Operating environment

In 2005, a general direction of development in a scientific manner had been implemented nationwide, and macroeconomic control measures continued to play an important role. By introducing a series of policies such as restricting on land and credit, and regulating environment issues as well adjusting the industry structure, the macroeconomic operation continued to see a steady progress with better coordination in development, and growth was steady yet rapid. The GDP for the year enjoyed an increase of 9.9%, which was 0.2 percentage point lower than that of last year; investment in fixed assets across the country increased by 25.7%, a decrease of 0.9 percentage point. (note: figures are quoted from the Publication of Statistics of the National Economic and Social Development of the People's Republic of China for 2005)

In 2005, China's cement production volume amounted to 1.06 billion tonnes, an increase of 9.7% over 2004; the rate of production to sales was 98.4%; cement exported amounted to 11.37 million tonnes, an increase of 89% over 2004; clinker exported amounted to 10.78 million tonnes, an increase of 950% over 2004, which represented a tremendous increase in export volume; the export price had been generally steady, however, as a result of the slackened domestic demand, and the impact of cost of coal and electricity as well as emerging production capacity, profit margin of the cement industry declined significantly, though recovering quarter-on-quarter.

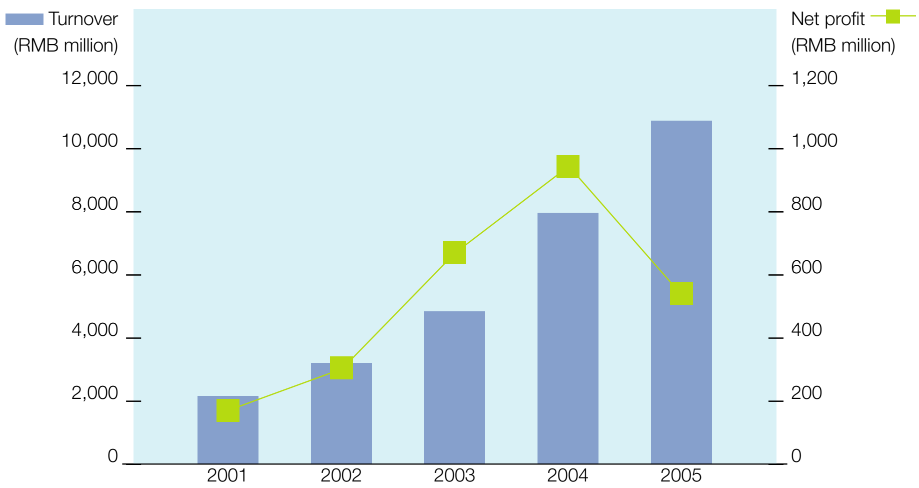
In 2005, in the course of macroeconomic control, the speed of the restructuring of the cement industry was significantly higher. Throughout the year, cement production capacity by new drying methods was expanded by 101 million tonnes, and the production volume by the new drying methods reached 473 million tonnes, representing 45% of the total annual production volume of cement for the year and an increase of 12 percentage points over last year. Also, concentration of the cement industry had been intensifying, with the degree of concentration of the top ten cement corporations rised from 4.4% in 2000 to 13.3% in 2005. (note: figures are quoted from An Analysis of the Cement Industry for 2005 published by the China Cement Association and the statistics of the Company)

Analysis of operation

Highlights of operation

In 2005, the Company had grasped the macroeconomic policy correctly with our analysis of the operation conditions and adjustments were made timely to our operating and development strategies. We advanced to the southern part of China with our strategic planning and spared no effort in expanding into the international markets. At the same time, our capability in technological innovation was given full play with a number of technological revamp, which minimized the operating costs of the many segments in production and management. The growth of our scale of operation, production and sales volume and operating income were maintained.

In the Reporting Period, based on the PRC Accounting Standards, the Company's operating income from principal operations amounted to RMB10,826 million and net profit amounted to RMB407 million, and earnings per share amounted to RMB0.32; Based on the IAS, net sales revenue amounted to RMB10,826 million; net profit was RMB386 million, earnings per share amounted to RMB0.31.



