



PROSPECTS

The pace of housing developments and infrastructure construction activities in Hong Kong continues to show signs of slow-down in the early months for 2002, and further price cuts are already evident as well. Although the Directors expect that profit contribution from construction material businesses in Hong Kong will be further eroded as a result of reductions in consumption and selling prices, there has been a fall in cement import prices since the beginning of 2002 which partially mitigates the tightening of profit margins.

In the Philippines, the significant fluctuations in exchange rates in the past as well as more stringent barriers on cement imports in protection of the local cement manufacturers have provoked a change in strategy of the Group's operations in the Philippines. The mode of



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operation has been changed from import and distribution of cement to rendering of cement handling services since the beginning of 2002. The Directors are of the opinion that such a strategy will enable the Group to have a steady stream of income from the Philippine operation in the future.

The implementation of the PRC government's policy to eliminate smaller, inefficient cement manufacturing plants, the expected increase in infrastructure construction activities, and the PRC's admission to the World Trade Organisation are creating more investment opportunities in construction material businesses in the PRC. In April 2002, the Group obtained approval from the government authorities in the PRC to set up a wholly-owned cement grinding plant in Fuzhou, Fujian Province, with an annual

production capacity of 1.5 million tonnes. The Group has also applied for government approval for the construction and operation of a wholly-owned berth serving this plant which can handle vessels with tonnage up to a maximum of 25,000. In addition, the Directors will continue to explore other investment opportunities in construction material businesses in the PRC.

With the support of NTT DoCoMo, KGT is expected to launch its "i-mode like" services, the Taiwanese version of "i-mode" services, which are already very popular in Japan and other countries, in the second quarter of 2002. The strategy of KGT will be focused on the provision of GPRS-based igogo services and the forthcoming "i-mode like" services, in anticipation of future expansion of customer base.

MANAGING DIRECTOR'S REPORT – FINANCIAL AND MANAGEMENT REVIEW

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 2001 amounts to HK\$64.1 million, of which 80.6% are denominated in either HK\$, US\$ or RMB, 16.1% are denominated in Philippine pesos and the rest are denominated in NT\$. Highly liquid short term investments with a market value of HK\$70.1 million as at 31 December 2001 were also held by the Group.

The maturity profile of the Group's bank loans as at 31 December 2001 is analysed below:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Amount repayable:		
Within one year	136,098	133,893
Within two to five years	336,813	254,801
Beyond five years	—	—
Total bank loans	472,911	388,694

Out of the bank loans as at 31 December 2001, HK\$407.0 million are denominated in HK\$, HK\$35.5 million in RMB, HK\$22.5 million in NT\$ and HK\$7.9 million in Philippine pesos. All loans are of floating rate structures.

As at 31 December 2001, loans amounting to HK\$247.0 million were secured by the pledge of 48,000,000 shares in KGT. Loans amounting to HK\$35.5 million were secured by the pledge of certain plant and machinery of a subsidiary. All other bank loans are not secured by any charge against assets of the Group.

Gearing ratio, calculated based on total bank borrowings and total assets as at 31 December 2001, is 34.5%.

Future investment plans

While striving to maintain our current operations, we have our eyes on mainland China for our future growth. We have adopted an aggressive but steady approach in developing our cement business in mainland China. Apart from the projects in Fuzhou mentioned under the "Prospects" section above, we are seeking other opportunities in construction materials businesses in mainland 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 2001.

Employees

As at 31 December 2001, the Group had 161 full-time employees. Total wages and salaries of the Group for the year then ended amounted to HK\$15,564,000. 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 its associates.