

Chairman's Statement

To Shareholders,

Year 2001 marked a milestone for the business development of the Group. During the year, the Group capitalized on the strategic advantages of its subsidiaries in the six provincial cities in eastern China to take advantage of the favourable market conditions. The result was a remarkable growth in its turnover and profit margin. At the same time, our total production volume for the first time reached over 10,000,000 tonnes, making the Group the first-ever cement business enterprise in the PRC with an annual production volume over 10,000,000 tonnes. Along with the expansion of its scale of operation and the growth of its businesses, the Group also expanded its channels of capital financing. With the approval for the issue of A shares in the Company granted by the China Securities Regulatory Commission, we can enjoy a greater flexibility in making use of domestic and international capital financing channels to support the Company's rapid development in the future.

The turnover of the Group for the year was far better than the expectation of the Board of Directors, which was attributable to the implementation of the effective "T-type" development strategy by the Group in the past few years. (Pursuant to the "T-type" development strategy, clinker factories are built along the banks of Yangtze River, which is rich in resources and grinding mills are established in coastal areas that are remote from resources but near to the markets. In "T", "I" represents the "Yangtze River" while "_" represents "by the sea"). In the past few years, the Group has gradually finished the establishment of its operations one after the other along the banks of Yangtze River with the addition of new clinker production bases and grinding mills. By accelerating the market development in eastern China, the Group managed to increase its penetration into this cement market with enormous demand. Besides, by grasping the opportunities arising from the restructuring of the domestic cement market, together with the overall development strategy, the Group made an active effort in acquiring other cement plants and undertook technological upgrading on such plants to enlarge its market share.



Anhui Digang Hailuo Cement Co., Ltd.

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After the restructuring of the domestic cement market in the past two years, the price of cement had a slight increase in 2001. In particular, there was an increase in demand for cement in the coastal cities in eastern China resulting from the steady economic growth and the rapid development of local infrastructure and public utilities. Indeed, such favourable macroeconomic conditions are one of the factors that contribute to the remarkable results of the Group in 2001.

The Group continued to enhance the operating capacity of its production facilities to cater for the demand of the market and the average rate of capacity utilization of its production facilities was above 90%. In 2001, the Group imported 1.05 million tonnes of clinker to meet the operation capacity of the grinding mills. In addition to increasing its production capacity, the Group also leveraged on its technological advantage to further refine the product mix, so as to extend its reach to the market of high-grade cement products. As such, sales of grade 42.5 cement doubled as compared with that of last year. Owing to a substantial growth in sales and a greater proportion of higher value-added cement products in the sales mix, the production costs and expenses were further reduced, and economy of scale was attained accordingly.

In the past few years, the Company made huge investments in acquiring two large-scale production bases, namely Tongling Hailuo and Ningbo Hailuo. The two plants achieved a turnaround to profitability this year, which was earlier than expected. The revenues generated by them were RMB20,940,000 and RMB11,380,000 respectively, making a significant contribution to the net profit increase of the Group.

While the Group focused its efforts on undertaking technological upgrading and expansion projects for its clinker and cement production lines, the Company also strengthened its internal management and control to tighten the cost control on raw materials and production operation. It entered into a performance pledge system to ensure a sense of initiative among the staff in reducing costs and expenses. Besides, the incentive scheme was further enhanced to link remunerations with performance. By implementing the above, clear and definite management objectives have been established at every management level along with the unambiguous expectation of rights, responsibilities and profits. An increase in management efficiency and a greater sense of belonging among staff directly led to greater economies of scale.

In 2001, the Group continued to pursue its operation mode of running clinker plants and grinding mills at the same time. 3 new clinker production bases in Digang, Zongyang and Chizhou were set up in addition to the existing ones in Ningguo, Baimashan and Tongling, thereby increasing the annual clinker production capacity by 3,000,000 tonnes. The technological upgrading and expansion projects for grinding mills in Nantong, Shanghai and Zhangjiagang further strengthened the Group's leading position in the eastern China's market and prepared it to cater for the increasing demand in the market. With the establishment of grinding mills in Bangbu, Wenzhou, Shangyu and Jiande and the Group's development of an extensive sales network, the annual cement grinding capacity was raised by 1,500,000 tonnes in the year. As at the end of 2001, the Group had a total of 23 cement plants and grinding mills.

