## FINANCIAL RESULT

The Group's consolidated turnover for the financial year ended 31 March 2004 amounted to approximately HK$175 million, an increase of 62% as compared to HK$108 million recorded in the previous financial year. The increase in turnover is mainly attributable to substantial increase in turnover of the Group's majority controlled subsidiary Suzhou Nanda Cement Company Limited, Suzhou, the PRC ("Suzhou Nanda") and the commencement of trading business during the period under review.

The net profit of the Group attributable to shareholder for the year ended 31 March 2004 was approximately HK$44 million compared with the net profit of approximately HK$93 million in the year of 2003. (Note: There was an item of approximately HK$79 million provision written back in respect of the impairment of the Heat Supply Project in the year of 2003) Earnings per share was HK$0.0263 for the year. The net profit for the year was mainly attributable to (i) the net profit of about HK$18 million contributed by Suzhou Nanda; (ii) the disposal of two investment properties with net profit contribution of approximately HK$4 million (The disposals are described in the section of Review of Operations in details.); (iii) the implementation of cost cutting measures including reduction of employees, decrease in employees' remuneration, and streamlining of business operation during the year under review resulting to a substantial decrease in general administrative expenses from about HK$44 million in the year of 2003 to HK$21 million in the current year; (iv) the decrease in finance costs by approximately HK$2 million due to reduction in total loan outstanding and the financial support of a HK$15 million interest free loan provided by China Chengtong Hong Kong Company Limited ("CCHK"), the shareholder of the Company.

## REVIEW OF OPERATIONS

### *Property Investment*

In the year of 2004, the Group has spent tremendous effort to rationalize the investment property portfolio aiming at pursuing reasonable return on investments and improving the asset quality. During the year under review, two non-core investment properties with limited growth potential were disposed to independent third parties as follows:

1) In April 2003, the Group exercised an option to repurchase an investment of 35% interest in Success Project Investments Limited ("Success Project"), which was set up for holding 52% equity interest in Suzhou Jin Nan Real Estate Development Co., Limited ("Suzhou Jin Nan"), a company established in the PRC for holding the commercial building of the Shilu International Shopping Centre in Suzhou, the PRC at a consideration of about HK$16.8 million. Subsequently in February 2004, all shareholders of Success Project reached an agreement and disposed its entire interest in Suzhou Jin Nan to its PRC partner at a consideration of approximately HK$101.8 million. The buy back of shareholding in Success Project and the disposal of its investment have a net contribution of profit of approximately HK$22.7 million to the Group during the year.

2) In November 2003, the Group disposed the Winner Building, an investment property located in Shatin, Hong Kong at a consideration of $63 million and recorded an revaluation deficit of HK$19 million. The Winner Building was built in 1981 located in an unfavorable area, and it has limited potential with low occupancy rate as well as low return on investment. On the other hand, the disposal enabled the Group to fully repay the corresponding mortgage loan due to bank and significantly reduce the overall debt level and enhance its liquidity and financial position.

### *Strategic Investment*

Suzhou Nanda has been benefited from continuous overwhelming demand and increase in selling price for cement in Jiangsu region, the PRC and has operated at almost full capacity during the year. Given the rise in the average selling price of its cement products and high operation efficiency, Suzhou Nanda recorded an outstanding performance. Based on the audited accounts of Suzhou Nanda for the year ended 31 March 2004, turnover of Suzhou Nanda was approximately HK$120 million, representing an increase of 61% over the last year whereas the audited net profit was about HK$18 million, a significant increase of 163% as compared to the same period of previous year.

In recent months, the fixed investment rate in the PRC slowed down under the macro-economic austerity measures implemented by the PRC government. Both the demand of cement and the selling price of cement products gradually dropped. Coupled with recent shortage of supply of electricity and raw materials, the operation of Suzhou Nanda was adversely affected. To tackle the problems, the management of Suzhou Nanda has taken all necessary steps including a technology enhancement program to reduce the production cost, improve production efficiency and widen the customer base. The Group is also actively exploring any investment opportunities to enlarge our cement production capacity to better making use of the operating experience, expertise and sales network established in the field.

### *Trading Business*

The Group's ultimate controlling shareholder, Chengtong Holdings is one of the largest integrated logistics and raw material trading enterprises in China. With the support of business referral and operation expertise from Chengtong Holdings, the Group selectively commenced trading business mainly on metal commodities and chemical products during the period under review. For the year of 2004, the trading division recorded a turnover of about HK$52 million with positive operating profit contribution.

## SIGNIFICANT POST BALANCE SHEET EVENTS

On 25 March 2004 the company had entered into a Share Sale Agreement with CCHK, disposing all interest of its wholly-owned subsidiaries Ocean-land Management Limited, and Tat Yeung Investments Limited (the "Disposal Companies") for a consideration of HK$72,836,000 to CCHK. The Disposal Companies hold an effective 45% equity interest and respective shareholder loan in a sino-foreign co-operative joint venture enterprise established in Panyu, the PRC which owns a commercial and residential development (the "Panyu Project") in Panyu, Guangdong, the PRC with a gross floor area of about 72,000 sq.m. The further development and operation of the Panyu Project has been suspended since year 2000 as a result of difficulties in obtaining further financing and the possession orders and court orders related to the Panyu Project.

