

Report of the Directors

The Directors of the Company are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2000 to the shareholders.

1. Principal Activities

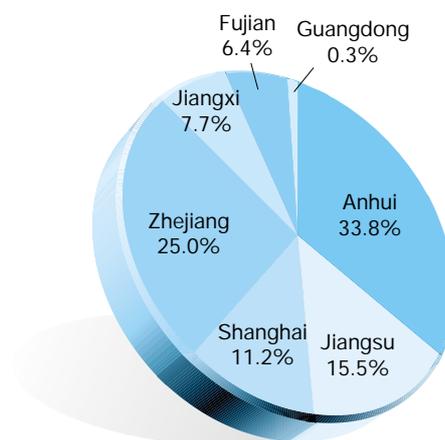
The Group is principally engaged in the production and sales of grades #525 and #425 ordinary portland cement, portland cement, portland blast furnace slag cement, #425 compound cement and commodity clinker, the majority of which are used in infrastructure and construction projects of roads, bridges and buildings.

2. Sales Structure

(1) Sales by region (for the years ended 31st December)

Region	2000			1999		
	Sales Volume (‘000 tonnes)	Sales Amount (RMB million)	Sales Contribution (%)	Sales Volume (‘000 tonnes)	Sales Amount (RMB million)	Sales Contribution (%)
Shanghai						
City	761	148.24	11.2	503.6	91.62	8.5
Jiangsu						
Province	985	205.38	15.5	775.3	120.13	11.2
Zhejiang						
Province	1,648	331.25	25.0	1,391.5	264.41	24.6
Fujian						
Province	467	85.24	6.4	489.1	112.25	10.4
Jiangxi						
Province	519	102.76	7.7	587.9	113.72	10.6
Guangdong						
Province	29	4.45	0.3	86.1	16.83	1.6
Anhui						
Province	2,259	448.90	33.9	1,818.9	355.87	33.1
Total	6,668	1,326	100.0	5,652.4	1,074.83	100.0

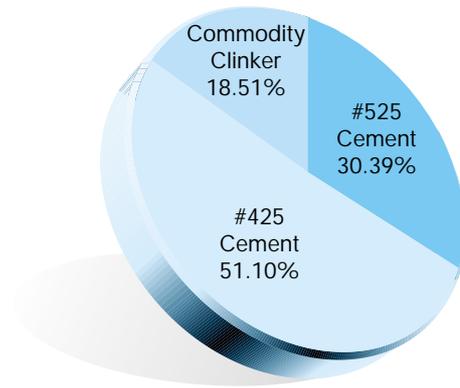
Sales by region in 2000



(2) Sales by product (for the years ended 31st December)

Products	2000			1999		
	Sales Volume (‘000 tonnes)	Sales Amount (RMB million)	Sales Contribution (%)	Sales Volume (‘000 tonnes)	Sales Amount (RMB million)	Sales Contribution (%)
Ordinary Cement						
#525	1,726.2	403.0	30.39	1,540.8	358.5	33.36
#425	3,368.3	677.7	51.10	2,196.7	441.2	41.05
Subtotal	5,094.5	1,080.7	81.49	3,737.5	799.7	74.41
Clinker	1,573.4	245.5	18.51	1,914.9	275.1	25.59
Total	6,667.9	1,326.2	100.00	5,652.4	1,074.8	100.00

Sales by product in 2000



3. Major Works of the Directors in 2000

- (1) Prepared and convened the 1999 Annual General Meeting, at which the 1999 Annual Report and all proposed resolutions submitted for consideration were approved.
- (2) Reviewed and approved the 2000 interim report.
- (3) Prepared and convened the first Extraordinary General Meeting in 2000, at which all the proposed resolutions submitted for consideration were approved.
- (4) Prepared and convened the Class Meeting for holders of Domestic Shares, the Class Meeting for holders of H shares and the second Extraordinary General Meeting in 2000, at which all the proposed resolutions submitted for consideration were approved.
- (5) Approved the investment in and establishment of Nanchang Hailuo Construction Materials Trading Company Limited.
- (6) Approved the investment in and establishment of Anhui Digang Hailuo Cement Co., Ltd.

