales declined correspondingly.

The Group's sales in Hunan market rose significantly as the production capacity of the Shuangfeng Project was fully leveraged.

Capitalising on its competitive advantages in technology and quality fully, and promoting its international market actively, the Group's export volumes grew swiftly by 893% over the same period of last year and enhanced the Group's overall operating returns.

Profit Analysis

An analysis of major changes to the Group's principal profit and loss items, prepared in accordance with PRC Accounting Standards, is set out as follows:

Major changes to the Group's principal profit and loss items, prepared in accordance with PRC Accounting Standards

(Amount: RMB'000)

Items	Amount **January to June 2005**	 January to June 2004	Difference as compared with the same period of the previous year %
Income from principal operations	**4,533,064**	3,815,906	18.79
Profit from principal operations	**862,787**	1,803,312	(52.16)
Total profit	**222,260**	1,495,875	(85.14)
Net profit	**107,665**	791,924	(86.40)
Net cashflow from operating activities	**543,052**	877,793	(38.13)

During the Reporting Period, the Group's profit from principal operations amounted to RMB862.79 million, representing a decrease of 52%. The total profit of the Group amounted to RMB222.26 million, representing a decrease of 85%. The decrease in profit from principal operations was primarily due to the significant period-on-period declines in selling prices and the increases in costs associated with hikes in coal and electricity prices. The falls in total profit far exceeded that of profit from principal operations because of the higher percentage increases in operating expenses and finance costs over the same period of last year.

Prices

During the Reporting Period, market prices bounced up slightly from its lowest point during the first quarter of 2005. At present, they are still lingering at a low level, but remain steady as a whole. Consolidated product price of the Group fell by 29% over the same period of last year. In addition, changes in the sales proportions between clinker and grade 32.5 cement also dragged down the Group's consolidated price.

Costs

During the Reporting Period, period-on-period increases in the Group's costs of coal and electricity were 43% and 7% respectively. Although the Group took positive measures in implementing overall cost reduction and efficiency enhancement proposals, expanding technology improvement construction, focusing on upgrading energy usage and equipment operating rates which led to a decrease of 8% over the unit consumption of coal and a decrease of 3% over the consolidated expenses over the same period of last year, the consolidated costs still went up by 11% over the same period of last year. On a quarterly prospective, coal prices have begun to show a steady and declining trend in the second quarter of 2005.

Gross Margin

During the Reporting Period, consolidated gross margin of the Group's products was 19%, representing a decrease of 29% points over the same period of last year. This was due to the larger decrease in consolidated prices and larger increase in costs of all products over the same period of last year. On a quarterly prospective, gross margin of the second quarter rose by 4% points over the first quarter of 2005.

Gross profit by products and period-on-period comparison for the period from January to June 2005

(Amount: RMB'000)

Products	Income from principal operations	Costs of principal operations	Gross margin for Reporting Period (%)	Gross margin for same period of last year (%)	Difference as compared with the same period of the previous year (% points)
Grade 42.5	1,711,361	1,416,827	17.21	47.27	(30.06)
Grade 32.5	1,623,086	1,260,036	22.37	49.12	(26.75)
Clinker	1,198,617	973,765	18.76	47.58	(28.82)
Consolidated	4,533,064	3,650,629	19.47	47.97	(28.50)

Expenses

As a result of its stringent control over all expenses, the Group's administrative expenses fell by 0.20% points over the same period of last year.

During the Reporting Period, the Group's selling expenses rose by 3.24% points over the same period of last year as the proportion of packaging bag sales increased as well as the increase in trans-shipment expenses brought about by surging exports.

Finance costs of the Group rose by 1.4% points over the same period of last year because of the effects of increases in loans and base interest rates.

Financial Position

Balance sheet items

As at 30 June 2005, the Group's total assets, total liabilities and net assets, prepared in accordance with PRC Accounting Standards, amounted to RMB17,530 million, RMB11,076 million and RMB5,412 million respectively.

The gearing ratio, prepared in accordance with PRC Accounting Standards, was 63.19%, representing an increase of 4.50% points over the end of last year; while the debt-to-equity ratio, prepared in accordance with IFRS was 1.1, representing an increase of 0.3 over last year. The main reason for the increase in net liabilities was the Group's rapid development that led to expansion in credit facilities.

