

Chairman's Statement

To shareholders:

I am pleased to report that 2000 was a year of significant improvement in turnover and profits for the Company. The Group (comprising the Company and its subsidiaries) recorded a turnover of RMB1,323.94 million and net profit of RMB113.77 million in 2000, which increased by 24.13% and 94.19% respectively as compared to the previous year. During the year, the Group operated smoothly and developed as planned, further securing its leading position in the PRC cement industry.

Earnings per share of the Company for 2000 was RMB0.12. The board of directors recommended a dividend of RMB0.03 per share, totaling RMB29.5 million, for the financial year ended 31st December, 2000. It is expected that the dividend will be distributed on 9th May, 2001 (Wednesday) to shareholders whose names appear on the register of members of the Company on 24th April, 2001 (Tuesday), provided that the resolution in relation to the final dividend is passed by the shareholders at the annual general meeting to be held on 25th April, 2001 (Wednesday).

2000, A YEAR OF OPPORTUNITIES AND IMPROVEMENT

In 2000, the PRC Government implemented positive monetary policy and proactive fiscal policy which resulted in growing internal demand and an economic growth rate of 8.2% was recorded. Policies were implemented to control overall production and optimize the industry structure in respect of the cement industry, of which small cement plants with an aggregate production capacity of 70 million tonnes were closed. The Company capitalized on such opportunities and continued to establish grinding mills to increase sales of its products. Such measures have captured the productivity of the clinker factories and reduced production costs, resulting in a remarkable enhancement in the Group's performance.

For the year ended 31st December, 2000, the Group's aggregate clinker production and aggregate cement production of the Group amounted to approximately 5.34 million tonnes and 5.87 million tonnes respectively, representing an increase of 14.44% and 37.36% over that of the previous year. The Group's aggregate sales of cement and clinker for the year increased by 18% to 6.67 million tonnes, which was top of the PRC cement industry.

Stronger sales position through market development

The Group's sales network continued to be improved in 2000. Market establishment measures started to give positive results and significant increase in sales was recorded. Aggregate local direct sales in volume attributable to Ningguo Plant, Baimashan Plant and Tongling Plant amounted to 1.96 million tonnes, representing an increase of 16% over the previous year. Aggregate cement sales in volume attributable to the Group's grinding mills increased by 69% to 2.2 million tonnes, while that conducted by marketing department amounted to 2.51 million tonnes, which is more or less the same as that of the previous year.



During the reported period, the Company continued its market expansion by proactively establishing new grinding mills. The Company established Fujian Jianyang Conch Cement Co., Ltd. in Jianyang City, Fujian Province, for the construction of grinding facility with a production capacity of 300,000 tonnes per annum ("TPA"). The Company also established Taizhou Hailuo Cement Co., Ltd. in Taizhou, Jiangsu Province, for the technological reform and capacity expansion of a 300,000 TPA cement production line. In addition, Phase Two expansion work of a 750,000 TPA production line of Ningbo Hailuo and technological reform project of the 300,000 TPA cement production line of Nantong Hailuo were completed and both production lines commenced trial production. As a result, the Group's production capacity of cement and clinker increased by 1.05 million tonnes to a total of over 8 million tonnes.

Taking Lead in Production Capacity and Product Development

In 2000, all the manufacturing factories of the Group took efforts to enhance operational efficiency and streamline their production process. As a result, the production, sales and maintenance sections of the Group/Company factories integrated smoothly and production capacity was utilised to an optimal extent. The aggregate output of all the manufacturing factories for clinker reached 114% of its production capacity, which saw the highest output since the establishment of the Group and represented an increase of 14.4% over that of 1999.

During the reported period, the Group used less expensive raw materials (such as slag sourced from electricity generation plants) to carry out production, which reduced the Group's production costs and enhanced its competitiveness in the market. In addition, the Group improved its quality management in accordance with ISO9000 international quality standard, securing the leading position of "Hailuo" brand in terms of cement and clinker quality in the PRC cement industry. In addition to ensuring product quality and enhancing level of services, the Group developed special cements such as cement for Nuclear Island and demagnetised

cements, which were first manufactured in the PRC, to cater for the Lianyungang Nuclear Power Station and National Earthquake Monitor Network Project. As a result, the Group attained satisfactory economic performance.