- (7) Approved the investment in and establishment of Fujian Jianyang Conch Cement Co., Ltd.
- (8) Approved the investment in and establishment of Taizhou Hailuo Cement Co., Ltd.
- (9) Approved the acquisition of 20% interests in Shanghai PuDong Mingzhu Cement Plant.

4. Subsidiaries and Associated Companies

Details of subsidiaries and associated companies of the Company as at 31st December, 2000 are set out in Notes 5 and 6 to the financial statements.

5. Results and Dividends

Results of the Group for the year ended 31st December, 2000 and the state of affairs of the Group as at such date are set out from page 49 to 96. According to the financial data prepared pursuant to International Accounting Standards, profit after tax and minority interests of the Group for the year 2000 was RMB113,772,000. The board of directors of the Group recommended to make allocation in respect of the shareholders' equity for the year ended 31st December, 2000 as follows:

- (1) 10% of profit after tax, amounting to RMB25.02 million, will be appropriated for the statutory public reserve fund pursuant to the Articles of Association of the Company;
- (2) 10% of profit after tax, amounting to RMB25.02 million, will be appropriated for the statutory public welfare fund pursuant to the Articles of Association of the Company;
- (3) a total of RMB29,504,400 will be appropriated for payment of dividend of RMB0.03 per share as recommended by the Directors; and
- (4) the above proposed allocations are subject to approval by the Company's shareholders at the 2000 Annual General Meeting.

6. Financial Summary (for the years ended 31st December)

<i>(RMB'000)</i>	2000	1999	1998	1997 (pro forma)	1996 (pro forma)
Net Income					
from Operation	1,323,935	1,066,580	831,503	761,789	674,521
Net Profit	113,772	58,588	105,025	170,070	139,571

7. Major Projects

- (1) Production lines of cement and slag grinding of Anhui King Bridge Cement Co., Ltd, a joint-venture between the Company and TCC Hong Kong Cement Holdings Ltd., were completed and commenced production in August 2000.
- (2) Phase Two of the project on technology upgrading and plant expansion for Ningbo Hailuo Cement Co. Ltd. with an annual grinding capacity of 750,000 tonnes was completed and put into trial production in 2000. Total investment in the project amounted to RMB48 million, represented 10% of the total investment of Phase one works. With this newly completed production line, the annual cement production capacity of that company will reach 1.5 million tonnes, which will improve its financial structure and profitability.
- (3) System fine-tune of the technological innovation and capacity expansion project on the cement production lines of Nantong Hailuo Cement Company Limited with an annual grinding capacity of 300,000 tonnes was completed and the production lines have been put into trial production in 2000. Annual cement production capacity of the company has been increased to 600,000 tonnes.
- (4) Construction of a grinding facility of Fujian Jianyang Conch Cement Co., Ltd. with an annual production capacity of 300,000 tonnes progressed as scheduled. It is expected that trial production will start in the first six months of 2001.

- (5) The project on technology upgrading and plant expansion for the cement production lines of Taizhou Hailuo Cement Co., Ltd. with an annual grinding capacity of 300,000 tonnes commenced in 2000 and progressed smoothly. It is expected that trial production can be started in early 2001.
- (6) Construction of a clinker production line with an annual production capacity of 750,000 tonnes in Digang was in smooth progress, with trial production expected to commence in early 2001; preparation for the construction of the second 750,000 tonnes clinker production line in Digang Hailuo was also in smooth progress, and construction was expected to commence by the first quarter of 2001.

8. Income Tax Rate

The Company is generally subject to Enterprise Income Tax levied at a rate of 33% of taxable income based on its statutory accounts prepared in accordance with tax laws and regulations in the PRC. Pursuant to the document Caiyuzi [1997] No. 432 issued by Anhui Finance Bureau, the Group is entitled to a financial refund from Anhui Finance Bureau equivalent to 18% of the Group's taxable income in respect of Enterprise Income Tax paid to Anhui Tax Bureau. According to Caishui [2000] No.99 "Notice regarding further implementation in a stringent manner of the State Council's 'Notice regarding redress of the policies on financial rebate of taxable income received formulated by local authorities'" issued by the Ministry of Finance, the preferential tax refund policy applicable to listed companies pursuant to which Enterprise Income Tax is imposed at 33% and 18% to be refunded (i.e. 15% Enterprise Income Tax imposed in actual) implemented may be maintained till 31st December, 2001.

