



# K. WAH CONSTRUCTION MATERIALS LIMITED

(Incorporated in Hong Kong with limited liability)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2001

### INTERIM RESULTS

The Directors of K. Wah Construction Materials Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June 2001 as follows:

The Group's turnover for the six months ended 30th June 2001 was HK\$541,670,000, representing an increase of HK\$27,362,000 over the corresponding period last year.

The Group's unaudited profit attributable to shareholders for the six months ended 30th June 2001 amounted to HK\$65,343,000, representing a decrease of HK\$32,723,000 over the corresponding period last year due to slowdown of Hong Kong construction materials industry.

### INTERIM DIVIDEND

The Board of Directors has resolved to pay an interim dividend of 1.5 cents per ordinary share (2000: 2.5 cents scrip dividend with cash option), totalling HK\$17,276,000 for the six months ended 30th June 2001 (2000: HK\$28,090,000) to shareholders whose names appear on the register of members of the Company at the close of business on 12th October 2001. The Board has also resolved that such dividend should take the form of a scrip dividend with shareholders being given the option of receiving cash in place of part or all of the scrip dividend. A circular containing details of the scrip dividend will be sent to shareholders of the Company in due course.

### CONSOLIDATED PROFIT AND LOSS STATEMENT

For The Six Months Ended 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	2	541,670	514,308
Cost of sales		(447,299)	(379,115)
Gross profit		94,371	135,193
Other revenues		26,266	26,810
Other operating income		11,337	2,791
Administrative expenses		(32,597)	(32,280)
Other operating expenses		(14,330)	(6,345)
Operating profit	3	85,047	126,169
Finance costs		(8,961)	(12,840)
Share of profits less losses of			
Jointly controlled entities		313	(431)
Associated companies		26	(1,571)
Profit before taxation		76,425	111,327
Taxation	4	(8,999)	(13,267)
Profit after taxation		67,426	98,060
Minority interests		(2,083)	6
Profit attributable to shareholders		65,343	98,066
Earnings per share	5	5.7¢	9.1¢

### CONSOLIDATED BALANCE SHEET

At 30th June 2001

	Note	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Fixed assets		685,281	711,286
Jointly controlled entities		177,060	176,786
Associated companies		78,390	80,870
Other non-current assets		131,467	98,784
		1,072,198	1,067,726
Current assets			
Inventories		68,874	55,572
Trade debtors, other receivables and prepayments	7	346,492	381,438
Taxation recoverable		1,585	2,381
Other investments		280,000	280,000
Cash and bank balances		307,981	234,334
		1,004,932	953,725
Current liabilities			
Creditors and accruals	8	268,095	296,816
Current portion of long-term liabilities		131,972	128,299
Short-term bank loans, unsecured		141,300	75,360
Taxation payable		11,084	8,716
Dividend payable		46,066	—
		598,517	509,191
Net current assets		406,415	444,534
		1,478,613	1,512,260
Financed by:			
Share capital		115,176	115,166
Reserves		1,181,115	1,161,642
Shareholders' funds		1,296,291	1,276,808
Minority interests		135,726	128,543
Long-term liabilities		26,250	86,563
Deferred taxation		20,346	20,346
		1,478,613	1,512,260

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain properties and investments, and in conformity with generally accepted accounting principles in Hong Kong.

In 2001, the Group adopted the following revised or new Statement of Standard Accounting Practices ("SSAP") issued by the Hong Kong Society of Accountants.

SSAP 9 (revised): Events after the balance sheet date  
 SSAP 14 (revised): Leases  
 SSAP 26: Segment reporting  
 SSAP 28: Provisions, contingent liabilities and contingent assets  
 SSAP 29: Intangible assets  
 SSAP 30: Business combinations  
 SSAP 31: Impairment of assets  
 SSAP 32: Consolidated financial statements and accounting for investments in subsidiaries

The adoption of these SSAPs has no change in the accounting policies of the Group except for the following:

- In accordance with the revised SSAP 9, dividends proposed after the balance sheet date are no longer recognised as liability at the balance sheet date. This change in accounting policy has been applied retrospectively and as a result, reserves of the Group as at 1st January 2001 have been increased by HK\$46,066,000.
- Goodwill arising on acquisition of subsidiaries, jointly controlled entities and associated companies occurring on or after 1st January 2001 is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. Goodwill on acquisitions, which occurred prior to 1st January 2001 was taken directly to reserves. This change in accounting policy has no effect to the accounts for the period.

