## (1) REVIEW OF OPERATION

### (i) Overview

Turnover and profit before taxation for the year ended 31st December 2000 were HK$1,094 million and HK$190 million as compared to HK$1,082 million and HK$212 million respectively for the 12 month unaudited proforma consolidated profit and loss information of last year, representing an increase in turnover of 1% but a 10% decrease in profit before taxation.

Hong Kong Construction Materials Division continued to contribute significantly to the profit of the Group. However, owing to competitive market situation, profit declined despite concerted efforts by management to control costs and improve productivity. The Mainland China Construction Materials Division improved both in turnover and operating results. However, this improved contribution was fully offset by the special provisions required for Huangpi Quarry as discussed below.

Set out below are the segmental results of the Group's operations for the year ended 31st December 2000.

**Analysis by Geographical Area**

| | **Hong Kong** | **Mainland China** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Turnover** | 844,965 | 248,556 | 1,093,521 |
| **Operating profit before non-recurring items** | 248,304 | 6,213 | 254,517 |
| Special provision for Huangpi Quarry | – | (18,840) | (18,840) |
| Write-off of deferred expenditure | (4,636) | (12,142) | (16,778) |
| | 243,668 | (24,769) | 218,899 |
| Finance costs | (22,916) | (1,161) | (24,077) |
| Share of profits less losses of | | | |
| Jointly controlled entities | (894) | 841 | (53) |
| Associated companies | (4,552) | – | (4,552) |
| **Profit/(loss) before tax** | 215,306 | (25,089) | 190,217 |
| Taxation | | | (23,565) |
| Profit after taxation | | | 166,652 |
| Minority interests | | | (376) |
| **Profit attributable to shareholders** | | | 166,276 |

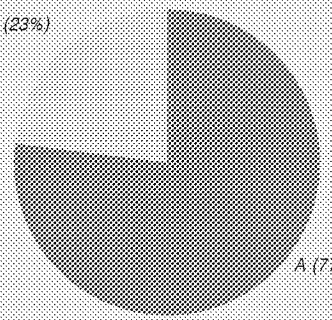
## (1) REVIEW OF OPERATION *(Cont'd)*

### (i) Overview *(Cont'd)*

**TURNOVER BY GEOGRAPHICAL SPREAD**

For the year ended 31st December 2000

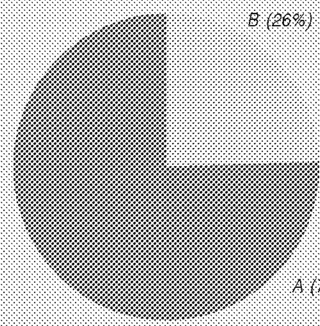
| | | HK$'000 |
|---|---|---|
| A | Hong Kong | 844,965 |
| B | Mainland China | 248,556 |
| | | 1,093,521 |




**NET ASSETS BY GEOGRAPHICAL SPREAD**

As at 31st December 2000

| | | HK$'000 |
|---|---|---|
| A | Hong Kong | 1,081,788 |
| B | Mainland China | 384,406 |
| | | 1,466,194 |




### (ii) Business in Hong Kong

Challenging market conditions and the slow down in property developments in the private and public sectors during the year affected the overall turnover. Further mounting pressure for competitive pricing in the industry dampened performance of the Hong Kong operations. The introduction of the Interpretation 9 – Accounting for Pre-operating costs, which became effective in 2000 disallowing amortization of pre-operating expenses, reduced contributions of the Hong Kong operations.

KWP Quarry Co. Limited in which the Group has a 63.5% interest participated and won the Silver Award in Good Housekeeping Competition for the construction industry in March 2000. Organized by Labour Department in conjunction with other construction associations, about one hundred participants took park in the Competition. The award was based on safety management system of the company.

