

A Pioneer and Leader in Western China



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SOCAM's cement operations in Guizhou, Chongqing and Sichuan

Shui On was among the first Hong Kong companies to invest in Western China, entering the cement market in Chongqing in 1995. Since then, SOCAM has established leadership in the high grade cement industry in Chongqing and Guizhou Province through acquiring, restructuring and upgrading state-owned enterprises (SOEs) in strategic locations. The combined annual production capacity now exceeds 7.5 million tonnes, making SOCAM the largest cement producer in the region.

Shui On's strategy is to enter a market at the point at which growth is about to accelerate and make acquisitions that are beneficial to the development of both the Group and the local economy. This is why we focus on modernising SOEs and adding new production lines to make full use of the entire workforce; why we invest in improving the environment and minimising pollution; and why we strive to professionalise the management and nurture talent locally. This approach not only helps to win local government support, which is a prerequisite for success on the Mainland, but the mutual trust thus developed will also create new business opportunities in the future.

The Central Government's "Go West" policy will continue to fund major infrastructure projects in the region, which in turn will boost the demand for high grade cement. Expansion of our existing operations alone will add another 3.5 million tonnes to the Group's annual capacity within the next two years. Our leadership in Chongqing and Guizhou will enable us to expand quickly into nearby provinces that are also undergoing rapid development.



Figures indicate annual production capacity in million tonnes
 * In the process of concluding this joint venture agreement



When TH Cement entered the Chongqing market in 1995, it acquired a small 160,000-tonne operation in Hechuan with the intention of adding modern production lines and gaining market share. Two new rotary kilns were commissioned in 1997 and 1999 respectively, quickly increasing annual production to over one million tonnes. A new one-million-tonne-per-annum dry kiln will be added within two years. Likewise, TH Cement will double the production capacity of Diwei Cement – acquired in mid 2001 – by the end of 2004.

Bringing in Advanced Technologies

Massive infrastructure projects are underway in the western region. More than 70% of cement produced in the region, however, is low grade cement that is not suitable for these projects. And the mountainous terrain means that it is not cost effective to import high grade cement from outside.

To capture the fast-growing market for high grade cement, SOCAM selectively acquires strategically located state-owned plants which already offer products of reasonable quality and then invests in new equipment to further enhance quality, production capacity and cost effectiveness. This has proven to be a successful formula for winning and expanding market share rapidly in both Chongqing and Guizhou and will be a key part of our strategy to build a sizeable cement production group in the Chinese Mainland.



SOCAM started construction of a new production line in Zunyi, the second largest city in Guizhou, in May 2001 after acquiring the state-owned Zunyi Cement Plant. The new line, with annual capacity of 400,000 tonnes, is the first energy-saving rotary kiln in the province that applies precalciner technology. In the same period, a dry-process rotary kiln also with capacity of 400,000 tonnes per annum was built in Qianxinan and is the first and only rotary kiln in the autonomous prefecture. Completed in December 2002, these two new production lines successfully obtained ISO 9001 certification soon after production commenced. All of SOCAM's rotary kiln cement operations have obtained ISO9001 or ISO9002 certification.

New and improved product formulae devised by SOCAM's laboratory in Guangzhou enable us to improve quality and lower costs at the same time.

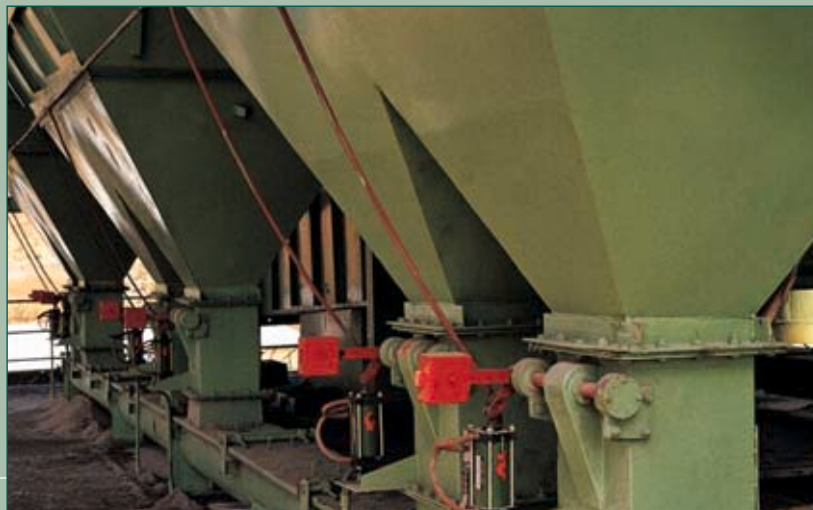
Shui On believes a good working environment helps boost morale, productivity and product quality. Old and new plants alike are covered in green.