Strict Budget Management and Financial Management Improves Overall Operating Standard

By placing emphasis on budgetary management and continuing to capitalise on the functions of financial management, the Group's overall operational performance in 2000 improved steadily. The Group, by combining efforts on financial management as its focus, optimized the Group's management structure and established and improved its "budgetary management system", "capital control system" and "management cost appraisal system". On the system of material procurement, the Group, in order to reduce its procurement costs, capitalised on its economy of scale and introduced competition mechanism through open bidding with both quality and costs being taken into account in the selection process. Each production factory also reduced its rate of consumption of energy and other materials through technological innovation. In addition, through stringent cost control measures of its administrative department, non-production overhead of the production factories were effectively controlled. As a result, average production costs during the year were reduced by RMB2.78 per tonne as compared to the previous year.

During the reported period, the Group implemented a stringent delivery on payment system to minimise capital risks and strengthen its control measures against capital risks. Sales proceeds were received in its entirety in 2000, while accounts receivable were reduced from RMB197.37 million at the beginning of the year to RMB109.81 million on the closing date of the year.

Losses of Tongling Hailuo and Ningbo Hailuo for the reported period were RMB1.35 million and RMB5.43 million respectively, representing a decrease of 94.3% and 71.6% over last year. This greatly enhanced the overall operational performance of the Group.

Improvement of the Reward and Discipline System, Optimization of Management Process and Continuous Improvement of Management Efficiency

In 2000, the Group implemented an internal results appraisal system, pursuant to which the Group and the management of its subsidiaries agreed on the operating target statements, thereby connecting in a dynamic manner operating results of the Company with the rewards to the management. Meanwhile, under the recommendation of Deloitte Consulting, the Company in combining with its long-term plan optimized its management process by clearly defining the terms of reference of each department to enhance its management efficiency.

Technology Innovation and enhancing competitiveness

In 2000, the Company with a view to enhance the Group's capability in technological innovation, established a technology centre of national standard. In addition, the Group possessed capability to develop a control system for clinker production line with a daily production of up to 2,000 tonnes. For the construction of clinker production lines and grinding mills, the Group

placed emphasis on systematic and controllable management of engineering works, and innovation in construction scale, workmanship and system configuration. The targets of delivery of works of optimal quality quickly with small amount of costs expended were achieved by reducing the level of investment, improving the quality of engineering works and shortening the construction time.

During the reported period, the Phase Two expansion work for Ningbo Hailuo having an annual production of 750,000 TPA, which lasted for 12 months, was completed and a trial production has commenced. The total investment in the project was approximately RMB48 million, which represented about 10% of the total investment of Phase One expansion works. The 750,000 tonnes Digang clinker production line progressed as scheduled and the investment cost was controlled at the level within RMB280 per ton of clinker, which is leading among its competitors in the PRC.

2001, A YEAR OF RAPID DEVELOPMENT

In 2001, the State will continue its positive monetary policies and proactive fiscal policies and it is anticipated that the PRC economy will continue to grow. In addition, with the development of the Western region of the PRC proceeding to the implementation stage, the overall economic structure of the PRC is expected to improve, investment in public infrastructure will increase and the real estate industry in the PRC is believed to become a focus of private investment. This will create immense opportunities for the industry of cement, which is essential for infrastructure development.