According the document "Caihui [2000] No. 3" promulgated on July 2000, an enterprise which enjoys the preferential tax refund policy should set off the amount of refund against the income tax for such period as the refund is received by the enterprises.

9. Major Customers and Suppliers

For the financial year ended 31st December, 2000, sales to the Group's five largest customers accounted for 7.7% of the Group's total sales, while procurement from the Group's five largest suppliers and the largest supplier accounted for 36% and 15% of its total purchases respectively.

Save as disclosed above, none of the directors, supervisors, their respective associates (as defined in the Listing Rules) or, as far as the directors are aware, any person holding 5% or more equity interests in the Company had any interests in the five largest customers or suppliers of the Company for the year ended 31st December, 2000. All payments for the principal raw materials and energy consumed by the Company were made in RMB.

10. Connected Transactions

Clay Supply Agreement

During the year ended 31st December, 2000, the Group purchased, as required in its ordinary course of business, all of the clay required for the production of its cement products from the Holding Company pursuant to the "Clay Supply Agreement" entered into between the Company and the Holding Company on 23rd September, 1997. The consideration paid by the Group was RMB241,000 and has been reviewed by the auditors, details of which are set out in Note 24 to the financial statements.

Trademark Licensing Agreement

The Holding Company and the Company entered into a Trademark Licensing Agreement on 23rd September, 1997. Under the agreement, the Company is required to pay to the Holding Company a royalty amounting to RMB1,513,000 per annum. The entire sum of the royalty for the year ended 31st December, 2000 has been paid by the company and has been reviewed by the auditors, details of which are set out in Note 24 to the financial statements.

Composite Services Agreement

The Company and the Holding Company entered into a Composite Services Agreement for a term of 10 years commencing from 1st September, 1997, being the date of incorporation of the Company. Under the agreement, the Holding Company has agreed to provide or procure services, facilities and supplies to the Company for the year ended 31st December, 2000 for a consideration of RMB4,306,000, payable by the Group. Such service charges have been reviewed by the auditors, details of which are set out in Note 24 to the financial statements.

Supply of Cement Package Bags

The Group purchased cement package bags from Ningchang Packaging Material Bags Co., Ltd. and Wuhu Hailuo Plastic Manufacturing Company Limited (both are sino-foreign joint venture company of which 75% equity interests is owned by the Holding Company). The purchases constituted connected transactions of the Group. The Group did not enter into any long-term supply agreement with such suppliers. For the year ended 31st December, 2000, the aggregate purchase price of cement package bags was RMB6,956,000, details of which are set out in Note 24 to the financial statements.

Confirmation of the Connected Transactions by Independent Directors

During the year, all connected transactions of the Group were conducted on normal commercial terms, on an arm's length's basis and (where applicable) in accordance with the relevant agreements within its ordinary course of business. The transactions are fair and reasonable so far as the Company is concerned and did not exceed the threshold referred to in the connected transaction waiver granted by the Hong Kong Stock Exchange. These transactions have been reviewed by the auditors and have been approved by the independent non-executive directors of the Company.

11. Share Capital and Shareholders

1) Share Capital Structure

The Company was listed on The Stock Exchange of Hong Kong Limited on 21st October, 1997. There was no new issue, rights issue or consolidation in connection with the Company's capital during the year. As at 31st December, 2000, the share capital structure of the Company was as follows:

	Number of Shares	Percentage to the total share capital of the Company (%)
A shares	622,480,000	63.3
H shares	361,000,000	36.7
Total share capital	<u>983,480,000</u>	<u>100.0</u>

Please also refer to the paragraph headed "Disclosure of Significant Events" in this report and Note 11 to the financial statements.

2) Summary of Trading in the Shares of the Company during Year 2000

HK\$	H Shares
Opening price on the first trading date	0.65
Closing price on the last trading date at the year end	0.55
The highest trading price during the year	0.87
The lowest trading price during the year	0.445
Total trading volume during the year (number of shares traded)	206,000,000

As at 31st December, 2000, the total number of shareholders of the Company was 414 shareholders, among which Anhui Conch Holdings Company Limited, on behalf of the State, held 622,480,000 A shares, representing 63.3% of the total share capital of the Company; and HKSCC Nominees Limited held 357,491,999 H shares, representing 36.35% of the total share capital and 99.03% of the total number of H shares of the Company. Save for such shareholders, the directors are not aware of any interests as at 31st December, 2000 which were subject to the disclosure requirements under section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong).

