

REVIEW OF OPERATION AND OUTLOOK

Turnover and profit attributable to shareholders for the six months ended 30th June 2003 was HK\$516 million and HK\$31 million as compared to HK\$486 million and HK\$36 million respectively for the corresponding period last year, representing an increase in turnover of 6% and a decrease in profit of 13%.

During the period, the economy in Hong Kong remains in the doldrums and the new housing construction activities have slowed down. This has reduced the demand for construction materials in Hong Kong. However, our stringent cost control and seasoned management have enabled us to maintain satisfactory cost efficiency for the Hong Kong operations. In July 2003, the Group entered into a contract with Hong Kong Polytechnic University for the manufacturing of paving blocks designed by the University using recycled construction materials. The Group is environmental-minded and continuous effort will be made to explore business opportunities in developing recycled construction materials products to enhance the profitability of the Group.

On the other hand, our construction materials business in the Mainland continued to grow during the period. The new projects in Shanghai and Beijing are under development in accordance with planned schedule and those projects that have commenced operation during the period have produced contributions to the Group. It is envisaged that when all these projects become fully operational in the forthcoming two years, the Group's performance will be further improved.

Looking forward, the Group will focus on developing "high value-added, high entry barrier and environmental friendly" products and projects.

For technology investments, the Group continues to maintain a balanced investment portfolio which is similar to that of last year.

The Group's business in the Mainland will continue to grow in accordance with original plan. With the Closer Economic Partnership Arrangement (CEPA) recently signed between the Hong Kong SAR Government and the Central Government and the proposed bridge linking Hong Kong, Macau and Zhuhai, it is expected that the development of the Pearl River Delta area could be further enhanced. The Group will seize valuable business opportunities expected to be brought about by the CEPA and Pearl River Delta development.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remains strong. At 30th June 2003, the shareholders' funds increased by 1.3% to HK\$1,411 million from HK\$1,393 million at 31st December 2002 and the Group's gross assets employed increased by 12% to HK\$1,745 million from HK\$1,556 million at 31st December 2002.

The Group's liquidity position remains strong and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments.

GEARING RATIO

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a low level of 2% during the period ended 30th June 2003. At 31st December 2002, the gearing ratio was practically at a debt free level.

TREASURY POLICY

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, United States Dollars or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in either Hong Kong Dollars or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The Group has not engaged in the use of other derivative products, which are considered not necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Land and buildings with net book values of HK\$234,635,000 (31st December 2002: HK\$237,305,000) have been pledged to secure banking facilities.

CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$344,355,000 (31st December 2002: HK\$299,370,000). At 30th June 2003, the facilities utilised amounted to HK\$148,317,000 (31st December 2002: HK\$154,805,000).

EMPLOYEES AND REMUNERATION POLICY

The Group, excluding associated companies and jointly controlled entities, employs over 1,900 employees in Hong Kong and the Mainland. Employee remunerations, excluding Directors' emoluments, amounted to HK\$72 million.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive. The Group has implemented a share option scheme for executives from 1991 following approval by its shareholders for the purpose of providing competitive package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market levels and emphasis on provision of training and development opportunities is stressed.