## (1) REVIEW OF OPERATION *(Cont'd)*

### (ii) Business in Hong Kong *(Cont'd)*

To stay ahead of competition and to remain as one of the leaders in the construction materials industry in Hong Kong, various initiatives have been implemented by the Group to sustain competitive operating cost. On the operational front, this includes the installation of more cement storage capacity in Tai Po, the setting up of a new concrete batching plant in Tuen Mun and the addition of a second concrete batching production line in Tai Po to increase capacity. On the management side, the Group initiated a project for culture change focusing on alignment of accountability and authority to meet corporate objectives. Hewitt Consultant was appointed as a facilitator for implementing changes in management methods and to enhance staff productivity. The Management is pleased to announce the successful implementation of the PeopleSoft Accounting System for its Hong Kong operations in January 2001. The new accounting system enables management online access to financial information.

The stronger than expected economic growth over the last two years and the possible economic slow down in the US suggest that in the next 18 months, Hong Kong is unlikely to replicate the pace of growth that we had experienced from 1999 to 2000. On a longer term basis, the Group envisages that the Hong Kong economy will benefit from China entering WTO and the Hong Kong SAR Government's more defined policies on housing, land and infrastructural development. The Group expects the construction materials industry to benefit from the infrastructural investments in the pipeline. In particular, development projects such as Route 9 from Tsing Yi to Shatin of more than HK$20 billion; redevelopment of the former Kai Tak Airport; site formation and other ancillary infrastructural facilities for Disney Land; KCRC's eleven residential projects in the coming three years, and the Deep Bay link which will extend the Route 10 highway through the north-west New Territories towards Yuen Long, costing more than HK$10 billion are set to go ahead. All these will provide business opportunities to the Group.

In the near term, with keener competition and the lack of major projects in both private and public sectors, the Group envisages that profit from the Hong Kong operations would in the meantime be reduced. The Group's order book is currently maintained at a level lower than that of the comparable period last year. However, given prevailing market condition, the Group considers the situation to be fair and satisfactory. To strengthen the Group's position, proactive measures have been taken to further streamline the management structure, reinforce cost control and realign resources to cover new strategic locations.

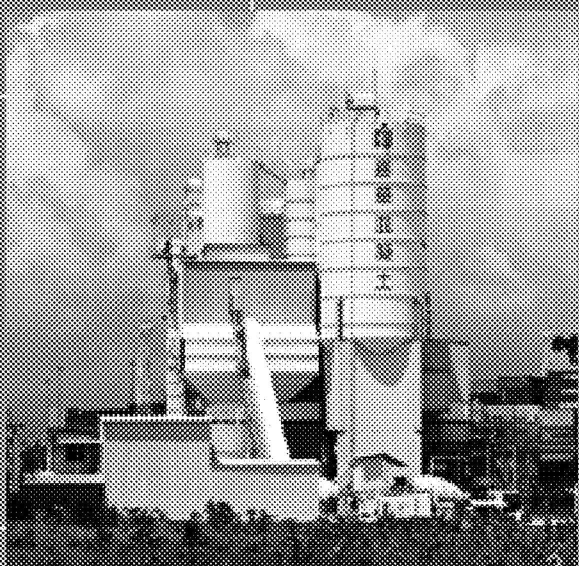
### (iii) Business in Mainland China

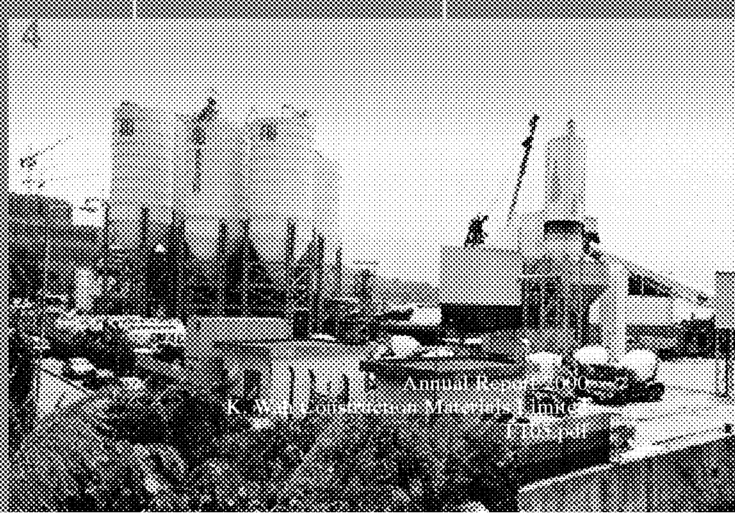
In Guangzhou, the overall performance of our operations is satisfactory. K. Wah (Huangpi) Quarry Company Limited, Guangzhou ("Huangpi Quarry") reported significant improvement in results.

