



MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS

The Board of Directors (the “Board”) of Hanison Construction Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated net profit attributable to shareholders of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2003 amounted to HK\$12.2 million, compared with HK\$15.3 million for the same period last year. The earnings per share were HK4.3 cents, compared with HK5.4 cents for the corresponding period last year.

DIVIDEND

The Board has resolved to pay an interim dividend of HK1 cent per share for the six months ended 30 September 2003 (for the six months ended 30 September 2002: HK 1 cent per share) to shareholders whose names appear on the Registers of Members of the Company as of the close of business on 12 December 2003. The dividend is expected to be paid to shareholders on or around 30 December 2003.

OPERATIONS REVIEW

The market conditions in Hong Kong have remained difficult during the period under review. The global economic and political uncertainties, coupled with the SARS crisis in Hong Kong, have dampened investor enthusiasm and consumer confidence. In the face of such adverse conditions, some local development projects have either been slowed down or postponed.

As a result, the Group’s consolidated turnover decreased by 37.1% to HK\$358.2 million (for the six months ended 30 September 2002: HK\$569.5 million). However, the amount of gross profit only dropped slightly from HK\$41.5 million to HK\$41.1 million, due to the adjustment of costs over-estimated for several construction projects. Following the reduction of interest income, the amount of other income declined by HK\$2.4 million to HK\$1.9 million. Overheads have been constrained to HK\$28.3 million (last year’s corresponding period: HK\$27.8 million) despite the additional expenses for the health products retailing business acquired in June this year.



Construction Division

The Construction Division has recognized a total turnover of HK\$246.8 million to external parties during the period under review (for the six months ended 30 September 2002: HK\$513.7 million), a decrease of 52.0% compared with the corresponding period last year. The decline in turnover has mainly been caused by the slowdown of development progress for the Shek Yam Estate Phase 5 project for the Hong Kong Housing Authority, and the decrease in number of building construction works in both private and public sectors.

During the period, the re-development of Kwai Chung Estate Phase 7 for the Hong Kong Housing Authority and the extension works for the English Schools Foundation at Aberdeen were completed. Other major projects undertaken included the construction of a school for moderately mentally handicapped children in Yuen Long for the Architectural Services Department, the residential development at Inland Lot No. 8840 Wah Fu, and the construction works for CLP Power Substation at Discovery Bay North, the Discovery Bay North Residents Club and Barker Road. The construction works for the residential development of the Group's property located at Kwu Tung have commenced and are scheduled to be completed in early 2004.

This Division was awarded a new project from the Airport Authority Hong Kong for the Express Cargo Terminal Airside Access Road Works during the period. As at 30 September 2003, the outstanding values of contracts on hand amounted to HK\$442.6 million.

Subsequent to the period end, this Division has secured a HK\$218 million new contract from The University of Hong Kong for construction of student residences at Flora Ho Sports Centre.

Building Materials Division

Due to the slowdown of development projects, some of the building material contracts were delayed at the requests of the clients. As a result, the total turnover of the Building Materials Division decreased by 56.5% to HK\$27.8 million (turnover to external parties was HK\$22.9 million) when compared with the previous corresponding period.



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New contracts awarded during the period have included the supply and/or installation of: timber flooring for Siu Fai Terrace; false ceiling for Skyline Tower at Kowloon Bay, a complex at Stanley and Wanchai Police Headquarters; kitchen cabinets for The Cairnhill at Tsuen Wan; and Polyboard and timber flooring for Sky Tower.

Other new project contracts awarded included the supply of pipes to the Hospital Authority, Hang Lung Centre, Las Vegas Hotel at Macau, Science Park Building V and a building at Thomson Road.

The outstanding values of contracts on hand as at 30 September 2003 amounted to approximately HK\$122.5 million.

Interior and Renovation Division

The Interior and Renovation Division has recorded a total turnover of HK\$134.9 million (turnover to external parties was HK\$69.4 million), representing a 194.2% increase over the corresponding period last year of HK\$45.8 million.

Major contract works undertaken during the period included the alteration, addition and renovation works for the University of Hong Kong, The Hong Kong Polytechnic University, Tak Sun School at Austin Road, Wylie Court and the CDW Building; and the fitting-out works for YMCA International House at Waterloo Road.

The outstanding values of contracts on hand as at 30 September 2003 amounted to approximately HK\$27.4 million.

Subsequent to the period end, this Division was awarded a term contract from the Hong Kong Housing Authority for maintenance and renovation works of shopping arcades and car parks, and a design-and-build contract from the University of Hong Kong for improvement works of the West Gate Entrance.



Health Products Division

In addition to continue operating the sole distributorship of the Lingzhi spores products, the Group has acquired a company carrying on a health products wholesale business and a health products retailing chain store business under the trade name of Health Plus.

This business is at its preliminary stage. The turnover during the period amounted to HK\$16.9 million.

Property Investment Division

Total rental income was principally derived from the leasing of the Group's rental properties at Shatin Industrial Centre and Mei Wan Street. These properties were approximately 90% leased as at 30 September 2003.

During the period, the Group acquired the 5th floor and part of the 6th floor of Shatin Industrial Centre. The 5th floor was acquired with an ongoing tenancy agreement for one year, and part of the 6th floor was rented out subsequent to the period end. The Group also acquired a piece of land at Ping Che, a portion of which was acquired with an ongoing tenancy agreement for nine months. The remaining area was partially leased out.

Property Development Division

The Group has commenced the development of the land situated at Lot No. 2574 in Demarcation District 92, Castle Peak Road, Kwu Tung, New Territories. This property is expected to be completed by early 2004.

Property Agency and Management Division

The turnover for this Division mainly came from the fees for project management, rental collection and leasing agency services.

Projects managed during the period included the renovation works for CDW Building in Tsuen Wan and the property development project for the land in Kwu Tung.



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This Division provides rental collection, agency and leasing services for CDW Building and a building at Hart Avenue. It also undertakes property management services for CDW Building.

Outlook

Hong Kong has regained much momentum as the threat of SARS has receded. The introduction of the Mainland Individual Visit Scheme, the establishment of the CEPA, and the agreement allowing local banks to offer Renminbi services by the Central Government have helped stimulate the Hong Kong economy further. The local tourism and retailing industries have already shown promising improvements.

Following the various housing policies of the Hong Kong Government to redress the issue of the over-supply of properties, the property prices in Hong Kong have stabilized and the Hong Kong property market has become more active. On the financial side, though the economy has not responded significantly so far, it should benefit from an extended period of low interest rates.

In the United States, the increase in GDP during the third quarter of 2003, and October's stronger-than-expected employment record suggest that business investment has been picking up.

With so many positive factors, there is growing hope that the worst is over for the Hong Kong economy. The greatest concern, as well as the greatest hope, is the restoration of investor and consumer confidence in Hong Kong.

While the Group is optimistic about Hong Kong's medium to long-term prospects, it will continue to maintain its competitiveness through tight control over costs, quality and efficiency, to be well prepared for the business opportunities ahead.