Hong Kong

During the year under review, the consumption of cement and concrete in Hong Kong has dropped considerably due to the continued slow-down in the public and private residential sectors infrastructure construction activities, while on sales quantity terms, the Group's construction materials businesses was able to perform well compared to the market. Though partially compensated by a reduction of import cost of cement since the beginning of the year, considerable reduction in selling prices eroded margins and caused a fall in pre-tax profit of the Group's cement distribution operation in Hong Kong. Associates of the Group which carried on ready-mixed concrete businesses also contributed lower pre-tax profit to the Group.

Mainland China

Anhui King Bridge Cement Co. Ltd. ("AKB"), the Group's 60%-owned subsidiary which operates a cement and slag powder grinding mill in Wuhu, started to generate positive earnings from October 2001 and achieved outstanding results in 2002. Both sales and production quantities showed an increase of over 50% from the previous year, owing to improvements in productivity and distribution channels.

The construction of the cement grinding mill and related berth facilities of the Group in Fuzhou, Fujian Province, is expected to be completed by the first quarter of 2004. Being one of the milestones of the Group's presence in Mainland China, the grinding mill will have an annual production capacity of 1.5 million metric tonnes and the berth facilities will be able to handle vessels with tonnage up to 25,000 metric tonnes.

The Philippines

Despite the harsh operating environment in the Philippines, namely volatile exchange rates and more stringent barriers on cement imports, the Group successfully changed its mode of operations from cement trading to rendering of cement handling services. This strategy proved to be successful in securing a stable stream of cash inflow and profit to the Group during the year, and such a trend is expected to continue in the future.

Telecommunications Business in Taiwan

Given the present market conditions, we decided to direct the Group's focus on construction materials businesses. Accordingly, with effect from 27 September 2002, the Group ceased to account for its 9.87% equity interest in KG Telecommunications Co., Ltd. ("KGT"), one of the largest cellular service providers in Taiwan, as an associate, following the resignation of the director of KGT which the Group nominated. A provision for impairment of HK$635.0 million was made in the income statement by the Group against goodwill and exchange fluctuation reserve, already written off to reserves in prior years, to comply with the current accounting standards applicable in Hong Kong.

Other Significant Investments Held

The Group held a minority equity interest in the NASDAQ-listed Gigamedia Limited ("Gigamedia"), a diversified online and offline entertainment services provider in Taiwan. A provision of HK$2.1 million was made by the Group for impairment in the value of these shares for the year.

The Group also invested in a 5.1% equity interest in KGEx.com Co., Ltd. ("KGEx"), a Taiwanese company engaged in the provision of data centre, internet dial-up and broadband data value-added services in Taiwan, in which the KGT also has a 50% interest. KGEx incurred some losses for the year, and for prudence sake, a provision for impairment of HK$4.1 million was provided against this investment.

As at 31 December 2002, the Group was holding highly liquid short term investments with an aggregate market value of HK$89.8 million, consisting of shares listed in Taiwan and Hong Kong and redeemable debentures. Gain on disposals of and unrealised holding gains on these investments amounted to HK$60,000 and HK$17.5 million, respectively.