In December 2000, Huangpi Quarry was served with a notification from the Guangzhou authorities regarding a public notice issued by the People's Government of City of Guangzhou. The public notice states that all the eight districts within the city and the special administrative districts were being zoned as non-exploration zone and all quarries located within the non-exploration zone will have to be closed on or before 1st June 2001. Huangpi Quarry is alleged to be located within the non-exploration zone.

Huangpi Quarry commenced quarry operations in 1995 using advanced technology and equipment. Its establishment was intended to coincide with Guangzhou City's policy to replace small, unsafe and environmentally unfriendly quarries with international class large scale quarries. Since inception, Huangpi Quarry has maintained strict environmental standards well beyond what the Mainland authorities require and has been accredited as being one of the best quarries with the highest environmental standards in Mainland China.

# Hong Kong Manufacturing Bases





1. Ready-mixed concrete plant at Anderson Road Quarry

2. Fleet of trucks for efficient delivery

3. Ready mixed concrete plant at West Kowloon

4. Cement/ aggregates depot at Tai Po

## (1) REVIEW OF OPERATION *(Cont'd)*

### (iii) Business in Mainland China *(Cont'd)*

We are utmost disappointed with the closure notice. To protect shareholders' interests, upon the advice of our lawyers, the Group has instigated legal proceedings to revoke the closure notice.

While awaiting the outcome of the legal proceedings to revoke the closure notice, the Group has on a prudent basis made a provision of HK$19 million for part of the anticipated losses associated with the potential closure of the quarry in the 2000 accounts. In addition, the Group has also made a further one-off provision for HK$9.7 million being the balance of the deferred expenditure mainly relating to the initial quarry site development to be amortized over the next 3 to 10 years.

In Shanghai, to increase the benefits from the potential of the ready-mixed concrete market, the Group acquired from our Chinese partner in August 2000 an additional 29% equity interest in Shanghai Xin Cai Concrete Company Limited. On completion of this acquisition, the Group now owns 99% equity interest in and has full management and control of this subsidiary.

With the acquisition and the Group's realignment of operational efficiency and the gradual easing of liquidity in the market, our ready-mixed concrete operations recorded slight improvement in both turnover and profit.

### (iv) Technology Investments

The Group has proceeded cautiously with its diversification plan. We have allocated a budget of HK$312 million on technology investments. As at 31st December 2000, we have invested in eight projects totalling HK$75.6 million. The investments are diversified into disciplines such as software solutions, network infrastructure and bio-technology. The Group is confident that these investments will achieve satisfactory return for the shareholders in medium to long term.

