

REVIEW AND OUTLOOK

Turnover and profit attributable to shareholders for the 1st half year of 2003 was HK\$1,639 million and HK\$45 million respectively as compared to HK\$1,142 million and HK\$56 million for the same period last year, an increase of 44% in turnover and a decrease of 21% in profit.

During the period, the lacklustre performance of the economy in Hong Kong especially after the outbreak of SARS in March this year, had an adverse impact on the retail sales, residential property sales and the construction industry in Hong Kong in general.

Nevertheless, with the Group's strategy focusing on the customer need by providing end users with residential properties of "superior design, top quality and value for money", our property sales comprising The Palace in Kowloon Tong, the La Costa in Ma On Shan and The Cairnhill in Tsuen Wan were well received by the market. Contribution, however, from the Properties Division was lower than the corresponding period last year. This is attributable to the continued slump in property prices. The Group expects steady development in the property market in Hong Kong in the near term.

Presently, the Group has three property development projects and an investment property project in Shanghai with a total gross floor area of approximately eight million square feet. These projects are at various stages of development in accordance with schedule. The property prices in Shanghai are maintained at a healthy level. With the continued growth of the economy, the Group expects a steady upward prices trend in the foreseeable future.

The contribution from the Construction Materials Division during the period was lesser than that from the same period last year. This is due to the continuing downturn in the construction industry in Hong Kong resulting in softer demand for construction materials and reduced selling prices. Nevertheless the conscientious effort by the management to contain cost and to improve efficiency did slow down the decreasing trend in profitability. Performance in the Mainland, on the other hand, continued to report good news. It is envisaged that when our new projects in Shanghai and Beijing become fully operational in the two years ahead, the Division's performance will be improved.

FINANCIAL POSITION

The financial position of the Group remained steady during the period. At 30th June 2003, the total funds employed was maintained at HK\$5.8 billion.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Cash and bank balances less short term loans and overdraft at 30th June 2003 stood at HK\$776 million, 46% higher than the balance of HK\$533 million at 31st December 2002.

The gearing ratio, defined as the total loans outstanding less cash balances to total assets, stayed at a healthy level of 24% showing an improvement over the figure of 32% 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.

TREASURY POLICIES

The Group continues to adopt a conservative approach regarding foreign exchange exposure, which is managed to minimize risk. The majority of the Group's borrowings are in either Hong Kong Dollars or Renminbi. Forward foreign exchange contracts are utilized when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilized when considered appropriate to avoid impact of any undue interest rate fluctuation on the operation.

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

Investment properties and land and buildings with carrying values of HK\$279 million and HK\$293 million respectively were pledged to banks to secure the Group's borrowing facilities.

CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries and a jointly controlled entity amounting to HK\$1,653 million (31st December 2002: HK\$2,137 million) and HK\$204 million (31st December 2002: HK\$204 million) respectively.

At 30th June 2003, the facilities utilised amounted to HK\$971 million (31st December 2002: HK\$1,390 million) and HK\$76 million (31st December 2002: HK\$69 million) respectively.

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance by a subsidiary's obligation under a contract with the HKSAR Government.

EMPLOYEES AND REMUNERATION POLICY

The Group, excluding associated companies and jointly controlled entities, employs over 2,100 employees in Hong Kong and the Mainland. Employee remunerations, excluding Directors' emoluments, amounted to HK\$106 million.

The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Staff performance is reviewed at least annually while compensation is performance driven. Following approval by the shareholders in 1989, the Group has a share option scheme for executives for the purpose of providing competitive remuneration package and long term retention of management talents.