Part of the consideration for the disposal, HK$52,830,000, will be satisfied by a transfer of the entire equity of Talent Dragon Limited, a wholly-owned subsidiary of CCHK; while the balance of the consideration, HK$20,006,000 will be paid in cash. Talent Dragon will acquire a 70% effective equity interest of Zhongshi Investment Company Limited ("Zhongshi") which owns a site for development comprising villas nos. 9 and 11 at Baiwanzhuang Dajie, Xicheng District, Beijing (the "Beijing Project"), the PRC with a site area of about 7,200 sq.m. Located in Beijing, the capital city of the PRC and possibility of acquisition of controlling interest of the project by the Group, the Beijing Project provides better development potential. Furthermore, the Beijing Project is expected to be available for sale with profit in the near future. The Group will conduct a due diligence review on the Beijing Project and Zhongshi. If the due diligence review is not satisfied, the full amount of the disposal consideration will be paid in cash to the Company.

The Share Sale Agreement and the acquisition of the Beijing Project also laid down the milestones for the Group's participation of the ultimate controlling shareholder Chengtong Holding's logistics property development business by taking advantage of its massive land bank.

## FINANCIAL POSITION

As a result of reduction of debt level and improvement of financial strength through the Group's stringent financial management and the effort in disposal of non-core assets, financial position of the Group continued to improve. Following the disposal of non-core investment properties and the repayment of the respective outstanding debts from the sale proceed during the period under review, total liabilities of the Group dropped significantly with improvement in liquidity position. Net current liabilities further reduced from approximately HK$153 million in previous year to HK$83 million in this year. As at 31 March 2004, the Group had a total cash and bank balance of approximately HK$29 million.

## COMPOSITION OF THE BOARD

The Directors of the Company as at the date of this Annual Report are Zhang Guotong (vice-chairman, managing director and executive director), Li Tiefeng (executive director), Wu Chun Wah, Michael (executive director), Ma Zhengwu (chairman and non-executive director), Hong Shuikun (non-executive director), Chen Shengjie (non-executive director), Gu Laiyun (non-executive director), Tsui Yiu Wa, Alec (independent non-executive director), Kwong Che Keung, Gordon (independent non-executive director), and Lao Youan (independent non-executive director).

## GEARING RATIOS

As at 31 March 2004, the Group's gearing ratio calculated on the basis of total bank loans, trust receipt loans, loans from minority interests and other loans of approximately HK$207,710,000 and total assets of approximately HK$533,673,000 was 0.39.

## PLEDGE OF ASSETS

As at 31 March 2004, the Group's plant and machinery with aggregate carrying value of approximately HK$20,957,000 and property under development with net book value of HK$nil (at a cost of HK$10,614,000) have been pledged as securities for the Group's borrowings and banking facilities.

## CONTINGENT LIABILITY

As at 31 March 2004, the Group's estimated maximum contingent liability in respect of a legal claim was HK$5,523,000

## LIQUIDATION AND CAPITAL RESOURCES

As at 31 March 2004, the Group had current assets and current liabilities of approximately HK$65 million and HK$148 million respectively (2003: HK$52 million and HK$206 million, respectively). The Group had cash and bank balances amounting to approximately HK$29 million as at 31 March 2004 (2003: approximately HK$30 million).

As at 31 March 2004, the Group had in aggregate HK$21 million (2003: HK$64 million) bank borrowings secured on certain properties owned by the Group. The Group had other loans of HK$71 million (2003: HK$90 million). The Group had unsecured other loans of approximately HK$4 million carrying interest at commercial rates. The remaining other loans are unsecured and interest-free.

The Company has not issued any additional share during the year ended 31 March 2004 except for the allotment and issue of 2,700,000 Shares of HK$0.10 each at the subscription price of HK$0.1491 upon exercise of the options granted pursuant to the Company's share option scheme adopted on 22 September 1998.

## TREASURY POLICIES

The business activities of the Group were funded by bank borrowings, secured loans and cash generated from operating activities. The Group considers that fluctuations in exchange rates and market prices do not impose a significant risk to the Group since the level of foreign currency exposure is relatively immaterial as compared with its total assets value or outstanding debts.

## HUMAN RESOURCES

As at 31 March 2004, the Group employed a total of about 533 employees of which 12 were based in Hong Kong and 521 in the PRC. Employees' remunerations are determined in accordance with nature of their duties and remain competitive under current market trend.

## AUDIT COMMITTEE

The Company has an audit committee, which was established in accordance with requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice"), for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Mr. Tsui Yiu Wa, Alec, Mr. Kwong Che Keung, Gordon, Mr. Lao Youan, all being independent non-executive directors of the Company, Mr. Hong Shuikun and Mr. Chen Shengjie, all being non-executive directors of the Company. The members of the audit committee, together with the management and the Company's auditor, had reviewed the audited financial statements of the Group for the year ended 31 March 2004 before recommending it to the Board for approval.

## CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules governing the Listing of Securities of The Stock Exchange of Hong Kong Limited except that non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with Article 105 of the Company's articles of association.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.