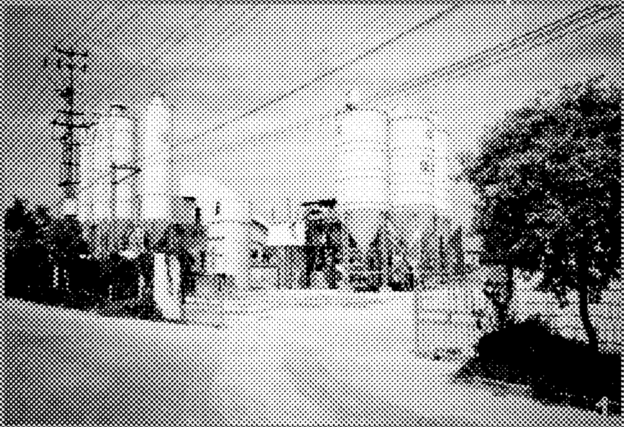
### (v) Others

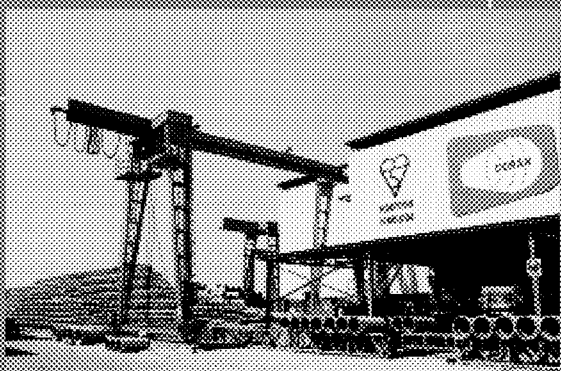
Since early 2000, the Group has commenced a reinforcement exercise, coded as Project K50, to enhance its internal capabilities in alignment with the Group's culture and missions for future business expansion. The internal capabilities include information systems, people, and process & control.

Under information systems, the Group leverages technology to speed up its internal and external information flows. The aim is to standardise, simplify and computerise. In January 2001, a more powerful financial information system has been put on live run. Currently, the Group is working on document sharing system and marketing information system.

Under people, the Group takes all necessary steps in equipping its people with the right competencies to help pursuing the Group's missions. Its performance management system is reviewed for better evaluation of performance and guidance of desirable behaviour. The Group also strives to cultivate a favorable learning environment for people development.

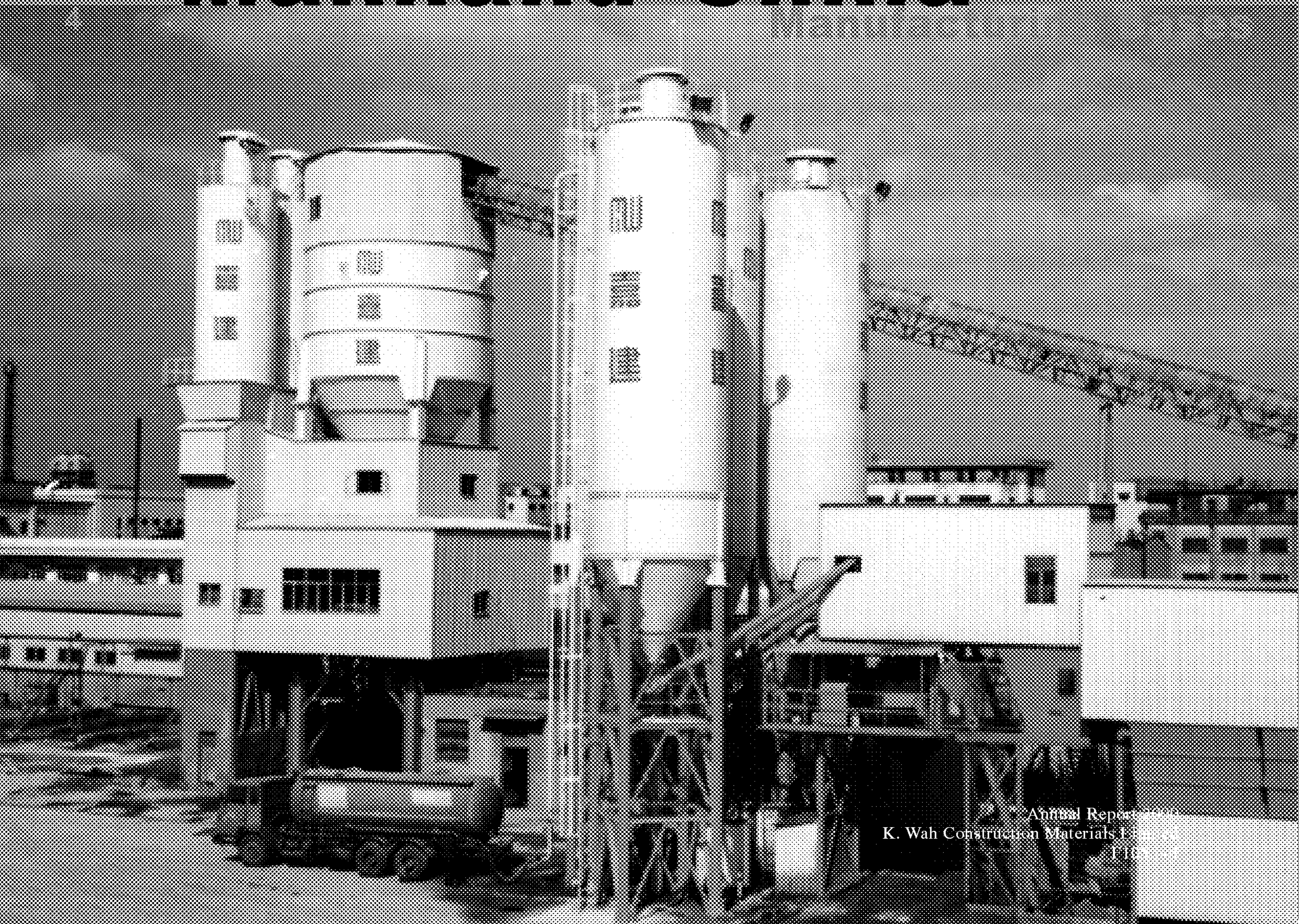
Under process and control, the Group reviews its management structure, processes and control mechanisms to improve its strategic planning and decision making qualities. Through clearer alignment of roles, responsibilities, authorities and accountabilities, the Group is heading towards a transparent and flexible organisation.