The structure of the cement industry is still not in an optimal state, which faced the problem of the lack of high grade cement on the one hand, and an oversupply of low grade cement on the other. In view of this, the State proposed a specific plan in respect of the development of the new extra-kiln dissolution dry process for the "Tenth Five-Year Period", so that the annual production capacity of facilities using the new extra-kiln dissolution dry process will be increased by 60 million tonnes. Besides, it is planned that 1,900 small and primitive cement kilns with a total production capacity of 50 million tonnes will be closed down during 2001. These include those kilns with an aggregate production capacity of 30 million tonnes which were planned to be closed down in the past three years but are still in operation, and the rest with a total production capacity of 20 million tonnes scheduled for 2001 for the restructuring and optimization of the industry under overall production control.

In recent years, the Company grew rapidly and secured its leading position in the PRC cement industry. Capitalizing on its growing reputation, expanding market network and recognized quality and brand name, the Company's products secured a relatively large market share. It is believed that there will be more growth opportunities for the Company in this year. The Group's development plan was highly regarded by the government authorities. To implement such development plan, the Group will expend approximately RMB4,000 million in the next three to five years to increase its annual production capacity of clinker by 10 million TPA to 15 million TPA, and to increase its annual grinding production of cement by 8 million TPA to 15 million TPA, through new construction, upgrading, mergers, acquisitions and restructuring. In implementing the plan, the Group will carry out appraisals cautiously and take all necessary preparatory steps to deal with uncertain elements arising from the changing market conditions.

Implementation of Development Plans

The Company intends to accelerate the construction of the 750,000 TPA clinker project in Digang, which is expected to be completed and put into trial production in 2001. In addition, preparatory steps will be taken to expedite the commencement of the construction works for the second 750,000 TPA clinker production line of Digang and for the second 1,200,000 TPA clinker production line of Tongling Hailuo. It is intended that those construction works will begin within this year.



In 2001, construction works for grinding mills will be accelerated. Technological innovation and expansion for the one million TPA cement production line of Shanghai Hailuo, expansion works for the 1.5 million TPA cement production line of Zhangjiagang Hailuo, construction works for the 1.5 million tonnes cement production line of Wenzhou Hailuo, technological innovation and expansion works for the 500,000 TPA cement production line of Nantong Hailuo, construction works for the 550,000 TPA cement production line of Bengbu Hailuo and the technological innovation works for 550,000 TPA cement production line of Shanghai Hailuo Mingzhu will commence this year. Upon completion of the above works, the Group's grinding capacity will reach 5.6 million TPA.

The Group also plans to invest its internal resources to acquire high quality limestone reserve in mines along the Yangtze River shore. In addition, the Group will acquire cement plants with development potential, so as to prepare the Group for increasing its production capacity and achieving its development plans.

The proposed issue of new A Shares of the Company in the PRC was approved by the shareholders in general meeting held on 28th November, 2000, and steps are being taken to implement the proposal.

In 2001, the Group will further consolidate and expand its sales network and improve the management and expansion of grinding mills at a controlled level of cost to increase its market share and its sales volume. It will also focus its resources to establish and/or consolidate cement market share in Shanghai, Zhejiang and Jiangsu by conduction market survey and making forecast, increasing the number of distribution points and accelerating the integration of its sales force. The Group will examine the issue of consolidation of its market share in commodity clinker, in order to enhance its leading position in designated markets and to improve its sales and marketing standard.

In 2001, the Company will continue to enhance its human resources and plan to recruit technical management officers prerequisite to the development of the Company. It will rationalise and make necessary changes to its human resource management structure. It is planned that the annual labour productivity may be increased from 1,326 tonnes per officer to 3,965 tonnes per officer in five years' time.

2001 is not only the first year of the new millenium, but also a critical year for the implementation of development strategies and plans of the Group, which will face both opportunities and challenges. We will keep our focus on maximizing shareholder's wealth, and will capitalize on the Group's strengths in resources, technology, brand, market, management, and human resources to strive to improve the operating standard and overall competitiveness of the Group and maintain the steady and healthy development of the Group.

Taking this opportunity, I would like to express my heartfelt gratitude to shareholders for their trust in and support to the Group, to our friends for their care and concern, and to fellow directors and staff for their hard work and dedication.

Guo Wensan

Chairman

12th February, 2001