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In conclusion, 2001 proved to be a rewarding year for the Company. We successfully reached an annual production volume of 10,000,000 tonnes this year. We also managed to standardize various management practices and further enhance the incentive scheme, thereby stimulating staff motivation. The Company placed a great emphasis on the development of its upstream, midstream and downstream business segments, from production operation to product distribution. It is in possession of an estimate of 2.1 billion tonnes of high quality limestone resources along the banks of Yangtze River. All these help pave the way for the Group to develop into one of the world-class cement enterprises and will prepare the Group to compete with international players following China's accession to the WTO.

Looking forward to 2002, the government is expected to keep up with its initiatives to drive up internal demand and continue its positive monetary policies and proactive fiscal policies in order to ensure the steady economic growth of the PRC. Under such stable macroeconomic environment, the number of large-scale infrastructure projects is expected to increase, which will in turn give further boost to the market demand for high-quality and custom-made cement.

In 2002, we will continue to expand the production capacity in order to achieve economies of scale, thereby enhancing the operation efficiency. The existing projects of the Company include the Phase Two development project of Tongling Hailuo (the construction of a production line with a daily capacity of 4000 tonnes) and the construction of two clinker production lines in Chizhou Hailuo (each with a daily capacity of 5000 tonnes). Such projects are expected to be completed in 2002. In addition, the Company also plans to invest in the construction of a dry-process clinker production line in Zongyang Hailuo, with a daily capacity of 5000 tonnes, that in Ningguo and Jiande Hailuo with the same daily capacity and that in Fenyi Hailuo with a daily capacity of 2500 tonnes. By the end of 2002, the annual clinker production capacity of the Company will reach about 14,500,000 tonnes.



Anhui Zongyang Conch Cement Co., Ltd.

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In addition, the technological upgrading and expansion projects for grinding mills in Changfeng Hailuo, Wenzhou Hailuo, Shangyu Hailuo and Shanghai Hailuo Mingzhu will be carried out in 2002. Technological upgrading projects will also be conducted for the grinding systems in Ningguo Cement Plant, Tongling Hailuo and Jiande Hailuo. Such efforts aim to enhance the cement grinding capacity of all clinker production plants, and the cement grinding capacity of the Company is expected to reach 16,000,000 tonnes by the end of 2002.

At the same time, we will continue to step up our efforts in environmental protection via the application of the latest technologies to comply with the relevant government policies. To fulfill our pledge, we will strive to develop a greener manufacturing environment in constructing new plants to show our concern in and improve the working environment for our employees in order to repay the society and create a better living environment for the people.

The Company will also devote its efforts to enhancing the management efficiency and optimizing the professional management processes of various functions by adopting modern management practices and establishing an ERP centralized information management system with the emphasis on budgetary management. By so doing, it aims to promote resources sharing and further reduce the unit cost of investment and production of cement produced, thereby strengthening the Group's competitiveness.

The Group has successfully implemented its development strategies to expand the existing sales network and explore new markets with strong potential in Shanghai, Zhejiang and Jiangsu provinces, the locomotives of the eastern China economy. In 2002, we will continue to closely monitor the specific characteristics of individual markets and pursue strategic acquisitions and takeovers in line with the development of the regions concerned. To further push ahead the



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Company's business development, it is also our goal to maximize the production capacity of our operations in regions with growth potential, where extensive construction projects are expected as a result of local demand for infrastructure construction in pursuit of higher standards of living. All in all, opportunities and challenges will abound in 2002 and we believe that our devoted efforts will lead the Company to greater success in the future.

Taking this opportunity, I would like to extend 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

21st January, 2002