

Management Discussion and Analysis

截至二零零三年十二月三十一日止年度，本集團淨溢利為港幣 50,023,000 元，比去年增長 11.6%，每股盈利為港幣 6.86 仙，增長 11.7%，若扣除去年不再綜合計算附屬公司之收益港幣 27,838,000 元，增長 194.8%。溢利增長主要由於集團業務受惠於國內房地產市場持續暢旺及各項基建工程不斷開展，以及內部提高設備運轉率、控制成本措施再見成效所致。於二零零三年十二月三十一日，集團不計算商譽之淨資產為港幣 250,179,000 元，不計算商譽之淨資產回報率達 20.0%，表現理想。董事會已建議派付末期股息每股港幣 4 仙，派息率 58.3%。

謹請注意，本集團之財務報表自二零零二年三月十四日開始，已綜合處理從當時成為本公司附屬公司之上海聯合水泥有限公司（「上海水泥」）之賬目。因此，比較綜合收益表須就較短期間之綜合賬目而詮釋。

業務回顧

本集團之營業範圍包括：生產和銷售熟料、高標號水泥及石材、瓷磚、工程設計及施工、及其它建材配套銷售。

水泥業務

二零零三年上海水泥市場需求保持增加，下半年更出現強勁增長，刺激水泥價格上漲，本年銷售熟料及水泥 144.5 萬噸，較二零零二年增長 17.5%。二零零三年分類利潤港幣 99,302,000 元，較去年增長 80.8%。

For the year ended 31st December, 2003, the Group's net profit was HK\$50,023,000, representing an increase of 11.6% as compared to the previous year. Earnings per share was HK6.86 cents, representing an increase of 11.7%. If the gain on deconsolidated subsidiaries in the previous year of HK\$27,838,000 had been excluded, the increase would have been 194.8%. The growth of profit was mainly attributed to the booming domestic property market and the continuous increase in the number of infrastructure projects undertaken in Mainland China and internally, the enhanced operation rates as well as the implementation of effective cost control measures. At 31st December, 2003, the Group's net assets (excluding goodwill) amounted to HK\$250,179,000. The rate of return on net assets (excluding goodwill) was satisfactory and reached 20.0%. The Board has recommended the payment of a final dividend of HK4 cents per share and the dividend rate is 58.3%.

It should be noted that the Group's financial statements have consolidated those of Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") since 14th March, 2002, when it became a subsidiary of the Company. Accordingly, the comparative consolidated income statement should be interpreted with regard to this abbreviated period of consolidation.

BUSINESS REVIEW

The scope of business of the Group encompasses the manufacturing and distribution of clinker, high-grade cement and natural stones, ceramic tiles, provision of engineering design and installation, and the distribution of other construction materials.

Cement Business

The demand in the Shanghai cement market continued to grow in 2003, while in the second half of the year, a strong momentum of growth was observed which in turn drove up the price of cement. The volume of clinker and cement sold by the Group for the year reached 1,445,000 tonnes, representing an increase of 17.5% as compared to 2002. The segmental profit was HK\$99,302,000 in 2003, representing an increase of 80.8% as compared to the year before.

Management Discussion and Analysis (Continued)

業務回顧 (續)**水泥業務 (續)****上海水泥**

上海水泥本年生產熟料及水泥分別為 71.75 萬噸及 99.43 萬噸，比去年增長 7.37% 及 14.3%，分類利潤港幣 83,532,000 元，比去年增長 46.6%。年內國內部份地區多次出現限電，上海水泥窯的運轉率為 90.98%，比上年上升 2.97 個百分點，而水泥磨運轉率為 88.91%，比上年上升 7.11 個百分點。於期間完成九項技術革新，支持生產系統的進步。不過同時原材料及煤價格亦因需求不斷增加而上升，電力供應也緊張，但通過不斷技術革新及實行各種成本控制措施，提升各生產環節的產量，亦使生產成本維持合理水平，二零零三年水泥成本較去年只微升人民幣 5.74 元/噸或 3.04%。因此，上海水泥二零零三年業績體現出以生產和銷售雙向發展的成果，亦反映出只有不斷技術革新及以職業經理人團隊形式管理才能使企業持續成長。故此在全國同行業中上海水泥在勞動生產率、水泥製造成本、窯的運轉率、以及噸水泥創利能力都處於全國同行業中的領先地位。上海水泥於本年度被人民銀行評為 AA 級資信企業。