In line with market changes, the Group will reallocate funds properly, optimise funds application efficiency, better loan portfolio and increase weighting in long-term loans appropriately. During the Reporting Period, the Group held discussions with International Capital Corporation and Banque Nationale de Paris on medium- to long-loan financing, which is expected to be finalised in the third quarter of 2005. In addition, the Group will monitor the changes in trends of key financial indicators timely and safeguard against financial risks proactively.

Changes in balance sheet items, prepared in accordance with PRC Accounting Standards

(Amount: RMB'000)

Items	**30 June 2005**	31 December 2004	Difference as compared with the same period of the previous year (%)
Fixed assets	**13,713,530**	11,705,104	17.16
Current and other assets	**3,816,230**	4,362,066	(12.51)
Total assets	**17,529,760**	16,067,170	9.10
Current liabilities	**7,503,144**	6,113,975	22.72
Non-current liabilities	**3,573,408**	3,314,734	7.80
Minority interests	**1,041,144**	1,171,181	(11.10)
Equity	**5,412,064**	5,467,280	(1.01)
Total liabilities and equity	**17,529,760**	16,067,170	9.10

Liquidity and sources of funds

As at 30 June 2005, the Group's total current assets and total current liabilities, prepared in accordance with PRC Accounting Standards, were RMB2,906.52 million and RMB7,503.14 million respectively. The current ratio was 0.4.

As at 30 June 2005, the Group's total current assets and total current liabilities, prepared in accordance with IFRS, were RMB2,778.79 million and RMB7,502.73 million respectively. The net current liabilities were RMB4,723.94 million.

The Group has obtained new bank loans of RMB1,117 million for funding its implementation of market strategy and project construction.

Maturity analysis of bank loans of the Group as at 30 June 2005 was as follows:

	30 June 2005 *(RMB'000)*	31 December 2004 *(RMB'000)*
Due within 1 year	**4,546,452**	3,693,102
Due after 1 year but within 2 years	**1,342,000**	651,370
Due after 2 years but within 5 years	**2,097,180**	2,524,160
Due after 5 years	**80,000**	80,000
Total	**8,065,632**	6,948,632

As at 30 June 2005, outstanding capital commitments in respect of the purchase of machinery and equipment for production purposes but not yet provided in the accounts were as follows:

	30 June 2005 *(RMB'000)*	31 December 2004 *(RMB'000)*
Authorised and contracted for	**733,241**	683,522
Authorised but not contracted for	**840,454**	886,690
Total	**1,573,695**	1,570,212

A summary of the Group's net cashflow for the first six months of 2005, prepared in accordance with PRC Accounting Standards, was set out as follows:

	January to June 2005 *(RMB'000)*	January to June 2004 *(RMB'000)*
Net cashflow from operating activities	**543,052**	877,793
Net cashflow from investment activities	**(1,697,882)**	(1,723,131)
Net cashflow from financial activities	**350,440**	333,746
Net increase in cash and cash equivalents	**(804,390)**	(511,592)
Cash and cash equivalents at beginning of year	**1,626,829**	2,248,604
Cash and cash equivalents at end of period	**822,439**	1,737,012

During the Reporting Period, net cash outflow of the Group amounted to RMB804.39 million, a net increase in outflow of RMB292.80 million over the same period of last year due to the Group's increased investments in project construction.

Capital expenditure

During the Reporting Period, the aggregate of investment activities and capital expenditure of the Group amounted to RMB1.71 billion, which was mainly applied in the construction, expansion and acquisition of clinker and cement grinding production line projects. Progresses of projects like the clinker production line with an annual capacity of 1.5 million of Baimashan Cement Plant, the clinker base at Yingde, the cement grinding stations at Maanshan and Jiangmen are satisfactory. Initial preparatory work for the clinker base at Wuhu was basically completed.