Improving the Environment

The Government's strategy to replace small, inefficient and polluting cement plants provides another incentive for SOCAM to invest in the cement industry in the western region. In addition to introducing advanced equipment to minimise pollution, SOCAM also uses large quantities of previously valueless industrial by-products as low-cost blending materials and creates a green environment in the production plants.

In early 1998, Chongqing TH Cement set up a cement grinding mill next to a local power station to make use of fly ash (previously industrial waste) from the power station as a low-cost blending material, thus becoming the first producer of the environmentally friendly fly-ash cement in Chongqing. TH Cement has also entered into an agreement with Chongqing Steel Corporation to set up a joint-venture plant to process 800,000 tonnes of steel slag (a useless by-product in the past) from the steel mill for blending with cement. The slag grinding plant will be one of the largest of its kind in China.



To minimise dust emission - traditionally a major source of pollution in a cement plant - SOCAM invests in advanced equipment including electric dust collectors. The new rotary kiln production lines in Xinpu and Dingxiao, for example, reduce dust emission by more than 99.5%. Water treatment and recycling systems are also installed to allow most wastewater to be reused.

Building a Professional Team

Rapid expansion must be supported by a competent workforce. While some experienced managers are relocated from Hong Kong to the Mainland operations, SOCAM's strategy is to attract, retain and develop local talent to take up management and leadership roles in the future. Conferences and training are conducted regularly to ensure staff from all operations share Shui On's corporate culture and are well acquainted with modern management concepts and tools.

- After acquiring a new operation, orientation is organised for staff of all levels to introduce Shui On's organisation, corporate values and management philosophy, as well as to build a sense of belonging and pride as a member of the Group.
- Management conferences are conducted twice a year for senior executives and managers from all plants in Guizhou to inculcate Shui On's culture of excellence and professional management, to help them keep abreast of corporate directions and strategies and to set development plans.
- SOCAM runs a Management Trainee Programme which aims at developing high calibre Mainland fresh graduates to become future managers and leaders. This well structured career development programme provides job rotation, personal development and management training courses as well as postings in the Hong Kong headquarters.
- Selected management staff are sent to Shui On's offices in Hong Kong to undergo training for several months to a year so as to better orient them to the Group's management systems and approach as well as our corporate culture.
- Modern management tools such as business planning, performance planning and TQM are introduced and implemented, and training programmes on personal and management skills are organised.

Rapid expansion must be supported by a competent workforce.

Yang Ding

Manager – Cement Projects,
Guizhou Shui On Cement
Development Management Co. Ltd
*(joined Shui On in 1998
as management trainee)*

"As the Group expands rapidly on the Mainland, I have the opportunity to take up different responsibilities in various operations. These are all invaluable learning experiences."



Ling Li

Management Trainee
(joined Shui On in 2001)

"The Group's effective training and development system caters for each individual's needs. The wide variety of courses together with job rotation has allowed me to attain tremendous personal development. I am proud to be a member of Shui On!"

Tian Zirong

Assistant Human Resources Manager,
Guizhou Xishui Shui On Cement Co. Ltd
(joined Shui On in 2001)

"At Shui On, I have received well-rounded training and the three-month programme in Hong Kong was especially valuable. The advanced management skills I have learned allow me to make greater contribution to my homeland."