BUSINESS REVIEW (Continued)**Cement Business (Continued)****Shanghai SAC**

The output of Shanghai SAC's clinker and cement of the year amounted to 717,500 tonnes and 994,300 tonnes respectively, representing an increase of 7.37% and 14.3% as compared to the preceding year. The segmental profit was HK\$83,532,000, representing an increase of 46.6% as compared to the previous year. During the year, given the frequent restrictions of power supply imposed in some areas, the kiln operation rate of Shanghai SAC still recorded a growth of 2.97 percentage points as compared to the preceding year, reaching 90.98%, while the grinder operation rate was 88.91%, a 7.11 percentage point increase as compared to the year before. During the year, the improvement of the production system was achieved by the implementation of nine items of technological innovation. Unfavourable factors, such as the price increase of raw materials and of coal due to the persistent rise in demand and the tight electricity supply, were offset by the implementation of technological innovation projects and various cost control measures. Such favourable conditions, coupled with the positive effects generated from the enhanced capacity at each stage of production, helped to maintain the production cost of cement at a reasonable level with only a slight increase of RMB5.74 per tonne or 3.04% in 2003 as compared to 2002. As a result, Shanghai SAC's 2003 results not only reflected the achievements in the growth of both production and sales, but also demonstrated that the Group's sustainable business growth has been supported by continuous technological innovation, as well as a management comprising a team of professional managers. Shanghai SAC maintained a leading position among its counterparts in the China cement industry, in terms of its labour production rate, cement production cost, kiln operation rate and profit per tonne of cement. Shanghai SAC was accredited during the year as an AA credit rating enterprise by the People's Bank of China.

Management Discussion and Analysis (Continued)

業務回顧 (續)

水泥業務 (續)

上海水泥 (續)

在環境保護方面，上海水泥積極保持廠內外各項清潔及翻新維修工程，使廠外周邊環境(包括黃浦江邊)得以一翻新景象，此舉亦使市環保部門推薦作為上海工業界代表在「上海環保與新能源國際論壇」，作重點發言，其論文標題為「堅持可持續發展戰略，改善環保，節約能源」，對予各方面給予上海水泥在環保工作成果上的肯定，上海水泥感到非常鼓舞和自豪。二零零三年二月上海水泥被中國建築材料流通協會評為「首批中國環保建材質量，用戶滿意十佳誠信企業」。三月份又被中國建築材料企業管理協會評為「質量達標環保建材知名品牌」。



山東上聯水泥發展有限公司 (「山東水泥」)

由於山東水泥亦貫徹執行上海水泥營運策略，二零零三年在生產上及創造利潤能力都比去年有很大增長。山東水泥年度生產熟料及水泥分別為 37.3 萬噸及 35.8 萬噸，比去年分別增加 8.56% 及 44%，同時噸水泥成本比去年下降人民幣 13.51 元／噸或 9.41% 至人民幣 129.97 元。年度銷量 44.8 萬噸，比去年增加 11.9%，分類利潤為港幣 20,876,000 元，比去年增加 197.1%，二零零三年審運轉率達 92.55%，比去年增長 2.59%，達國際先進水平。

BUSINESS REVIEW (Continued)

Cement Business (Continued)

Shanghai SAC (Continued)

In regard to environmental protection, Shanghai SAC persisted in keeping the internal and external environment of the factory clean and carrying out renovation projects which turned the surrounding area of the factory (including the Huangpu River shore) into a refreshing scene. Such effort was commended by the environmental protection

department of Shanghai and Shanghai SAC was invited to represent the industrial sector of Shanghai to attend and deliver a key speech with the title of "Insist on a sustainable development strategy, improve environmental protection and conserve energy" at the "International Forum on New Energy and Environmental Protection" convened in Shanghai. Shanghai SAC was greatly encouraged by and proud of the recognition from various sectors for its achievements in environmental protection. In February, 2003, Shanghai SAC was accredited as the "first group of top ten consumer-trusted enterprises of environment-friendly construction material" by the China Building Materials Circulation Association. In March, Shanghai SAC was named the "Superior quality environment-friendly construction materials prestigious brand" by the China Building Materials Enterprise Management Association.

Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC")

With Shandong SAC's persistent adherence to the operating strategies of Shanghai SAC, its production and profit making capability in 2003 was significantly enhanced when compared to 2002. During the year, Shandong SAC's output of clinker and cement were 373,000 tonnes and 358,000 tonnes, representing an increase of 8.56% and 44% respectively as compared to the previous year. Meanwhile, the production cost dropped by RMB13.51 per tonne or 9.41% to RMB129.97 per tonne as compared to the preceding year. 448,000 tonnes of cement were sold annually, representing an increase of 11.9%. The segmental profit was HK\$20,876,000, a rise of 197.1% as compared to the year before. The kiln operation rate reached 92.55% in 2003, representing an increase of 2.59% as compared to the previous year and such rate was comparable to international high standard.

Management Discussion and Analysis (Continued)

業務回顧 (續)**水泥業務 (續)****山東水泥 (續)**

山東水泥在全國原燃料普遍漲價的情況下，成本仍大幅降低，實屬難能可貴，足見在原燃料產地辦生產基地有助於控制生產成本，將物價上漲對成本的影響控制到最低。

山東水泥持續改善生產系統，物流系統和銷售系統，使公司運行更加健康，年內共執行技術革新十餘項，增收節支約港幣 6,600,000 元，儘管原燃料價格上升，水泥成本仍降低 9.41%，實屬難能可貴。值得一提的是，作為本集團擴張的第一個項目，投資美金 1,000,000，按本年度溢利淨額計，其投資回報達 2.68 倍，足見管理層之眼光和魄力。山東水泥是本集團長期的利潤中心。

石材和瓷磚業務

隨著下半年非典型肺炎疫情受到控制，國內各項房地產工程不斷展開，集團石材及瓷磚業務有顯著增長。正確市場定位，如只發展國內主要城市如深圳、上海、北京及南京等，及向客戶提供多樣化高品質產品及售後服務，都令集團增加獲利機會。為此，集團將不斷增加建材產品種類及服務，由瓷磚、石材、人造石延伸至潔具、建築用鋼材及水管等材料及裝飾工程。全年營業額為港幣 38,759,000 元，較去年增加 107.8%，分類利潤為港幣 8,631,000 元，較去年增加 235.4%。

根據石材及瓷磚行業之狀況，集團注重賽華牌產品之「增值管理」，使之繼泰立牌水泥之後成為優質、可信、專業之象徵，該業務已成為集團的第三個利潤中心，表現令人可圈可點。

BUSINESS REVIEW (Continued)**Cement Business (Continued)****Shandong SAC (Continued)**

It deserved a credit that Shandong SAC's production cost could be greatly lowered under the general phenomenon of price increase in raw materials and fuels throughout the country. Such an achievement demonstrated that the setting up of a production plant in the vicinity of raw materials was advantageous to production cost control and could control the impact on cost by inflation to the minimum.

Shandong SAC continued refinement of the production system, logistic system and distribution system to enable even smother operation. During the year, over ten technologically innovative projects were implemented and brought in a net income of approximately HK\$6,600,000 resulting from higher income and lower cost. Despite the rising price of raw materials and fuels, the cost of cement still dropped by 9.41%, which was remarkable. It should be noted that Shandong SAC was the first project of the Group's expansion with an investment of US\$1,000,000. Based on the net profit for the year, return on investment was 2.68 times. This has evidenced the vision and efforts of the management. Shandong SAC is a long-term profit centre of the Group.