Highlights of production

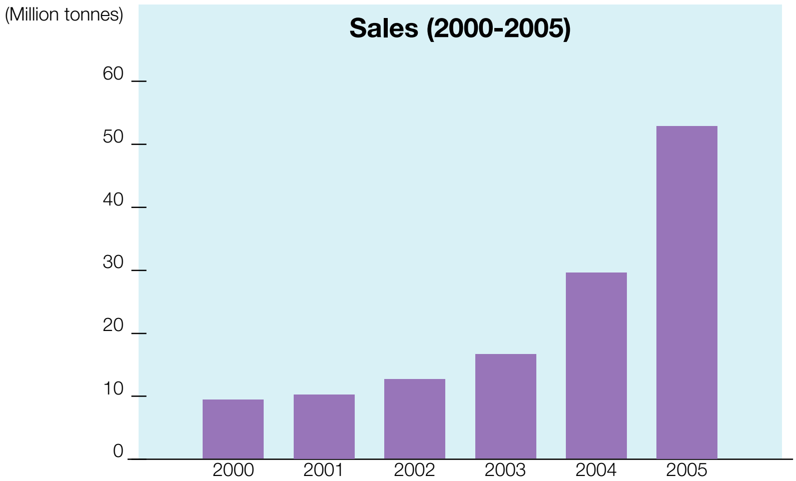
In 2005, we continued to implement our regional strategic planning for eastern and southern China with our economies of scale on the rise. As at the end of the year, our production capacity for clinker reached 45.50 million tonnes, and production capacity for cement reached 61.50 million tonnes; in addition, the establishment of a system for production operation and organization management and a system for technological safeguards not only enabled the commencement of production of newly constructed production lines on schedules, but also enabled them to meet their targets of production quickly.

During the Reporting Period, the Group produced a total of 45.80 million tonnes of clinker, an increase of 44% over last year, and 40.72 million tonnes of cement, an increase of 27% over last year.

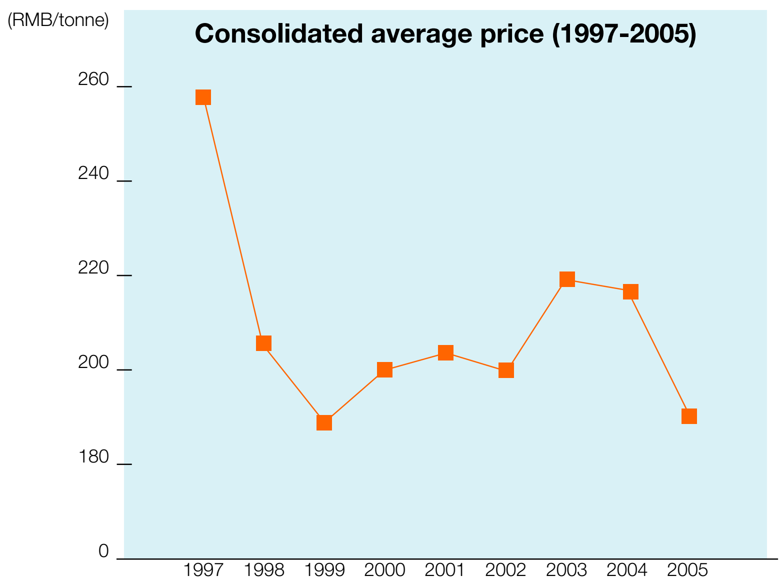
An overview of sales

In 2005, the effects of macroeconomic control had become more marked with the growth in investment in fixed assets trimmed and a downward adjustment of the real property industry, hence a slackened demand in cement. However, with urbanization taking place and forces in the international markets, the demand recouped from its low upwards quarter-on-quarter.

During the Reporting Period, our sales recorded 56.92 million tonnes, an increase of 51% over last year, of which 8.43 million tonnes were for export, an increase of 778% over last year.

