
INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The results of the Group for the six months ended 30 June 2001 were badly hit by the continued slow down of economy and fears of recession in the United States. The Group's unaudited consolidated net profit amounted to HK\$2.07 million (2000: HK\$11.43 million). The sharp fall of 81.9% was mainly caused by the reduction in profit from paint manufacturing and other revenue.

The Group's turnover for the period was HK\$179.32 million (2000: HK\$233.82 million). The drop of 23.3% was mainly due to reduced property business.

SEGMENT INFORMATION

Turnover by activity

Paint manufacturing played a major role in the Group's revenue. Its weighting in turnover increased to 95.7% compared to 70.4% in 2000 mainly attributable to the substantial contraction in property business following the Group's cautious approach on property.

Turnover by geographical location

Turnover in Mainland China rose significantly by 23.7% to HK\$101.07 million (2000: HK\$81.72 million) whilst that of Hong Kong fell sharply by 48.6% as a result of the Group's increased activities in Mainland China.

BUSINESS REVIEW

Paint manufacturing

Paint manufacturing remained the core business of the Group. Its turnover amounted to HK\$171.62 million (2000: HK\$164.53 million), a moderate increase of 4.3%. Operating profit fell to HK\$21.82 million (2000: HK\$29.97 million) mainly due to increased activities in Mainland China where profit margin was comparatively low. Subsequent to 30 June 2001, the Group would dispose its interest in an associate engaged in coating business at a consideration of HK\$19.00 million.

Property

The Group continued to stay on the sidelines in view of the dull and uncertain property market. Turnover dropped significantly by 98.4% to HK\$1.03 million (2000: HK\$63.65 million) mainly due to the property disposals of HK\$61.78 million in 2000. The fall in operating profit to HK\$1.16 million (2000: HK\$5.54 million) was primarily due to low rental income and operating expenses for vacant properties. Development projects in Sai Kung and Mui Wo were still in the progress of re-grant with the Hong Kong Government.

Trading and strategic investments

The turnover for iron and steel trading fell by 36.0% with a minor operating loss of HK\$0.02 million (2000: HK\$0.17 million). The turnover for strategic investments increased significantly on stronger market activities but still recorded operating loss of HK\$1.52 million (2000: HK\$1.37 million) due to high operating costs.

Granite and marble mining and trading

The adverse effects of the poor U.S. economy had weakened the local consumption power. Our marble business, Wilfred Marble Engineering Limited had been substantially affected, particularly on retail sales and incurred net loss of HK\$4.07 million against net profit of HK\$10.49 million in the same period of last year. Wilfred had secured contracts for construction projects of approximately HK\$60 million and would focus its business on this sector. Better results could be attained in the latter part of the year.

Stone mining and trading

During the period, the Group increased its mining portfolio by acquiring interest in a stone mine business in Mainland China. The investment cost amounted to RMB14.00 million of which 50% was paid during the period and the balance payments were made in July and August 2001. Initial production would be in September this year.

Information technology

The results of our web business were disappointing in light of the bearish sentiment in the technology field and the weak economy in Hong Kong. Both Worldwide Education Limited and Treasure Auctioneer International Limited were in their retrenchment stage. Subsequent to 30 June 2001, the Group entered into an agreement to acquire additional 25% equity interest in the Treasure Auctioneer business at a consideration of HK\$38.00 million so as to increase our control over its management. The two companies would develop new revenue lines whilst streamlining resources to increase cost value.

Environmental projects

The GAIA Automotive Fuel project was temporarily withheld as there were uncertainties about its patent right. The Group would review the situation with care pending clarifications from the patent owner and the inventor.

The project on catalytic converter was fully invested. A factory was established in Shenzhen with two production lines installed. Satisfactory negotiations were made with some potential car manufacturers in Mainland China and hopefully business could commence towards the end of the year.

FINANCIAL REVIEW

Liquidity and financial resources

The Group's funding derived mainly from its retained earnings. Cash flow remained sound with cash and bank balances of HK\$103.66 million (31 December 2000: HK\$131.41 million) and a liquidity ratio of 1.92 times (31 December 2000: 2.11 times). At 30 June 2001, bank loans and other borrowings amounted to HK\$122.86 million (31 December 2000: HK\$126.79 million) of which HK\$33.07 million is payable within one year, HK\$10.41 million is payable within two years, HK\$16.86 million is payable from three to five years and HK\$62.52 million is payable beyond five years. Interest rates of the bank loans ranked from 6.0% to 10.5% per annum. The risk of currency exposure would be immaterial as most borrowings were in HK\$ and RMB. Current assets reduced by HK\$33.10 million to HK\$269.94 million (31 December 2000: HK\$303.04 million) mainly due to the settlement of the catalytic converter project. Current liabilities fell slightly by HK\$2.82 million to HK\$140.62 million (31 December 2000: HK\$143.44 million). Net asset value per share was virtually unchanged at 67 cents (31 December 2000: 67 cents). The Group's gearing (long term debt/equity) dropped to 8.9% from 9.3% at 31 December 2000.

Contingent liabilities

At 30 June 2001, the Group issued guarantees of HK\$89.25 million (31 December 2000: HK\$91.13 million) to bankers to secure general banking facilities to certain associates. Guarantees issued by the Company to bankers to secure general banking facilities to various subsidiaries outstanding at 30 June 2001 amounted to HK\$87.53 million (31 December 2000: HK\$89.66 million).

Pledge of assets

Land and buildings and investment properties with aggregate net book values of HK\$314.08 million (31 December 2000: HK\$318.86 million) were pledged to banks as collaterals for general banking facilities. At 30 June 2001, total outstanding secured bank loans and other borrowings amounted to HK\$117.27 million (31 December 2000: HK\$121.20 million).

STAFF

At 30 June 2001, the Group had a total of 668 employees in Hong Kong and Mainland China. The Group ensures that its staff remuneration and benefits system is maintained at reasonable level and within a cost-effective management structure.

OUTLOOK

It is most likely that the slow down of U.S. economy would continue to 2002 and recovery might not be seen in the next six months. The rest of the year would still be very difficult as investors and consumers tend to be very cautious in their investments and spending. The Group would concentrate on its core business and would prudently explore new investments particularly in Mainland China where business opportunities may increase after it joins the WTO.