Natural Stone and Ceramic Tile Business

As SARS was under control in the second half of the year, various domestic property projects in Mainland China commenced successively and significantly boosted the Group's natural stone and ceramic tile business. Right market positioning, for instance focusing on the development of major cities only, namely Shenzhen, Shanghai, Beijing and Nanjing, in China, as well as the provision of diversified high-grade products and after-sales services to customers collaboratively contributed to the Group's profit making potentials. The Group will continue its effort in broadening the types of goods and services of construction materials from ceramic tiles, natural stones and artificial stones to include sanitary ware, construction steel and water tubing and the provision of renovation services. The turnover of this sector for the year was HK\$38,759,000, representing an increase of 107.8% as compared to the preceding year. The segmental profit was HK\$8,631,000, representing an increase of 235.4% as compared to the previous year.

Based on the prevailing environment of the natural stone and ceramic tile industry, the Group put an emphasis on the "value-added management" of its TRIWA products and promoted it to be another quality, trustworthy and professional brand after the success of TITAN products. The business became the third profit centre of the Group and its performance was remarkable.

Management Discussion and Analysis (Continued)

財務回顧

流動資金、財政來源及資本架構

本集團資本支出、日常營運及投資的資金來自內部營運產生之現金及主要往來銀行貸款。集團資產負債情況良好，流動性較高，現金儲備約港幣 105,397,000 元，其中包括約港幣 5,914,000 元已抵押短期銀行存款。本集團流動比率約 1.99 (二零零二年: 1.52)。於二零零三年十二月三十一日，本集團淨資產為港幣 338,903,000 元，較二零零二年增長 9.1%。流動負債項下銀行借款分別為港幣 89,463,000 元，其中約 98% 之本集團銀行借款乃以固定利率作出。資產負債率 (淨銀行借款/淨資產) 為負 4.7% (二零零二年: 正 13.3%)。本集團密切控制貸款情況以便將資本負債率維持在合理水平。

外匯波動

由於本集團的營運主要位於中國大陸，大多數銀行借款乃自中國大陸銀行獲得，以人民幣列值，因此將外匯波動的風險降至最低。

抵押資產

於二零零三年十二月三十一日，港幣 5,914,000 元 (二零零二年: 港幣 5,107,000 元) 之銀行存款抵押給銀行作為本集團銀行借款之擔保。

或然負債

於二零零三年十二月三十一日，本集團就同系附屬公司及第三方動用之信貸而給予銀行及財務機構之擔保分別為港幣 75,377,000 (二零零二年: 港幣 56,604,000 元) 及港幣 28,302,000 元 (二零零二年: 港幣 22,169,000 元)。已貼現商業票據為港幣 50,061,000 元 (二零零二年: 港幣 35,577,000 元)。

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure and daily operations and investments were funded by cash generated from internal operations and loans by principal bankers. The Group continued to maintain a healthy balance sheet, with high liquidity and cash reserves of HK\$105,397,000, which included HK\$5,914,000 of pledged short-term bank deposit. The Group had a current ratio of approximately 1.99 (2002: 1.52). At 31st December, 2003, the net assets of the Group amounted to HK\$338,903,000, a 9.1% increase as compared to 2002. The bank borrowings in current liabilities amounted to HK\$89,463,000 of which approximately 98% were at fixed rates. The gearing ratio (net bank borrowings over net assets) was a negative 4.7% (2002: positive 13.3%). The Group closely monitored the borrowings to maintain the gearing ratio at a reasonable level.

Foreign Exchange Fluctuation

Since the Group's operations were mainly located in Mainland China, most of the bank borrowings were obtained from the banks in Mainland China in Renminbi, which resulted in minimal risk of foreign exchange fluctuations.

Charges on Assets

At 31st December, 2003, bank deposits of HK\$5,914,000 (2002: HK\$5,107,000) were pledged with banks to secure the Group's bank borrowings.

Contingent Liabilities

At 31st December, 2003, guarantees given to bank and financial institution by the Group in respect of facilities utilised by fellow subsidiaries and third parties were HK\$75,377,000 (2002: HK\$56,604,000) and HK\$28,302,000 (2002: HK\$22,169,000) respectively. The discounted commercial bills amounted to HK\$50,061,000 (2002: HK\$35,577,000).



