

**Building
Our Strength**



The stagnancy of construction activities in Hong Kong is expected to persist. Consumption and selling prices of construction materials are expected to be comparable with the levels in 2004. Accordingly, the Directors believe that the construction materials businesses of the Group in Hong Kong should be able to maintain their profitability for 2005.

The Group is accelerating its pace of investment expansion in Mainland China. The introduction of macroeconomic austerity measures to curb excessive investment in the cement industry should benefit established and sizeable cement producers.

- While AKB is expected to continue to be profitable, an increasing number of market players in the Yangtze River Delta region and a fall in selling prices are likely to reduce its margin considerably.

- The Fuzhou cement operation is currently establishing distribution channels and is expected to commence contributing profit to the Group in 2005, given the satisfactory demand and market prices of cement in Fuzhou and its adjacent areas.
- The Liuzhou slag powder grinding plant will commence trial run in the second quarter of 2005. Being one of a few sizeable slag powder producers in Guangxi and Guangdong Provinces, it is likely to take advantage of the continuing increase in demand in construction materials in Guangxi and the Pearl River Delta region. In view of the favourable market conditions, the Liuzhou joint venture plans to construct an additional slag powder production line with an annual production capacity of 700,000 metric tonnes, which is expected to complete by the second quarter of 2006.



- The Chinese government is implementing the policy of eliminating inefficient vertical shaft kilns and replacing them with new dry process kilns, which the Group's Yingde cement base will use. As the majority of cement produced in Guangdong Province is currently generated from vertical kilns at present, replacing these plants and coupled with the continued prosperity of the Pearl River Delta region will provide the Group's Yingde base significant room to develop its business. The two production lines and their ancillary facilities are expected to commence commercial operation in the first quarter of 2006.

Upon completion of the facilities under construction, the Group will have an annual production capacity of approximately seven million metric tonnes in Mainland China. The Directors are optimistic towards the market in the Pearl River Delta region and are exploring the possibility of constructing two additional production lines in the Yingde base with a similar annual production capacity. In addition, further investment opportunities in the construction materials industry in southern China, the Group's target market and considered to have a great growth potential, are actively being sought. The Directors are confident that Group will be able to achieve an aggregate annual production capacity in cement and slag powder of 10 million metric tonnes by 2007 as planned.

Liquidity, Financial Resources and Capital Structure

The Group adopts prudent treasury policies in managing its cash resources and bank borrowings.

Total cash and bank balances of the Group as at 31 December 2004 amounted to HK\$209.2 million, of which 99.9% were denominated in either HK\$, US\$ or RMB. Highly liquid short term investments with a market value of HK\$862.7 million as at 31 December 2004 were also held by the Group.

The maturity profile of the Group's bank loans as at 31 December 2004 is analysed below:

	2004 HK\$'000	2003 HK\$'000
AMOUNT REPAYABLE:		
within one year	559,888	474,081
within two to five year	11,631	107,000
Beyond five years	—	—
TOTAL BANK LOANS	571,519	581,081

Out of the bank loans as at 31 December 2004, HK\$556.0 million are denominated in HK\$ and HK\$15.5 million in US\$. All loans are of floating rate structures.

None of the bank loans is secured by any charge against assets of the Group.

Gearing ratio, calculated based on total bank borrowings and total assets as at 31 December 2004, is 29.7%.

Future Investment Plans

We have continued our aggressive but steady approach in developing our construction materials businesses in Mainland China. Apart from the projects mentioned above, we are actively searching for suitable locations and reputable business partners for setting up cement and slag powder manufacturing plants in southern China.

All financing methods, including equity, debt and other means, will be considered so long as such methods are beneficial to shareholders as a whole.

Foreign Currency Exposures

The Group utilised various methods to mitigate foreign currency exposures arising from the currency mismatch of cement purchases and sales. To protect the benefits of shareholders, cost-efficient hedging methods will be considered in future foreign currency transactions.

No foreign exchange contracts were outstanding as at 31 December 2004.

Employees

As at 31 December 2004, the Group had 297 full-time employees. Total wages and salaries of the Group for the year then ended amounted to HK\$19.9 million. Discretionary bonuses, decided by top management, are payable to employees in Hong Kong and senior management of overseas subsidiaries based on performance. In addition, the Company's directors may, at their discretion, invite employees, including directors, of the Company or any of its subsidiaries and associates to take up options to subscribe for shares of the Company. During the year, no share option was granted to directors or employees of the Group and their associates.