12. Service Contracts, Interests in Share Capital and Contracts of Directors and Supervisors

During the year, term of office of the members of the first session of the Board of Directors and Supervisory Committee of the Company expired. Members of the second session of the Board of Directors and Supervisory Committee were elected at the Company's first Extraordinary General Meeting in 2000. Mr Zhang Xusheng was appointed as a non-executive director of the Company at the second Extraordinary General Meeting in 2000. Brief biographical details of the members of the second Board of Directors and Supervisory Committee are set out on page 36 to 40 of this Annual Report. Each of the directors and supervisors entered into a service contract with the Company for a term of three years, commencing from 1st September, 2000.

None of the directors, supervisors or their spouse or children under 18 held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights to subscribe for shares in or debentures of the Company.

During the reported period, none of the directors or supervisors of the Company has any material interests in any contracts entered into by the Company or its subsidiaries.

13. Code of Best Practice

For the year ended 31st December, 2000, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock of Exchange of Hong Kong Limited.

14. Audit Committee

During the reported period, the audit committee performed its functions as required under paragraph 14 in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock of Exchange of Hong Kong Limited, including the review of the financial statements of the Company for the year ended 31st December, 2000.

15. Purchase, Sale and Redemption of Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed shares of the Company during the year ended 31st December, 2000.

16. Pre-emptive Rights

The Articles of Association of the Company and the PRC laws do not contain any provisions for the creation of any pre-emptive rights which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

17. Remuneration of Directors and Supervisors

For the year ended 31st December, 2000, the aggregate amount of remuneration paid to the executive directors of the Company was RMB670,000 and that paid to the supervisors was RMB330,000. The remuneration paid to each director and supervisor was less than RMB170,000. The pension schemes of the executive directors and supervisors have been incorporated into the employee pension scheme of the Company. The details are set out in Note 18 to the financial statements on page 85 of this annual report.

The remuneration of the three non-executive directors of the Company was not paid by the Company.

18. The Highest Paid Individuals

The five highest paid individuals of the Group during the reported period were either directors or supervisors of the Company. Details of their remuneration are set out in Note 18(b) to the financial statements.

19. Retirement Scheme

Details of the Retirement Scheme are set out in Note 2(p) to the financial statements. For the year ended 31st December, 2000, the retirement insurance premium charged to the profit and loss account of the Company was RMB9.128 million.

20. Staff Accommodation

The Group does not own any quarters for staff accommodation nor operate any scheme for the provision of staff accommodation. The Group and its staff are required to make contributions to the government at a prescribed percentage of the salaries of the relevant staff to a housing reserve fund. Apart from such contributions, the Group is under no liability for the provision of housing or housing benefit to its staff. For year 2000, the housing reserve fund paid by the Group amounted to about RMB2,528,000.

21. Staff, Remuneration and Training

As at 31st December, 2000, the Group has a total of 5,485 employees. The aggregate remuneration for the year was RMB68,207,900.

During the reported period, the Company stuck to the Group's development plan for the next 3 to 5 years. Emphasis was placed on human resources development strategies through employing highly qualified personnel. Capitalising on its experience, the Company implemented policies in accordance with the actual situation with emphasis placed on effectiveness, thereby strengthening and optimizing the Company's staff training schemes and the system of reward and discipline. All these policies have raised the standard of our staff and satisfied the Company's demand for highly qualified personnel during its rapid growth.

22. Use of Proceeds

Proceeds from the issue of H Shares by the Company carried out in 1997 amounted to RMB835,056,000 (net of listing expenses), and were all applied in the manner as set out in the Company's prospectus.

23. Fixed Assets

Details of changes in fixed assets of the Company during the year ended 31st December, 2000 are set out in Note 2(c) and 3 to the financial statements prepared in accordance with International Accounting Standards.

24. Total Assets

For the year ended 31st December, 2000, the total assets determined in accordance with International Accounting Standards was approximately RMB 4,514,380,000 which was more than that of the previous year by approximately RMB 209,804,000.