業務發展

二零零三年國內經濟增長達9.1%，集團將以樂觀但謹慎態度擴大及發展各項建材有關業務。發展策略以「不熟不做」為基本發展指引，增加股東回報為長遠目標，使集團成為建材行業名牌。本集團旗下之「泰立牌」水泥及「賽華牌」瓷磚雲石雙雙被人民日報市場信息中心評為「中國市場產品質量，用戶滿意十佳品牌」，集團總裁黃清海先生於二零零三年九月被中國建築材料企業管理協會評為「全國建材行業優秀企業家」。



BUSINESS DEVELOPMENT

The domestic economic growth rate of China was about 9.1% in 2003. The Group is cautious optimistic on the expansion and development of various construction-related businesses. The development strategy, under the fundamental development guideline of “only engaging in businesses with extensive prior exposure”, aims at raising the shareholders’ return in the long-run and developing the Group to become a prestigious brand in the construction industry. The Group’s “TITAN” cement and “TRIWA” tiles and marbles are both named as the “Top ten brand name in quality and consumer satisfaction in China products market” by Peoples’ Daily Market Information Centre. In September 2003, Mr. Ng Qing Hai, the Chief Executive Officer of the Group, was elected as an “Outstanding entrepreneur in the construction material industry in China” by the China Building Materials Enterprise Management Association.

水泥業務

集團於二零零三年年底，與山東王晁煤電集團有限公司訂立協議，在山東合資建設一間日產 2,500 噸熟料新型幹法生產線的工廠，以擴大集團水泥生產的能力。預期可於二零零四年底投產。該項目將使集團在二零零五年達到產 300 萬噸水泥的目標，業務邁進一步。

該項目毗鄰山東水泥，背靠礦山，面向運河，佔地 200 畝，由南京設計院設計，各項設備選型均代表當今行業之先進水平，加上原燃料、人工成本、管理、品牌、市場之優勢，集團對其順利完工及運行胸有成竹，該項目有機會成為本集團今後長時間的最重要利潤中心之一。

Cement Business

In late 2003, the Group entered into an agreement with 山東王晁煤電集團有限公司 to jointly establish a new dry process production plant having a daily clinker production capacity of 2,500 tonnes in Shandong so as to enhance the Group’s cement production capacity. The new production plant is expected to commence operation in late 2004 and should bring the Group’s production capacity to 3,000,000 tonnes per annum by 2005 and further advance the Group’s business.

In the vicinity of Shandong SAC, with a quarry at its back and canal at its front, the production plant, occupying an area of 200 mu, was designed by Nanjing Design Institute and was equipped with facilities representing the latest technologies in the industry. In addition to its competitive advantages in raw materials and fuels, labour cost, management, brand and market, the Group is confident of the smooth completion and operation of the new plant. It is possible that this operation will become one of the Group’s most important profit centre for a long time.

Management Discussion and Analysis (Continued)

業務發展 (續)

石材及瓷磚業務

集團長遠策略希望成為業內之名牌建材服務供應商，集團已與歐洲區的品牌廠商建立了長期穩固的合作伙伴關係，共同開發中國大陸高端的石材市場，同時仍會繼續完善內部物流系統及配套流程，為客戶提供良好的售後服務及相關的裝飾工程服務，增加創造利潤機會。集團將沿改善最終用者的居住、生活環境的理念來發展此項業務。

礦渣粉業務

一般預計國內物業市場及基建工程仍會不斷增長，各種建築材料需求殷切。礦渣粉是高品質混凝土輔料之一，但成本比其替代材料為低，因此深受混凝土生產商歡迎。目前市場供不應求，集團已投資港幣 3,000,000 元於北京建立一生產礦渣粉工廠，本集團佔其 80% 股權。該項目位於北京西郊，備有鐵路專用線及原料堆場，與混凝土攪拌站咫尺之隔。預期於二零零四年中投產並可為集團可增加一個利潤中心。