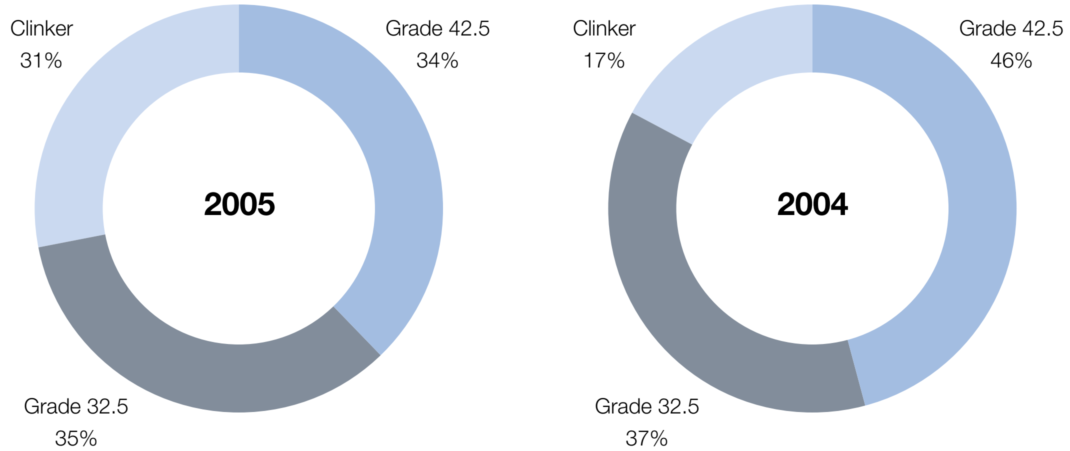


During the Reporting Period, prices of our products experienced a rather significant drop, and the consolidated average price was RMB190.2/tonne for the year, a decrease of 14.6% over last year; however, the trend for the year was that the price climbed slowly upwards with the lowest point in the first quarter.



From our product structure, with the increase of exported clinker, the percentage of clinker to the total sales volume increased by 13 percentage points to 31% over last year; grade 32.5 cement represented approximately 35% and grade 42.5 cement (including grade 42.5 or above) represented approximately 34% of the total.

Percentage of sales by product variety



From regional sales, growth in the sourthern China market was greater, and the sales amount for the year amounted to RMB760 million, representing 19.5 times over last year; also, the percentage in export had surged, representing approximately 17.1% of the Group's sales, which had effectively alleviated the competitive pressure from the market of eastern China and steadied the market price, hence the operating effectiveness of the Company.

Regional sales amount by region (RMB million)

Region	**2005**		**2004**		**Increase/**
	Sales amount	**Proportion** (%)	**Sales amount**	**Proportion** (%)	**Decrease** (%)
Shanghai	**938**	**8.7**	1,101	13.1	(14.8)
Jiangsu Province	**3,311**	**30.6**	2,721	32.6	21.7
Zhejiang Province	**1,675**	**15.5**	1,931	23	(13.3)
Fujian Province	**245**	**2.3**	210	2.5	16.7
Jiangxi Province	**762**	**7.0**	657	7.8	16.0
Anhui Province	**1,292**	**11.9**	1,542	18.4	(16.2)
Hunan Province	**319**	**2.9**	37	0.4	762.2
Guangdong Province	**132**	**1.2**	–	–	–
Guangxi Province	**306**	**2.8**	–	–	–
Export	**1,846**	**17.1**	186	2.2	892.5
Total	**10,826**	**100.0**	8,385	100.0	29.1

Profit

In 2005, in spite of the significant rise in sales, given the fall in price and rise in cost, our profit experienced a more marked decrease over last year. Based on the PRC Accounting Standards, the Company's operating income from principal operations amounted to RMB10,826.21 million, an increase of 29.11% over last year; net profit amounted to RMB406.89 million, a decrease of 59.67% over last year; based on the IAS, the net sales revenue amounted to RMB10,826.21 million, an increase of 29.11%; profit after tax and minority interests amounted to RMB385.83 million, a decrease of 59.85% over last year.