Project Investments of the Group

1. Significant projects not financed by fund raisings

(Amount: RMB'000)

No.	Project name	Progress of project	Amount invested during Reporting Period
1.	Second clinker production line with a daily capacity of 5,000 tonnes of China Cement Plant Co., Ltd.	Operation commenced	140,150
2.	A clinker production line with a daily capacity of 5,000 tonnes and its ancillary cement grinding system of Baimashan Cement Plant	Under construction	105,060
3.	Two cement grinding production lines with a daily capacity of 5,000 tonnes and its ancillary cement grinding system of Wuhu Conch Cement Co., Ltd.	Under construction	42,490
4.	Four clinker production lines with a daily capacity of 5,000 tonnes and its ancillary cement grinding system of Yingde Conch Cement Co., Ltd.	Under construction	263,900
5.	A cement grinding production line of Taicang Conch Cement Co., Ltd.	Operation commenced	12,000
6.	A cement grinding production line with an annual capacity of 3.2 million tonnes of Haimen Conch Cement Co., Ltd	Operation commenced	110,070
7.	A cement grinding production line with an annual capacity of 3.2 million tonnes of Maanshan Conch Cement Co., Ltd.	Under construction	124,330

(Amount: RMB'000)

No.	Project name	Progress of project	Amount invested during Reporting Period
8.	A cement grinding production line with an annual capacity of 3.2 million tonnes of Jiangmen Conch Cement Co., Ltd.	Under construction	150,950
9.	A cement grinding production line with an annual capacity of 1.65 million tonnes of Taizhou Conch Cement Co., Ltd.	Under construction	33,670

2. Investments made in major project companies during the Reporting Period

(1) *Ninghai Qiangjiao Conch Cement Co., Ltd.*

On 21 January 2005, the Company and its subsidiary, Huaining Conch Cement Co., Ltd, jointly invested in "Ninghai Qiangjiao Conch Cement Co., Ltd." in Ninghai County, Zhejiang Province, of which the Company contributed RMB45 million, accounting for 90% of its entire registered capital of RMB50 million.

(2) *Fusui Xinning Conch Cement Co., Ltd*

On 27 April 2005, the Company and its subsidiary, Huaining Conch Cement Co., Ltd, jointly invested in "Fusui Xinning Conch Cement Co., Ltd." in Chongzuo City, Guangxi Zhuang Autonomous Region, of which the Company contributed RMB190 million, accounting for 95% of its entire registered capital of RMB200 million.

(3) *Xingye Kuiyang Conch Cement Co., Ltd*

On 29 April 2005, the Company and its subsidiary, Huaining Conch Cement Co., Ltd, jointly invested in "Xingye Kuiyang Conch Cement Co., Ltd." in Yulin City, Guangxi Zhuang Autonomous Region, of which the Company contributed RMB190 million, accounting for 95% of its entire registered capital of RMB200 million.

Outlook for the second half of the year

During the second half of 2005, the State will continue to persist with stability and continuity sustained by its austerity policies and implement its healthy financial and monetary policies. While reinforcing and improving overall volume control, it will also continue to drive structural realignment of the economy and accelerate the changes in growth patterns. With regard to the cement industry, it will insist strenuously on the development of modern cement production in accelerating the phasing-out of outdated production capacity, pushing industry restructuring, encouraging savings and reductions in energy consumption of enterprises, and promoting healthy development of the cement industry.

However, with larger additions in production capacity by modern cement production methods in eastern China, market competition remained ferocious in view of the fundamental failure to address the imbalances between excessive supply and declining demand in the regional cement market within a short time.

The management of the Company is of the opinion that austerity presented a test against the development strategy and the standard of all foundation management of the Company.

In view of this, the Group will leverage on its overall competitive advantages in eastern China to further alleviating its leading control over the market, stabilising and enhancing its quality market share, actively expanding its markets in minor urban and rural areas, consolidating the Group's overall market share in eastern China and warranting full utilization of its production capacity.

The Group will, henceforth, continue to actively promote the construction of latent heat project, fully maximize the efficiency of resources and energy, implement production savings and reduce costs, and enhance its product competitiveness. Besides, it will also hasten the construction of export channels, enhance the distribution capability of exports and expand the export volumes of cement and clinkers in order to raise its market share in the international market. It will implement its market strategy in southern China gradually, expand its scale of production capacity in southern China and raise its sales volume within the new regional market.

The Group will further better its management process, enhance professional management system, upgrade quality operation of production lines, reduce consumption in all energy indicators, better our supply channels, reduce procurement costs and all logistic transhipment expenses, and upgrade its overall profit level in creating wealth for shareholders.

Because of the impact of the State's austerity measures on the cement industry, market demand lacked the momentum of growth and product prices remained at low levels. It is expected that the Company's net profit for the first three quarters of 2005 would be at least 50% less than that of the corresponding period of last year. The shareholders of the Company and public investors are requested to be cautious about the investment risks associated with the trading of the Company's shares.