僱員及薪酬政策

於二零零三年十二月三十一日，本集團（包括其附屬公司但不包括其聯營公司）僱用 577 名員工。本集團之薪酬政策及花紅計劃乃根據員工表現與市況確定。集團按照上海水泥之經驗，在每個項目實行全員目標責任制及生產經營獎懲辦法，將各項收入、支出、管理目標、紀律操行等對全體同事進行考核，從總裁至普通員工每月都接受集團考核，以鼓勵先進，鞭策中流和後進，使薪酬制度更加符合市場要求，適應本集團業務發展之需要，該制度效果不菲。本集團還按骨幹員工之表現，提供認股權，以激勵同事創造更佳效益。

BUSINESS DEVELOPMENT (Continued)

Natural Stone and Ceramic Tile Business

The long-term strategy of the Group is to become a prestigious construction services provider in the industry. The Group has formed a long-term and stable partnership with European premium manufacturers, for exploring together the business opportunities of high-grade stone market in Mainland China. Also, the Group is continuously improving its internal logistic system and ancillary procedures and aims to provide customers with quality after-sales services and related renovation services in order to maximise profit generating opportunities. The Group continues the development of such services under the rationale of improving the residential and living environment of the ultimate users.

Slag Powder Business

It is generally expected that with the booming of the property market in Mainland China and the growing number of infrastructure projects undertaken in future, the demand for various construction materials would continue to escalate. Slag powder is one of the supplementary materials of high quality concrete, while its cost is lower than its substitute. Thus, slag powder is very popular among concrete manufacturers. In view of the current situation of demand exceeding supply, the Group has invested HK\$3,000,000 to establish a slag powder production plant in Beijing and the Group's shareholding in the factory is 80%. This plant is located in the western suburb of Beijing and is equipped with an exclusive railway line and a raw material storage area. The plant is also close to a concrete batching plant. It is anticipated that our plant will commence production in mid-2004 and become an additional profit centre of the Group.

EMPLOYEES AND REMUNERATION POLICIES

At 31st December, 2003, the Group including its subsidiaries but excluding its associates, employed 577 employees. The remuneration policies and bonus schemes of the Group are based on the performance of the staff and market conditions. Based on the experience of Shanghai SAC, the Group has implemented the responsibility system of collective target as well as a reward and punishment method in production and operation in every aspect. An assessment is made on all staff in respect of income, expense, management objective and disciplines, etc. The Group evaluates the performance of every staff, ranging from the Chief Executive Officer to frontline staff on a monthly basis. It aims to encourage the leading staff while spurring the intermediate and lagging staff, and to ensure the salary system is more compatible with the market and the business development of the Group. The system has achieved remarkable results. The Group also provides share options to key staff according to their performance with an objective to inspire them in creating better results.

Management Discussion and Analysis (Continued)

風險管理

集團十分注意風險管理的政策和程序的設置，並由執行委員會來控制風險，定期加以檢討，以確保集團業務之所有風險得到及時而有效控制。

在市場定位上，集團堅持只做 A 類客戶，從而避免因客戶誠信或經濟狀況不佳而殃及集團之業務。

在市場信息方面，集團與權威信息中心建立信息互換關係，同時定期與世界知名跨國公司共同探討世界及中國經濟走勢，保持管理層對瞬息萬變的經濟環境的體察之靈敏度，保證適時的以自身之不斷變化來應付外部經濟環境之變化。規避來自利率、匯率、股市、信貸、地產、商品價格、國家政策、競爭對手、供應商等變化帶來之風險，使集團之業務發展既迅速又穩健，這些都得益於集團風險管理。

二零零三年六月份於沙士過後，集團注意到內地為了彌補疫情對經濟的影響，國家大量投資搞基建，會刺激水泥需求，所以適時提升水泥價格，並保持產品之暢旺銷售，使集團利潤最大化。又於下半年，集團預計到國家可能會出臺政策，限制新建水泥廠，所以於年底在山東棗莊動工開始興建一條日產 2,500 噸熟料新型幹法生產線，使集團適度擴張政策得於實施。

RISK MANAGEMENT

The Group places strong emphasis on the establishment of risk management policy and procedure. The executive committee is responsible for the risk control and regular review the measures so as to ensure that all risks arising from the Group's business are under timely and effective control.