Major items in the Group's income statement

(prepared in accordance with the PRC Accounting Standards)

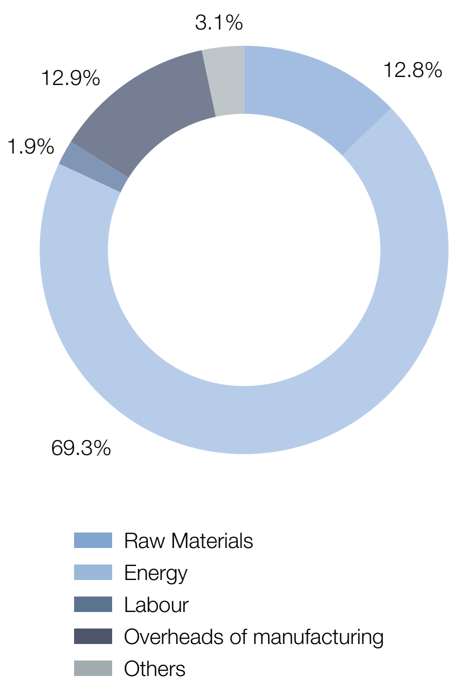
Item	**2005 Amount** (RMB'000)	**2004 Amount** (RMB'000)	**Increase/ Decrease** (%)
Income from principal operations	**10,826,214**	8,384,947	29.11
Profit from principal operations	**2,446,126**	2,752,053	(11.12)
Total profit	**861,374**	1,941,730	(55.64)
Net profit	**406,892**	1,008,827	(59.67)
Net cash flow from operating activities	**1,523,523**	1,429,620	6.57

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

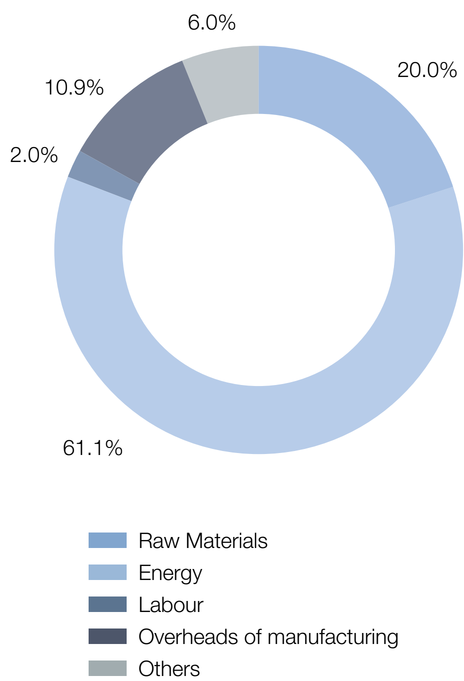
Item	2005 Amount (RMB'000)	2004 Amount (RMB'000)	Increase/ Decrease (%)
Net sales revenue	**10,826,214**	8,384,947	29.11
Sales gross profit	**2,410,546**	2,764,386	(12.80)
Profit before tax and minority interests	**871,009**	1,966,527	(55.71)
Net profit	**385,832**	960,919	(59.85)

From the perspective of cost, energy expenditure accounted for 69% of the total cost, representing an increase of 8 percentage points over last year. It was mainly attributable to the cost hikes in coal during the Reporting Period, in which the purchasing prices for coal increased by 12% over last year, and electricity prices increased by 6% over last year. In view of the price hikes in coal and electricity, the Group minimized the purchasing prices of raw coal by strengthening our purchasing management, exploring more and better purchasing channels of raw coal and improving the quality of raw coal purchased. The Group also actively implemented energy-saving technological revamp to the extent that physical consumption of raw was reduced by 8% compared to last year, and the consolidated electricity consumption for clinker was reduced by 5% over last year.

Cost structure for 2005



Cost structure for 2004



During the Reporting Period, as a result of the double impact of fall in the prices of products and the rise in prices of coal and electricity, while our sales increased by 52% over last year, revenue from principal operations merely increased by 29%, and as the costs of our principal operations increased by 49%, the gross profit of our various products saw a marked decrease. During the Reporting Period, as the growth in the investment in fixed assets in the eastern China region was lower than the average of national level, demand for grade 42.5 cement was not great, and given the fierce competition, its gross profit was the lowest among other products.