1. Shanghai Xincai Concrete Co., Ltd
2. Guangzhou K.Wah Nanfang Cement Ltd.
3. Doran Construction Products (Shenzhen) Co., Ltd
4. Shanghai Jiajian Concrete Co., Ltd

# Mainland China



## (2) FINANCIAL POSITION AND GEARING RATIO

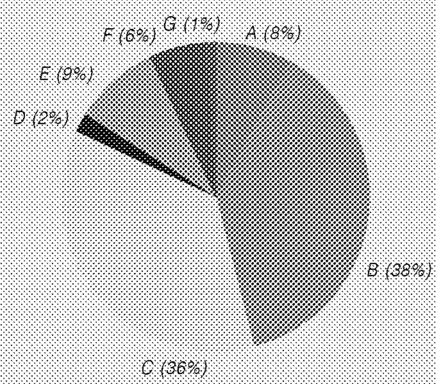
The financial position of the Group has continuously improved during the year. At 31st December 2000, the shareholders' funds increased by 13% to HK$1,231 million from HK$1,091 million as at 31st December 1999 and the Group's net assets employed increased by 2% to HK$1,466 million from HK$1,438 million as at 31st December 1999.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a low level of 3% at 31st December 2000 as compared to 9% at 31st December 1999.

### SOURCES OF FUNDING

As at 31st December 2000

| | | HK$'000 |
|---|---|---|
| A | Share capital | 115,166 |
| B | Capital reserves | 558,412 |
| C | Revenue reserves | 529,801 |
| D | Revaluation reserves | 27,363 |
| E | Minority interest | 128,543 |
| F | Long term liabilition | 86,563 |
| G | Deferred taxation | 20,346 |
| | | 1,466,194 |




## (3) LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong cash position. As at 31st December 2000, total cash and bank balances were HK$234 million as compared to HK$179 million as at 31st December 1999. Outstanding bank loans as at year end decreased to HK$288 million from HK$329 million as at 31st December 1999. The Group's gearing ratio and liquidity remain strong and the Group has sufficient funds to meet its commitments and working capital requirements.

## (4) 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. A similar policy is adopted for short-term investments.

## (5) CHARGES ON GROUP ASSETS

Details of charges on assets of the Group are set out in note 12 to the financial statements.

## (6) CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 31 to the financial statements.