In regard to its market positioning, the Group persists in doing business with A-class customers only in order to avoid any adverse impacts on the Group's business resulting from the unsatisfactory credibility of customers or their unfavourable economic conditions.

In respect of market information, the Group establishes relationships with authoritative information centres to exchange information. At the same time, the Group also regularly works with world-famous multinational corporations to inquire the trend of global economic development and in China. It enables the management to keep abreast with and maintain its sensitivity to the ever-changing economic conditions so that prompt and constant internal improvement can be made to tackle the changes of external economic conditions. Such practice also helps to avert risks arising from the fluctuations related to interest rate, exchange rate, stock market, credit, property, commodity price, state policy, as well as the changes of competitors and suppliers, and facilitate the rapid and steady business growth of the Group. All the above benefits have arisen from the Group's risk management.

In June 2003, the post-SARS era, the Group noted that the State invested heavily in the domestic infrastructure projects to remedy the adverse effects of SARS on the economy, which would in turn stimulate the demand of cement. Therefore, the Group, apart from maintaining the high volume of sales, adjusted the price of cement upward at the appropriate time and thus maximised the profit of the Group. In the second half of the year, the Group anticipated that the State might implement policies in controlling newly-established cement factories. Therefore, a new dry process production plant having a daily clinker production capacity of 2,500 tonnes was started to be set up in Zaozhuang, Shandong. Such an initiative has enabled the Group's policy of suitable expansion to be implemented.

Management Discussion and Analysis (Continued)

市場風險分析

根據國家建材資訊中心資料，中國內地二零零三年水泥使用量約為8.8億噸，比二零零三年約上升25%，水泥價格出現報復性上漲，一舉達到近10年的高位，因此各地紛紛投資興建水泥廠。而政府則於近期內多次警告水泥、鋼鐵、電解鋁投資過熱，並出臺政策加以限制。這種做法說明政府對市場經濟已有深入瞭解，能夠及早控制過度投資，避免出現新的生產過剩，導致通縮重臨，這種做法有利於行業風險的控制。

本集團認為水泥行業是一個資源、資金、技術都有一定門檻的行業，如果讓大量非專業公司盲目進入，有可能導致行業整體水準下降，亦不利於水泥質量之控制。從另一角度看，由於內地水泥有80%是落後的立窯水泥，發展新型幹法水泥生產線是大勢所趨，只是需要用專業的、前瞻性的眼光來處理，不能盲目投資。集團按照自身之資金，市場之需求等客觀條件，堅持發展水泥的戰略。隨著在山東棗莊的另一條新型幹法生產線的投資，預計到二零零五年，集團水泥產銷量將達到300萬噸/年。憑藉集團所擁有的管理、技術和銷售團隊，以及產品品牌，市場佔有之優勢，市場風險將得到得體之控制。據權威部門估計，二零零四年上海水泥市場需求將達到約2,300萬噸，比二零零三年有所增長，本集團對完成二零零四年預算充滿信心。

MARKET RISK ANALYSIS

According to the statistics of the Information Centre of China Building Materials Industry, the volume of cement utilisation in Mainland China in 2003 reached approximately 0.88 billion tonnes, representing an increase of about 25% when compared to 2003. There were corresponding increases in cement price which reached the highest for the last decade and it lured investments in setting up cement factories in all areas. However, the Government has issued repeated warnings recently on the overheated investment in cement, steel and electrolytic aluminum and implemented policies to restrict such a phenomenon. The measures illustrated that the Government has thorough understanding of market economy and managed to control the over-investment without any delay. It averted the emergence of production surplus which would lead to the comeback of deflation. The measures have been useful in controlling the risk in the industry.