Apart from the foregoing, the accounting policies adopted are consistent with those described in the 2000 Annual Report and Accounts.

#### 2. Turnover and results

The group is principally engaged in manufacture, sale and distribution of construction materials.

	Turnover		Operating Profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Sales of construction materials				
Hong Kong	395,376	404,267	82,827	126,183
Mainland China	146,294	110,041	2,220	(14)
	541,670	514,308	85,047	126,169

#### 3. Operating profit

Operating profit is stated after crediting and charging the following:

	2001 HK\$'000	2000 HK\$'000
<b>Crediting</b>		
Realised profit on disposal of other investments	6,583	—
Unrealised profit of other investments	—	1,271
Profit on disposal of fixed assets	144	282
<b>Charging</b>		
Depreciation:		
Owned fixed assets	39,595	38,558
Leased fixed assets	144	154
Operating lease rental for land and buildings	9,144	8,091
Royalty	3,177	2,949
Amortisation of deferred expenditure		
Quarry site development	887	2,062
Overburden removal costs	5,110	4,126
Pre-operating expenses and other deferred expenditure	—	4,737
Cost of inventories sold	373,221	309,250

#### 4. Taxation

	2001 HK\$'000	2000 HK\$'000
<b>Company and subsidiaries</b>		
Hong Kong profits tax	8,539	12,595
Mainland China profits tax	437	—
<b>Jointly controlled entities</b>		
Mainland China profits tax	—	33
<b>Associated companies</b>		
Hong Kong profits tax	23	639
	8,999	13,267

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the period.

Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which those profits arose.

#### 5. Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$65,343,000 (2000: HK\$98,066,000) and the weighted average number of 1,151,690,000 shares (2000: 1,082,215,000 shares) in issue during the period.

The diluted earnings per share is not presented as the share options outstanding, as at 30th June 2001 have no dilutive potential shares.

#### 6. Dividends

	2001 HK\$'000	2000 HK\$'000
2000 Final scrip dividend with a cash option, payable, of 4 cents per share	46,066	—
1999 Final scrip dividend with a cash option, paid, of 4 cents per share		
Scrip		21,155
Cash		22,134
	46,066	43,289

The Board of Directors declares an interim scrip dividend of 1.5 cents per share (2000: 2.5 cents) with a cash option, totaling HK\$17,276,000 for the six months ended 30th June 2001 (2000: HK\$28,090,000) to shareholders whose names appear on the registers of members of the Company at the close of business on 12th October 2001. This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2001.

#### 7. Trade debtors, other receivables and prepayments

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Trade debtors	245,867	269,560
Other receivables	35,161	52,730
Prepayments	65,464	59,148
	<u>346,492</u>	<u>381,438</u>

The Group has established credit policies, which follow local industry standard. The Group normally allows an approved credit period ranging from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic review by management.

The aging analysis of the Group's trade debtors based on the dates of the invoices and net of provision for bad and doubtful debts is as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Within one month	72,748	114,375
Two to three months	109,336	97,913
Four to six months	26,636	23,468
Over six months	37,147	33,804
	<u>245,867</u>	<u>269,560</u>

#### 8. Creditors and accruals

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Trade creditors	87,224	96,736
Other creditors	40,981	56,878
Accrued operating expenses	130,690	134,210
Deposit received	9,200	8,992
	<u>268,095</u>	<u>296,816</u>

The aging analysis of the Group's trade creditors based on the dates of the invoice is as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Within one month	29,615	43,703
Two to three months	27,938	28,979
Four to six months	13,741	14,800
Over six months	15,930	9,254
	<u>87,224</u>	<u>96,736</u>

## BUSINESS REVIEW

### Review of Operations

Turnover and profit before taxation for the half year ended 30th June 2001 were HK\$542 million and HK\$76 million as compared to HK\$514 million and HK\$111 million respectively for the corresponding period last year, representing an increase in turnover of 5% and a decrease in profit before tax of 32%.