25. Reserves

Details of movements in various reserves of the Company and the Group during the year ended 31st December, 2000 are set out in Note 12 to the financial statements prepared in accordance with International Accounting Standards.

26. Deposits, Loans and Capitalization of Interest

Details of the deposits and loans of the Company for the year ended 31st December, 2000 are set out in Note 23(b) and Note 13 to the financial statements. The deposits and loans of the Company are placed with creditworthy commercial banks. The Group did not have any trust deposit nor experience any difficulty in recovering any time deposits. The interest for work-in-progress capitalised during the year was RMB 5,435,000, details of which are set out in Note 17 to the financial statements.

27. Material Litigation

None of the members of the Group nor any of the directors, supervisors or chief executives of the Company were involved in any material litigation during the year ended 31st December, 2000.

28. Auditors

The financial statements of the Group prepared in accordance with the PRC Accounting Principles and those prepared in accordance with International Accounting Standards were audited by Arthur Andersen · Hua Qiang Certified Public Accountants and Arthur Anderson & Co. respectively. The two firms, who retire and being eligible, offer themselves for re-appointment. Resolutions concerning the re-appointment of the two firms will be submitted for consideration by the Annual General Meeting.

29. Year 2000 Compliance

Smooth transition of the year 2000 compliance problem was achieved for the Group's computer systems. The Group's production, operations, accounting and audit and technological development were not adversely affected by the year 2000 compliance problem to any extent.

30. Impact of the PRC's Entry into the WTO on the Cement Industry

Cement industry is one whose products are raw materials with the following characteristics: (1) due to the limitations imposed by the weight and price, the products are subject to the constraint of sales to designated areas within certain prescribed transportation radius; (2) factories can only be established in areas with limestone reserves; (3) large volume of energy is required; and (4) affordable and convenient transportation channels are required. Beside, the PRC has been the leader of the global cement market for 15 consecutive years, of which the structural problem of over-supply is acute. As the production cost of cement by local enterprises is relatively low, the accession to WTO is not expected to have any material impact of the cement industry in the PRC.

31. Disclosure of Material Events

- (1) On 15th June, 2000, the 1999 annual general meeting of the Company was held at 209 Renmin Road, Wuhu City, Anhui Province, at which all resolutions as set out in the AGM notice contained in the 1999 annual report have been received and approved.
- (2) On 28th August, 2000, the first extraordinary general meeting of the Company was held at 209 Renmin Road, Wuhu City, Anhui Province. At the meeting, Messrs. Guo Wensan, Li Shunan, Zhu Dejin, Guo Jingbin, Yu Biao, Wang Yanmou and Kang Woon were elected as directors of the second session of the board of directors, while Messrs. Wang Jun, Ji Qinying and Zhu Zhongping were elected as supervisors of the second session of the supervisory committee. The related resolutions regarding terms and remuneration for members of the second board of directors and supervisory committee were also approved.
- (3) On 29th August, 2000, the first meeting of the second session of the board of directors was held at 209 Renmin Road, Wuhu City, Anhui Province. At the meeting, Mr. Guo Wensan was elected chairman of the board. Mr. Ren Yong was appointed as executive general manager of the Company, while Messrs. He Cheng Fa and Sun Yi Dong were appointed as deputy managers and Mr. Qi Sheng Li as assistant to general manager. Mr. Guo Wensan retired from the office of general manager, and Messrs. Li Shunan, Zhu Dejin, Guo Jingbin and Yu Biao retired from the office of deputy managers respectively. Ms. Zhang Mingjing and Mr. Chiu Pak Yue, Leo were appointed company secretaries while Mr. Guo Jingbin retired from the office of company secretary.
- (4) On 29th August, 2000, the first meeting of the second session of the supervisory committee was held at 209 Renmin Road, Wuhu City, Anhui Province. At the meeting, Mr. Wang Jun was elected chairman of the second session of the supervisory committee of the Company.
- (5) On 28th November, 2000, the class meeting for holders of domestic shares, class meeting for holders of H shares and the second extraordinary general meeting on 2000 were held at 209 Renmin Road, Wuhu City, Anhui Province. At the meetings, resolutions were passed regarding the issue of additional ordinary A Shares were passed, and other resolutions regarding amendments to the articles of association of the Company in respect of registered address and composition of board of directors, and the appointment of Mr. Zhang Xu Sheng as a non-executive director of the second session of the board of directors of the Company were also passed.