The Group is in the opinion that the cement industry is an industry which poses certain barriers of entry in terms of resources, capital and technology. In case of unprofessional companies entering the industry being unchecked, it is possible that the overall standard of the industry would be downgraded and it would also be unfavourable for the quality control of cement. From another point of view, it is an irreversible trend to develop new dry process cement production line as the fact is that 80% of domestic cement plants are backward vertical-kiln cement plants. Nevertheless, a professional and visionary insight, and not rashness, must be shown in handling all the investments. The Group insists on its cement business strategy in accordance with objective conditions such as its capital base and the market demand. It is anticipated that the Group's cement sales will reach 3,000,000 tonnes per year in 2005 after the investment in the additional new dry process production plant in Zaozhuang, Shandong. Leveraged on the Group's management, technical and sales teams, as well as its brand name and its competitive advantages in the market, the market risk could be properly controlled. According to the estimation of an authoritative department, the demand of cement in 2004 will reach approximately 23 million tonnes in the Shanghai cement market, representing an increase when compared to 2003. The Group is fully confident in meeting its 2004 target.

Management Discussion and Analysis (Continued)

市場風險分析 (續)

隨著世界經濟的復蘇，中國經濟進入歷史發展的最好時期，並且充當全球經濟增長的火車頭。儘管國家下決心抑制經濟過熱，但是二十一世紀是中國發展的世紀，這種大趨勢是不會改變的。近幾年中國經濟將繼續高速發展，本集團主要業務都在中國，有機會分享到經濟高速增长之成果。全體同仁都緊記集團的經營理念，作為一個職業經理人，無論客觀條件如何變化，都將以積極態度面對，以保證業績長期快速增長。

黃清海
行政總裁

香港，二零零四年三月二十六日

MARKET RISK ANALYSIS (Continued)

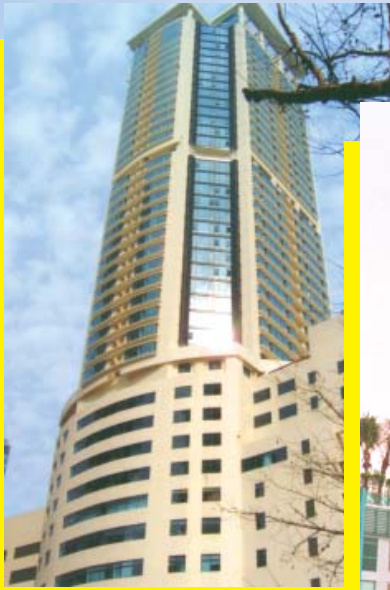
Along with the revival of the global economy, China's economy is entering into a golden era unprecedented in history. China is currently the growth engine for the global economy. Despite the State's determination in depressing the overheated economy, yet it is irreversible that the 21st century will be the century of development for the PRC. China's economy will continue to grow at a rapid pace for the years to come. The Group is going to share the fruits of such growth as our principal businesses are all located in China. Our staff will always remember the corporate principle: being a professional manager, he/she will adopt a positive attitude to tackle problems regardless of any changes in the environment in order to ensure the long-term rapid growth of the business.

Ng Qing Hai
Chief Executive Officer

Hong Kong, 26th March, 2004

“賽華”牌瓷磚及石材經典項目

MAJOR PROJECTS FOR “TRIWA” TILES AND STONE



南京天安國際大廈
Nanjing Tian An International Building



大角嘴港灣豪庭
Metro Harbour View in Tai Kok Tsui



青馬大橋觀景台
Tsingma Bridge Panoramic Terrace



上海天安中心
Shanghai Tian An Centre



上海天安別墅
Shanghai Tian An Villa



深圳華為中心
Shenzhen Huawei Centre

“泰立”牌水泥經典項目
MAJOR PROJECTS FOR “TITAN” CEMENT



上海 F1 賽車場
F1 Racing Circuit in Shanghai



上海外高橋電廠二期
Shanghai Waigaoqiao Power Plant Phase II



上海外高橋碼頭
Shanghai Waigaoqiao Terminal



上海復興東路隧道
Shanghai Fuxing East Road Tunnel



上海輕軌
Shanghai Lightrail



上海外環隧道
Shanghai Outer Ring Immersed Tube Tunnel