Profit contribution from Hong Kong Construction Materials Division declined by 34%. This was due to the fact that both prices and demand for construction materials have dropped significantly amid the continual slowdown in the local public and private property and infrastructure development.

The overall performance of the Mainland China Construction Materials Division was steady as compared to the corresponding period last year. The performance of Guangzhou operation was adversely affected by the intensifying market competition from neighbouring cities and the shut down of the ready mixed concrete batching plant of Guangzhou Jia Fang Concrete Co. Ltd. However, the loss in Guangzhou was offset by continuously improving performance of the Shanghai region.

#### (1) Business in Hong Kong

The profit of the Hong Kong Construction Materials Division has been eroded significantly due to the continual slowdown in the local public and private property and infrastructure development, affecting prices. To maintain competitiveness, efforts have been made in resources rationalization and on cost control. In the short term, the Group envisages that the contributions from the Hong Kong operation would continuously be under severe pressure until such time when more new property and infrastructure development projects commence. Nevertheless, the Group remains cautiously optimistic on the prospect of the Hong Kong construction materials industry in the long term. Along this view the Group has incorporated a subsidiary K. Wah Materials (Hui Dong) Limited ("Hui Dong Quarry") in July 2001. This cooperative joint venture, of which the Group has 100% equity interest, will establish a quarry in the Hui Dong aiming to serve primarily to the Hong Kong market. It is scheduled for full production by the end of 2002.

The Group notes that the current order book is at a level lower than that of the corresponding period last year. However given the current market condition, the Group considers the situation satisfactory.

#### (2) Business in Mainland

The overall performance of the Mainland China Construction Materials Division was steady and recorded better results as compared to the corresponding period last year.

In Guangzhou, the overall performance was unsatisfactory due to intensifying market competition and the required shut down of Jia Fang Concrete batching plant. The Group is still awaiting the outcome of the legal proceedings to revoke the closure notice served on Huangpi Quarry and is actively evaluating alternatives available for Guangzhou Jia Fang Concrete Co. Ltd., a subsidiary in which the Group has 57% equity interest.

In Shanghai, the performance of our operations is satisfactory. The 30% increase in the overall ready-mixed concrete market during the first half of 2001 resulted in better than expected profit contribution to the Group. It is envisaged that with gradual easing of the liquidity in the market and the upturn in the demand of ready-mixed concrete, contribution from Shanghai operations will continue to increase. To benefit from the potential of the ready mixed concrete market, the Group has acquired from its Chinese joint venture partner an additional 40% equity interest in Shanghai Beicai Concrete Co. Ltd. in July 2001. On completion of this acquisition, the Group owns 100% equity interest in and has full management control of that company.

#### (3) Technology Investments

The Group has been cautiously proceeding with its diversification plan and so far has invested HK\$99 million on technology investments. It has also achieved a balanced investment portfolio in various segments, both in Hong Kong and in Mainland China.

### Outlook

In the near term the current unfavourable view on the Hong Kong construction materials industry is likely to persist until such time when property and infrastructure developments prosper with full vigour.

Faced with continuous drop in demand and the current market downturn, the Group is consolidating its Hong Kong operation through resources rationalization so as to gear ourselves up to stay competitive and to remain as one of the leaders in the industry.

In mainland China, with the forthcoming entry into WTO and Beijing's successful bid for the 2008 Olympic Games, the Group expects further contributions from speeding up its pace of expansion in the mainland. With the Group's strong cash flow and practically zero gearing ratio and our invaluable years of experience in mainland China, the Group is confident in grasping good and profitable opportunities.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

The financial position of the Group has improved continuously during the period. At 30th June 2001, the shareholders' funds increased by 1% from HK\$1,277 million at 31st December 2000 to HK\$1,296 million. The Group's net assets employed decreased by 2% from HK\$1,512 million at 31st December 2000 to HK\$1,479 million.