2005 gross profit by products and comparison

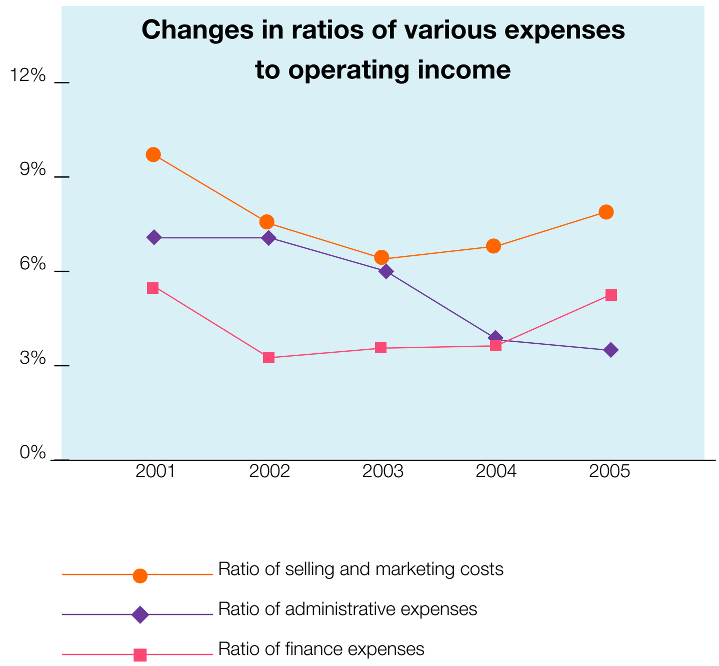
Product type	Income from principal operations (RMB million)	Cost of principal operations (RMB million)	Gross profit margin (%)	Changes in income from principal operations over last year (%)	Changes in cost of principal operations over last year (%)	Year-on-year change of percentage points in gross profit margin
Grade 42.5 cement	4,094	3,269	20.15	3.31	24.63	(13.66)
Grade 32.5 cement	3,688	2,723	26.17	17.19	30.47	(7.51)
Clinker	3,044	2,322	23.72	138.72	165.98	(7.84)
Total	**10,826**	**8,314**	**23.20**	**29.11**	**48.92**	**(10.22)**

During the Reporting Period, operating cost increased considerably, which was mainly attributable the increase in export sales, which led to a substantial increase in export-specific costs and the expenses in packaging cost because of the increase in bagged cement. These two items represented 71% of the total operating expenses. In order to minimize the operating expenses, the Group expanded its own export terminals, of which Yangwan Conch and Zhangjiagang Conch had in place terminals for 10,000-tonne class freighters to berth directly there, and high-grade cement can be conveyed into the silos of the vessels directly by conveyance belts, thus reducing the cost for middle house. With the spending and demand of rural areas on the rise, demand for bagged cement increased considerably, and expenses in packaging bags and related expenses also increased.

Changes in expenses items

(prepared in accordance with the PRC Accounting Standards)

	Amount (RMB'000)		Ratio to operating income (%)	
Expenses for the period	**2005**	2004	**2005**	2004
Selling and marketing costs	**832,756**	443,763	**7.69**	5.29
Administrative expenses	**354,671**	274,444	**3.28**	3.27
Finance expenses	**445,260**	271,393	**4.11**	3.24



Analysis of financial position

Asset-liabilities structure

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

Item	2005	2004	Amount changed	Changes
	(RMB'000)	(RMB'000)	(RMB'000)	(%)
Fixed assets	**15,091,128**	11,705,104	3,386,024	28.93
Current and other assets	**4,150,898**	4,362,066	(211,168)	(4.84)
Total assets	**19,242,026**	16,067,170	3,174,856	19.76
Current liabilities	**7,397,025**	6,113,975	1,283,050	20.99
Non-current liabilities	**4,990,774**	3,314,733	1,676,041	50.56
Minority interests	**1,142,793**	1,171,182	(28,389)	(2.42)
Shareholders' equity	**5,711,434**	5,467,280	244,154	4.47
Total liabilities and equity	**19,242,026**	16,067,170	3,174,856	19.76

As at 31 December 2005, based on the PRC Accounting Standards, the Group's total assets, net assets and total liabilities amounted to RMB19,242 million, RMB5,711 million and RMB12,388 million respectively, representing an increase of RMB3,175 million, RMB244 million and RMB2,959 million compared to the end of last year.