- (6) On 28th January, 2000, Nanchang Hailuo Construction Materials Trading Company Limited was established as a joint venture by the Company and Baimashan Cement Plant, a subsidiary of the Company. The registered capital of the company is RMB1 million, of which 90%, or RMB0.9 million was contributed by the Company. The company is situated in Nanchang, Jiangxi Province. Four silos with a handling capacity of 1,000 tonnes each have been built on the vacant site in the area. There is convenient railway transportation network and the site enjoys strategic geographical advantage. The establishment of Nanchang Hailuo Construction Materials Trading Company Limited helps ensure the availability of Conch cement in the Nanchang market and increases the Company's market share in the city with the enhanced competitiveness of the Company's bulk cement of higher grades.
- (7) On 28th April, 2000, Anhui Digang Conch Cement Holdings Company Limited was jointly established by the Company, Conch Employee Shareholder Representative Committee, Xi He, He Weijun, Li Hesheng, Wang Zuhua and Yu Jianping. The registered capital of the company is RMB150 million, of which 51%, or RMB76.5 million was contributed by the Company. The portion of capital attributable to Conch Employee Shareholder Representative Committee amounted to RMB73.25 million, representing 48.83% of the registered capital of the company. The company is located at Digang Town, Fanchang County, 50km away from Wuhu City and 3km from Yangtze River. The site has an abundant supply of high quality limestone resources and a deep harbour, with its water depth over 30 metres around the year, along the mid-stream of Yangtze River. The strategic location provides a convenient access to inbound transportation for raw materials and fuel, as well as to outbound transportation for clinker. Capital of the company was primarily utilized for investment in the construction of a clinker production line with an annual capacity of 750,000 tonnes, so as to take advantage from the local supply of high quality limestone. The completion of the production line will alleviate the problem of inadequate supply of commodity clinker by the Group and will satisfy the market demand for commodity clinker.
- (8) On 9th June, 2000, Fujian Jianyang Conch Cement Co., Ltd. was established as a joint venture between the Company and Fujian Jianyang New Star Construction Co., Ltd. (an independent third party). The registered capital of the company is RMB14 million, of which 76%, or RMB10.64 million was contributed by the Company. The company was located near the railway station of Jianyang of northern Fujian. The company intended to exploit the local supply of mixed raw materials, the preferential policies provided by the local government and the existing leased railways to establish a grinding mill with an annual production capacity of 300,000

tonnes. Being an integral part of the Company's plan for market development, the company will effectively expand the market share of the Company in the northern area of Fujian and facilitate the product distribution of the plants in Ningguo and Baimashan, which are now primarily dependent on rail transportation.

- (9) On 6th November, 2000, Taizhou Hailuo Cement Co., Ltd. was established as a joint venture between the Company and Taizhou Province Cement Plant (an independent third party). The registered capital of the company is RMB11.52 million, of which 93.75%, or RMB 10.8 million was contributed by the Company. The company will help Conch to expand and secure its market share in northern Jiangsu.
- (10) On 15th November, 2000, the Company entered into an equity agreement with Shanghai Ling Qiao Enterprise Development Co., Ltd. (an independent third party) for the acquisition of its 20% equity interests in Shanghai Pudong Mingzhu Cement Plant and the renaming of the same to Shanghai Hailou Mingzhu Cement Co., Ltd. The registered capital of the company is RMB8 million while its annual production capacity of grinding cement amounts to 250,000 tonnes. The company has been entrusted to Conch for its daily operation and management. Acquisition of equity interests in the company will help Conch to expand and secure its market share in Shanghai. The Company planned to expand the production scale of Shanghai Mingzhu and increase its registered capital, so as to increase its holding of registered capital to 51% and have its production capacity increased to 800,000 tonnes per annum. (As at 31st December, 2000, the procedure of the related capital transfer had not been completed, henceforth, the associated company, Shanghai Hailuo Mingzhu Cement Co., Ltd., was not included in the Financial Report.)