



## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations review

#### Overall results

For the six months ended 30 June 2001, the unaudited consolidated turnover grew significantly by 17.8% from the corresponding period in 2000 to HK\$381.2 million, while profit from operating activities was maintained at HK\$58.2 million, at a similar level as the prior period. The Group's net profit attributable to shareholders for the period was HK\$64.2 million, a reduction of 15.6% from the prior period.

#### Building materials business

##### *Hong Kong*

Despite the continued sluggishness of the private housing developments and the slowdown of public housing construction activities, the Group's cement distribution business in Hong Kong achieved an increase in sales quantity as compared to the corresponding period for 2000, though gross profit margin was reduced because of the decrease of average selling price. The ready-mixed concrete businesses in Hong Kong carried on by the Group's associates were able to maintain sales volume and profit as compared with those for the previous period.

##### *The Philippines*

The Philippine cement distribution business of the Group achieved encouraging results driven mainly by the increase in sales volume by 21.9% from the first half of 2000. The consistently high quality of cement supplied and services rendered, advantageous location of its facilities, successful marketing strategies and expansion of distribution channels contributed to the growth in sales revenue and profit of this business.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Operations review (Continued)

#### *Mainland China*

In Wuhu, the People's Republic of China (the "PRC"), the Group's 60%-owned subsidiary, Anhui King Bridge Cement Co., Ltd. ("AKB"), incurred some losses during the period as distribution channels were being established and customer base was being expanded after commencing commercial operations for just less than one year.

#### Telecommunications business

KG Telecommunications Co., Ltd. ("KGT"), a cellular service provider in Taiwan in which the Group had an approximately 10% equity interest and which the Group accounted for using the equity method, recorded a marginal profit for the period under review. Facing keen competition in the domestic market, KGT offered various incentives to customers, thereby being able to continue the expansion of subscriber base during the period. The launching of the general packet radio services (GPRS) network in September 2000 had laid a solid foundation for business growth.

#### Other significant investments held

The Group held, as a long term investment, a minority equity interest in Gigamedia Limited ("Gigamedia"), the shares of which are listed in NASDAQ and a leading provider of internet access services in Taiwan and broadband content for Chinese markets. Gigamedia continued to see an increase in number of subscribers and access revenues while monthly cash burn was reduced. As such, and given its sound financial position, no further provision against this investment is considered necessary, as opposed to a provision of HK\$17.8 million made in the corresponding period in 2000. Another long term investment, KGEx.com Co., Ltd., in which the Group has a 5.1% equity interest and KGT has an approximately 50% equity interest, is engaged in the provision of data centre services in Taiwan.



### **Other significant investments held (Continued)**

As at 30 June 2001, the Group was holding approximately HK\$51.7 million of highly liquid short term investments consisting of shares listed in Taiwan and Hong Kong and redeemable debentures. Gain on disposals of and unrealised holding gains on these investments for the period amounted to HK\$0.7 million and HK\$2.5 million, respectively.

### **Prospects**

The Group's cement distribution and ready mixed concrete businesses in Hong Kong are expected to face increasing pressure from declining volumes due to the slowdown of public housing developments. The Directors are of the opinion that such reductions will be partially mitigated by an increase in infrastructure developments recently expressed by the Hong Kong Government. .

As part of the effort to counteract the effect of depreciation of Philippine peso against the US dollar, the Group's cement distribution business in the Philippines started to purchase cement locally from the third quarter of 2001. The Directors believe that such measures will be able to reduce the adverse impact of exchange rate risks, which eroded a significant portion of this business's profits in 2000.

The PRC government's policy to gradually eliminate smaller, inefficient cement manufacturing plants provides an improved environment in which AKB operates. The Directors believe that the successful establishment of distribution channels and gradual acceptance of AKB's products in the market will increase AKB's sales volume, thereby enabling AKB to reach break-even point very soon.

The successful bid of the 2008 Olympic Games by Beijing and the prospectively promising admission of the PRC to the World Trade Organisation by the end of 2001 is likely to generate more investment opportunities in the PRC in general. The Directors are actively exploring such opportunities at present in anticipation of increasing the presence of the Group's building materials business in the PRC and making the PRC one of the important sources of the Group's profit in future.

**Prospects (Continued)**

The customer incentives offered by KGT have proved to be a success with a steady increase in revenue and customer base. The launching of igogo GPRS services in August 2001 is expected to attract customers for its advanced data transmission capabilities. In addition, NTT DoCoMo, a strategic shareholder of KGT since February 2001, is assisting KGT in the provision of “i-mode like” services, the Taiwanese version of “i-mode” services, which are already very popular in Japan, before the second quarter of 2002.

**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 30 June 2001 amounts to HK\$166.9 million (including pledged deposits of HK\$121.5 million), of which 92.4% are denominated in either HK\$, US\$ or RMB and the rest are denominated in NT\$ and Philippine pesos.

Highly liquid short term investments with a market value of HK\$51.7 million as at 30 June 2001 were also held by the Group.

The maturity profile of the Group’s bank loans as at 30 June 2001 together with the comparative figures as at 31 December 2000 is analysed below:

	<b>30 June 2001 HK\$'000</b>	31 December 2000 HK\$'000
Short term bank loans	<b>99,159</b>	30,000
Long term bank loans repayable:		
Within one year	<b>252,053</b>	103,893
Within two to five years	<b>206,287</b>	254,801
Total bank loans	<b>557,499</b>	388,694



## **Liquidity, financial resources and capital structure (Continued)**

The significant increase in bank borrowings during the six months ended 30 June 2001 was resulted from the support of the Group's bankers for the investments of the Group which had been made or will be made shortly after the end of the period.

Out of the bank loans as at 30 June 2001, HK\$342.0 million are denominated in HK\$, HK\$139.7 million in New Taiwan dollars, HK\$46.7 million in RMB, and HK\$29.1 million in Philippine pesos. Apart from the loans denominated in RMB which are at fixed interest rates, all loans are of floating rate structures.

Loans amounting to HK\$262.0 million as at 30 June 2001 were secured by the pledge of 48,000,000 shares in KGT. A loan of approximately HK\$116.7 million as at that date was secured by bank deposits of HK\$121.5 million of the Group. All other bank loans as at 30 June 2001 were not secured by any charge against assets of the Group.

Gearing ratio, calculated based on total bank borrowings and total assets, as at 30 June 2001 was 36.9%. Although the Group is at a net current liabilities position, our financing activities are well received by our bankers in view of the growth potential of the Group's new investments.

## **Future investment plans**

With the success of the Company's strategy to counteract cyclical trends in local construction materials industries by expanding geographically, the Directors will continue to explore new investment opportunities in other countries with a prudent approach.

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 has considered 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 30 June 2001.

## Employees

As at 30 June 2001, the Group had 166 full-time employees. Total wages and salaries of the Group for the six months then ended amounted to HK\$5.6 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 at discounted prices. During the period, no share options were granted to any director or employee of the Group. As at 30 June 2001, the number of outstanding options granted to non-director employees was 2,000,000. These options, granted on 11 April 2000, are exercisable within the period from 11 October 2000 to 10 April 2005, both days inclusive, at an exercise price of HK\$1.6504 per share. No share options were exercised by these employees during the period.