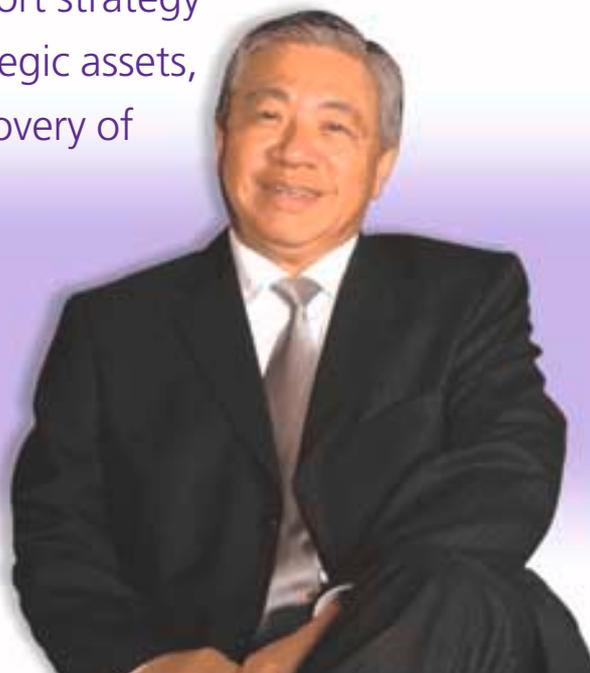


## Chairman's Statement

The successful implementation of our export strategy and our commitment to building our strategic assets, such as our second jetty, paired with a recovery of the domestic market, have brought forth even more favorable prospects for CHC Greater China.



WANG Chien Kuo, Robert  
*Chairman*

Dear Shareholders,

I am pleased to present the Annual Report for the year ended 31 December 2006 of Chia Hsin Cement Greater China Holding Corporation.

### OPERATING ENVIRONMENT

China's economy continued to see strong growth in 2006, with annual GDP growth at 10.7% (RMB20.94 trillion), shooting past the RMB20 trillion mark. Its trade surplus amounted to US\$177.5 billion, which was an all-time high and investment in fixed assets amounted to RMB10.987 trillion, representing an annual growth of 24%. In spite of the austerity control measures implemented with a view to dampen the over-growth in real estate development and speculative investments, the overall economic growth continued in an upward trend. As the cement sector is strongly correlated with economic growth, we also saw strong growth in the industry. It is anticipated that the austerity control measures will continue into 2007 and the growth in GDP will be approximately 9.6% to 10.1%.

In 2006, the total cement production in the PRC amounted to 1.204 billion tonnes, an increase of 19.14% over the previous year, of which production using the dry new process increased to 393 million tonnes, an annual increase of 32.39%, reaching 46% over the total production. Production of bulk cement amounted to 39.12% of the total production. We also saw an unusual

sizeable increase in cement prices in Eastern China and Central China in the fourth quarter. As for China's exports of cement and clinker in 2006, 19.41 million tons of cement and 16.72 million tons of clinker were exported, representing a year-on-year increase of 70.65% and 55.06% respectively.

An important milestone in the development of China's cement industry occurred in January, when a joint announcement was made by the Development and Reform Commission, the State Administration of Land Resources, and the People's Bank of China naming 60 manufacturers to receive support from the government in the growth and consolidation of the cement industry. We are proud to be included on the list. Criteria for being on the list include sizable operations using dry process technology, efficient utilization of resources, having a strong sense of social responsibility, to name a few. The goal of the authorities is to encourage mergers and acquisitions, reorganization and alliances, etc. to improve the concentration of production and optimizing the distribution of assets.

This is expected to dramatically change the landscape of the industry. Currently, total production of the 60 manufacturers accounts for 26% of domestic production, assets size accounts for 38%, and profitability accounts for 58% of the entire industry. We expect to see these companies continue to become stronger as the government pushes for the consolidation of the industry.

## OPERATION REVIEW

Looking back, in 2006 the Group's clinker production amounted to 2,045,000 tonnes and cement production amounted to 3,070,000 tonnes, which is similar to the level of the previous year, and generating a turnover of US\$127,229,000, which represented an annual growth of 39.1%. Profit for the year was US\$6,517,000, representing a growth of 6,227.2% over last year. During this period, the Group expanded export sales to the United States, New Zealand, the Middle East and Africa. The export of cement and clinker amounted to 2,158,000 tonnes in aggregate, with gross profit reaching US\$15,514,000. We are one of the few manufacturers in China able to produce low alkali high quality cement. Our product has been approved by the CTL laboratory of the United States, confirming the quality and stability of our cement. The Group has been emphasizing both the optimization and efficiency for the domestic market. The domestic cement trading business which the Group began to develop in April 2006 has become an important strategic option to achieve a win-win situation in both the overseas and the domestic market.

In 2005, in spite of a lack of earnings, the Group strategically pushed forward with its scheduled plan in capital expenditure and constructed the second 30,000-tonne jetty, which was completed by the end of July in 2006. Its total capital commitment amounted to US\$12 million. Throughput capacity increase to over 8,000,000 tonnes. This further strengthens our advantage of having the "Golden Waterway" – the south side of Yangtze River to be used, and is an important logistic asset for us.

In mid-2006, the Group examined opportunities of consolidation of the cement industry in the PRC, and we duly exercised the call option granted to us prior to the Group's listing for the acquisition of the operations of Jiangsu Union Cement Company Limited ("Union Cement"). The acquisition will enable the rapid increase in the Group's production capacity and access to a long-term and steady supply of quality clinker. It will also create advantages and synergies in respect of purchasing, production, sales, and branding. This has important strategic significance for the future development of the Group. At present, the acquisition is still underway.

Other than our continuous business expansion externally, we have also adjusted our internal management in order to reduce costs and integrate resources. Our ERP system is being continuously improved to enhance our management efficiency and functional control for any change in future economic development.

## FUTURE PROSPECTS

In the wake of the slowing of economic development in the United States and the diminishing export tax rebate of the PRC, in 2007, growth in the export of cement and clinker from the PRC may somewhat falter. With the upturn in domestic cement prices driven by major construction projects such as the 2008 Beijing Olympic Games, the Shanghai World Expo in 2010, and numerous infrastructure projects across the country, the Group will place more focus on the domestic market.

It is delightful to note that the Group has been selected as one of the 60 supported corporations. In the future, we shall continue to adhere to our principles and practices to grow in line with government policies and the industry. In the "Eleventh Five-Year Plan" and the "Development Policy of the Cement Industry" of the PRC government, targets have been set regarding the concentration, technological levels and environmental standards for the industry. Attractive opportunities have been afforded by the encouragement of these policies for corporations with professional management and financial strength. It is natural that CHC Greater China should seize such opportunities and pursue its organic growth internally as well as merger and acquisitions externally.

For 2007, in addition to focusing on growing our core business, we will also seek opportunities to maximize each link in our value chain. Storage and distribution is critical for integrating our upstream and downstream businesses and ensuring consistent, timely delivery of our products. We will also concentrate on building our logistics capabilities in lieu with production. In addition, we will explore the possibilities of further utilizing our resources, such as our limestone quarry, to generate more profits for the Group.

## ACKNOWLEDGEMENT

On behalf of the Board, I express our heart-felt gratitude towards our friends for their support and trust. In 2007, the Group will endeavor to capture any opportunity arising from industry consolidation and recovery in order to expand our business presence and to seek steady growth.

By Order of the Board

**WANG Chien Kuo, Robert**  
*Chairman*

Hong Kong  
21 March 2007