Business Review

REVIEW OF OPERATIONS

Turnover and profit before taxation for the half year ended 30th June 2001 were HK$542 million and HK$76 million as compared to HK$514 million and HK$111 million respectively for the corresponding period last year, representing an increase in turnover of 5% and a decrease in profit before tax of 32%.

Profit contribution from Hong Kong Construction Materials Division declined by 34%. This was due to the fact that both prices and demand for construction materials have dropped significantly amid the continual slowdown in the local public and private property and infrastructure developments.

The overall performance of the Mainland China Construction Materials Division was steady as compared to the corresponding period last year. The performance of Guangzhou operation was adversely affected by the intensifying market competition from neighbouring cities and the shut down of the ready mixed concrete batching plant of Guangzhou Jia Fang Concrete Co. Ltd. However, the loss in Guangzhou was offset by continuously improving performance of the Shanghai region.

(1) Business in Hong Kong

The profit of the Hong Kong Construction Materials Division has been eroded significantly due to the continual slowdown in the local public and private property and infrastructure developments, affecting prices. To maintain competitiveness, efforts have been made in resources rationalization and on cost control. In the short term, the Group envisages that the contributions from the Hong Kong operation would continuously be under severe pressure until such time when more new property and infrastructure development projects commence. Nevertheless, the Group remains cautiously optimistic on the prospect of the Hong Kong construction materials industry in the long term. Along this view the Group has incorporated a subsidiary K. Wah Materials (Hui Dong) Limited in July 2001. This cooperative joint venture, of which the Group has 100% equity interest, will establish a quarry in Huidong aiming to serve primarily to the Hong Kong market. It is scheduled for full production by the end of 2002.

The Group notes that the current order book is at a level lower than that of the corresponding period last year. However given the current market condition, the Group considers the situation satisfactory.

(2) Business in Mainland

The overall performance of the Mainland China Construction Materials Division was steady and recorded better results as compared to the corresponding period last year.

In Guangzhou, the overall performance was unsatisfactory due to intensifying market competition and the required shut down of Jia Fang concrete batching plant. The Group is still awaiting the outcome of the legal proceedings to revoke the closure notice served on Huangpi Quarry and is actively evaluating alternatives available for Guangzhou Jia Fang Concrete Co. Ltd., a subsidiary in which the Group has 57% equity interest.

In Shanghai, the performance of our operations is satisfactory. The 30% increase in the overall ready-mixed concrete market during the first half of 2001 resulted in better than expected profit contribution to the Group. It is envisaged that with gradual easing of the liquidity in the market and the upturn in the demand for ready-mixed concrete, contribution from Shanghai operations will continue to increase. To benefit from the potential of the ready mixed concrete market, the Group has acquired from its Chinese joint venture partner an additional 40% equity interest in Shanghai Beicai Concrete Co. Ltd. in July 2001. On completion of this acquisition, the Group owns 100% equity interest in and has full management control of that company.

(3) Technology Investments

The Group has been cautiously proceeding with its diversification plan and so far has invested HK$99 million on technology investments. It has also achieved a balanced investment portfolio in various segments, both in Hong Kong and in Mainland China.

OUTLOOK

In the near term the current unfavourable view on the Hong Kong construction materials industry is likely to persist until such time when property and infrastructure developments prosper with full vigour.

Faced with continuous drop in demand and the current market downturn, the Group is consolidating its Hong Kong operation through resources rationalization so as to gear ourselves up to stay competitive and to remain as one of the leaders in the industry.

In mainland China, with the forthcoming entry into WTO and Beijing's successful bid for the 2008 Olympic Games, the Group expects further contributions from speeding up its pace of expansion in the Mainland. With the Group's strong cash flow and practically zero gearing ratio and our invaluable years of experience in Mainland China, the Group is confident in grasping good and profitable opportunities.