As at 31 December 2005, the non-current liabilities increased by RMB1,676 million compared to the end of last year, which mainly represented the increase in our long-term borrowings.

As at 31 December 2005, based on the PRC Accounting Standards, the Group's total current assets amounted to RMB3,422.61 million, while its total current liabilities amounted to RMB7,397.03 million. The current ratio, based on current assets over current liabilities, was 0.46:1.

As at 31 December 2005, the Group's gearing ratio calculated in accordance with the PRC Accounting Standards was 64.38%, representing an increase of 5.7 percentage points compared to the end of last year. This was mainly attributable to the scale of credit facilities. The net debt ratio calculated in accordance with the IAS was 1.17, an increase of 0.37 compared to the end of last year. This was mainly attributable to the increase in inventory reserve, accounts receivable and investment expenditure for our works, which led to a decrease in cash reserve and increase in loans.

During the Reporting Period, the Group had been closely monitoring changes in our loan structure, and we organized capital arrangements, enhanced the effectiveness of the use of capital and to exercised stringent control over financial risks so as to maintain our creditworthiness. Also, the interest protection multiple had been kept at a sound level, which was 2.93.

Liquidity and funding

Maturity analysis of bank loans of the Group as at 31 December 2005, is as follows:

	As at 31 December 2005	**As at 31 December 2004**
	(RMB'000)	(RMB'000)
Due within 1 year	**4,706,360**	3,693,102
Due after 1 year but within 2 years	**2,185,380**	1,128,350
Due after 2 years but within 5 years	**1,959,800**	2,047,180
Due after 5 years	**730,000**	80,000
Total	**9,581,540**	6,948,632

During the Reporting Period, in order to improve our financial position and optimize our loan structure, we obtained a 10-year term loan from International Finance Company of RMB650 million and a 3-year term loan from BNP consortium of RMB800 million at a lower capital cost. Such capital were mainly used in expanding our scale of production and as a swap for short-term loans so as to enhance our current ratio.

	2005	**2004**
	(RMB'000)	(RMB'000)
Net cash flows from operating activities	**1,523,523**	1,429,620
Net cash flows from investment activities	**(3,284,168)**	(2,836,567)
Net cash flows from financing activities	**1,312,206**	785,172
Net increase in cash and cash equivalents	**(448,439)**	(621,775)
Cash and cash equivalents at the beginning of the year	**1,626,829**	2,248,604
Cash and cash equivalents at the end of the year	**1,178,390**	1,626,829

In 2005, the Group continued to implement the cash on delivery sales settlement policy, and we also adopted a flexible sales strategy to reduce our inventory. Our production to sales ratio was 100% for the whole year, which ensured that our operating activities generated a steady stream of cash inflow. Net cash generated from our operating activities amounted to RMB1,523.52 million, an increase of RMB93.90 million, which mainly attributable to the expansion of our scale of production and sales as well as the adoption of cash on delivery policy. Our net cash and cash equivalents decreased by RMB448.44 million compared to last year, which was mainly attributable to the larger amount of capital invested in works and construction.

Capital expenditure

During the Reporting Period, the aggregate amount of investment activities and capital expenditure of the Group amounted to RMB3,284.17 million, of which approximately RMB459.05 million was attributable to the expenditure for the acquisition of investment in subsidiaries, and approximately RMB2,891.04 million was attributable to capital expenditure for the acquisition of buildings, plants and equipment.

During the Reporting Period, our new loans amounted to RMB2,630 million, which was mainly used for the construction of construction projects. We have been consistent in our development strategy and have been active in bringing about the construction of projects in the southern China. Yingde Conch, our wholly-owned subsidiary, has four 5,000T/D clinker production lines and cement grinding mills of an annual production capacity of 4.8 million tonnes which are under construction as scheduled. As at the end of the Reporting Period, the Group had invested RMB1,300 million in the project; the Group had made an acquisition in Guangxi successfully for three 5,000T/D clinker production lines and their ancillary cement grinding mills.