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 assets acquisitions.

### Gearing Ratio

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was practically at a debt free level at 30th June 2001 as compared to 3% at 31st December 2000.

### Treasury Policy

The Group continues to adopt a conservative treasury policy by maintaining all bank deposits in either Hong Kong Dollars, United States Dollars, or in the local currency of the operating subsidiaries, thus keeping a minimum exposure to foreign exchange risks. A similar policy is adopted for short-term investments.

### Charges on Group Assets

Land and buildings, plant and machinery with net book values of HK\$245,312,000 (31st December 2000: HK\$247,981,000) and HK\$118,198,000 (31st December 2000: HK\$124,998,000) respectively were pledged to various banking institutions to secure banking facilities.

### Contingent Liabilities

The Company has executed several guarantees in favour of various banking institutions in respect of facilities granted to the various subsidiaries amounting to HK\$300,700,000 (31st December 2000: HK\$199,100,000). As at 30th June 2001, the facilities utilised amounted to HK\$174,300,000 (31st December 2000: HK\$119,500,000). The Company has executed an indemnity to its ultimate holding company for guarantees in respect of the banking facilities granted to a subsidiary amounting to HK\$76,200,000 (31st December 2000: HK\$63,500,000). At 30th June 2001, facilities utilised amounted to HK\$76,200,000 (31st December 2000: HK\$63,500,000).

## EMPLOYEES

The Group excluding associated companies, employs 1,274 people. Salaries of employees are maintained at competitive levels. The Group recruits and promotes individuals based on their competencies, merits and development potentials for the positions offered. Staff performance is reviewed at least annually and remuneration is performance driven. The Company has in place a share option scheme for executives for the purpose of providing competitive remuneration package and long term retention of management talents. This scheme was introduced in 1991 following approval by the shareholders.

## SHARE CAPITAL

The Company has not redeemed any of its shares during the six months ended 30th June 2001. Neither the Company nor any of its subsidiary companies have purchased or sold any of the Company's shares during the six months ended 30th June 2001.

## AUDIT COMMITTEE

Having been reviewed by the Company's Auditors, PricewaterhouseCoopers, the Group's interim report for the six months ended 30th June, 2001 was reviewed by the Audit Committee ("Committee"). Regular meetings have been held by the Committee which meets at least twice each year.

## CHANGES IN THE BOARD

Mr. Edwin Yu Kwok Kam and Mr. Joseph Lai Ming have resigned as executive directors of the Company on 1st August 2001 and 1st September 2001 respectively. The Board would like to express appreciation towards them for their valuable contributions to the Company and Mr. Joseph Lai Ming will remain on the Board as a non-executive director.

## CLOSE OF REGISTER

The register of members will be closed from 8th October 2001 to 12th October 2001, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the dividend, shareholders must ensure that all transfers together with the relevant share certificates are lodged with the Company's Registrars in Hong Kong, Central Registration Hong Kong Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 5th October 2001.

## CODE OF BEST PRACTICE

For the six months ended 30th June 2001, the Company has complied with the Code of Best Practice issued by The Stock Exchange of Hong Kong Limited save and except that, prior to the 2001 Annual General Meeting of the Company ("2001 AGM"), non-executive directors are being appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association. Commencing from the 2001 AGM, non-executive directors are being appointed for a term of three years, who may under special circumstances be re-appointed for another 3-year term.

## PUBLICATION OF FURTHER INFORMATION

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Exchange") will be published on the Company's and the Exchange's websites in due course. The Group's unaudited interim financial statements have been reviewed by the Company's auditors, PricewaterhouseCoopers, and a report of their review will be included in the Interim Report to Shareholders.

By Order of the Board  
Steven Tong Kui Nam  
Company Secretary

Hong Kong, 18th September 2001

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