As at 31 December 2005, the Group's investment in associates amounted to RMB164.04 million.

As at 31 December 2005, capital commitment 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 2005 (RMB'000)	**As at 31 December 2004** (RMB'000)
Authorised and contracted for	**1,449,180**	683,522
Authorised but not contracted for	**1,129,017**	886,690
Total	**2,578,197**	1,570,212

Outlook for 2006

2006 is the first year for the PRC to implement its "Eleventh Ten-Year" Plan. The State has expressed its plan to steer the economic and social development in a scientific development perspective, to maintain the continuity and stability of the macro-economic policy, to expend efforts to optimize the economy structure and the economic growth model, to promote the quality and efficiency of economic growth, and to maintain the momentum of stable yet fast economic growth. This has brought about an invaluable opportunity for the development of the cement industry. Moreover, speeding up the urbanization progress and the construction of new rural areas in the socialist way similarly offers a broad horizon for the development of the cement industry.

The "Guiding Catalogue in the Adjustments of Industries" recently promulgated by the State has further defined both the standards and the requirements for the adjustment of the cement industry. It is expected that by 2010, the domestic demand for cement will reach 1,250 million tonnes, of which proportion of cement produced by the new drying methods will increase from 40% to 70%, and the accumulated decrease in the production volume of cement produced by outdated methods will be 250 million tonnes. (note: these figures have been quoted from "Operation of the Cement Industry of China and Trend of Policy of the Industry" in Issue No. 3 of "China Cement" for 2006)

The management of the Company has already noted that while the cement industry sustains grow, with the era of high cost being ushered in, increase in the cost of mineral resources, the cost of environment, the cost of labour and the cost of capital bring in new restrictions for the development of the cement industry. The measures promulgated by the State to promote adjustment in industry structure demand more of the comprehensive use of resources and a recycling economy mode of development. In addition, with the introduction of new capital from overseas, it will be more apparent for the domestic cement market to become international. Accordingly, in its new round of development, the Group will adopt the development model of recycling economy, introduce substantial changes to its growth model, establish enterprises with resources-conserving and environmental-friendly nature, with the objective of corporate benefit maximization in order to realise sustainable growth of the Group.

In 2006, the Group plans to arrange for capital expenditure of some RMB2.6 billion, mainly for the construction of production lines of clinker and cement grinding plants, and also for the proposal of generation of electricity by residual heat. Among them, the proposals for construction of production lines of clinker and cement grinding plants include two production line for 5,000 tonnes of clinker daily of Yingde Conch, the construction of which had commenced in 2005 and will continue in 2006, a production line for 5,000 tonnes clinker daily of phase I, Wuhu Conch,

special projects at Yingde Conch, Taizhou Conch, Baling Conch which are cement grinding plants, and a 5,000 tonnes daily production line of phase II, Wuhu Conch, the construction of which will commence in 2006, a 5,000 tonnes production line of Beiliu Conch, Guangxi, cement grinding projects in Qiangjiao Conch and Changfeng Conch as well as the construction of ancillary facilities such as a pier and a railway line.

In addition, the Group is actively pursuing the proposal of generation of electricity by residual heat. In 2006, the residual heat electricity-generating facilities will be completed at Ningguo, Chizhou and Jiande. Construction in respect of the proposals for residual heat electricity-generating facilities at Songyang, Digang and Tongning will also commence. Upon completion of such facilities, the operating costs of the Group will be further lowered and the economy of scale enhance, which will also make contribution to the social environment. Concurrent with the Group's economic benefit, the social environment will also be improved.

In 2006, the Group aims at more than 30% increase in the production and sales of cement and clinker and sales income with a decrease in costs and expenses. Under the macroeconomic controls, it is anticipated that growth in new production capacity will slow down, together with the increase in export, supply and demand will become better balanced.

In 2006, we have opportunities amid challenges. The Group will make the best use of our strengths in strategic layout, market network and expanding scale of operation accumulated over the years to capital and influence the market. Together with our sound operating results, we shall be better able to reward our shareholders and contribute our feedback to our society.