



# Mainland Real Estate Development



1. Site of residential development in Guangzhong Road, Zhabei district, Shanghai
2. Mock-up lobby of Shanghai K. Wah Centre
- 3-5. Members of investment community visited real estate projects in Shanghai
6. Shanghai K. Wah Centre, Huaihaizhong Road, Xuhui district, Shanghai





# Mainland New Construction Materials Production Plants



- 1,6. 深圳嘉華混凝土管樁有限公司
2. Nanjing K. Wah Concrete Co., Ltd.
3. Shanghai K. Wah Concrete Piles Co., Ltd.
4. Members of investment community visited Shanghai K. Wah Concrete Piles Co., Ltd.
5. K. Wah Materials (Huidong) Ltd. Daya Bay Branch
7. 北京首鋼嘉華建材有限公司 (For slag production)



**(4) Construction Materials Business and Technology Investment via 67% Shareholding in K. Wah Construction Materials Limited (“KWCML”)**

*(A) Construction Materials Business in Hong Kong*

In 2003, the economy of Hong Kong has further worsened due to the outbreak of SARS and the war in Iraq. But there were signs that the local economy has begun to regain luster in the last quarter of 2003.

Under such a difficult business environment, the Group has achieved a relatively satisfactory performance in Hong Kong for the year. Besides maintaining a cost efficient operation, the Group has continued to explore new business opportunities to enhance the Group's profit.

The rehabilitation works of KWP Quarry Co. Limited at Anderson Road Quarry is proceeding in accordance with schedule. The 63.5% owned subsidiary by KWCML has met the third milestone on time in accordance with the contract with the Hong Kong SAR Government.

*(B) Construction Materials Business in the Mainland China*

The success of the Group's expansion strategy in the Mainland China provides a solid platform for the Group to maintain a continued growth in future. The new projects which commenced operation as planned, have provided additional contribution to the Group during the year. With various joint ventures with our mainland partners come into operation, the Group becomes one of the largest suppliers of slag in the Mainland China and is expecting good profit contributions from these projects.

The sales volume of our Shanghai ready mixed concrete operations had continued to grow as compared to last year. KWCML's wholly owned quarry in Huzhou has begun supplying aggregates to the Shanghai market during the year which will further enhance our competitiveness and our leading position in the industry.

In Nanjing and Maanshan, the Group has set up ready-mixed concrete plants during the year.

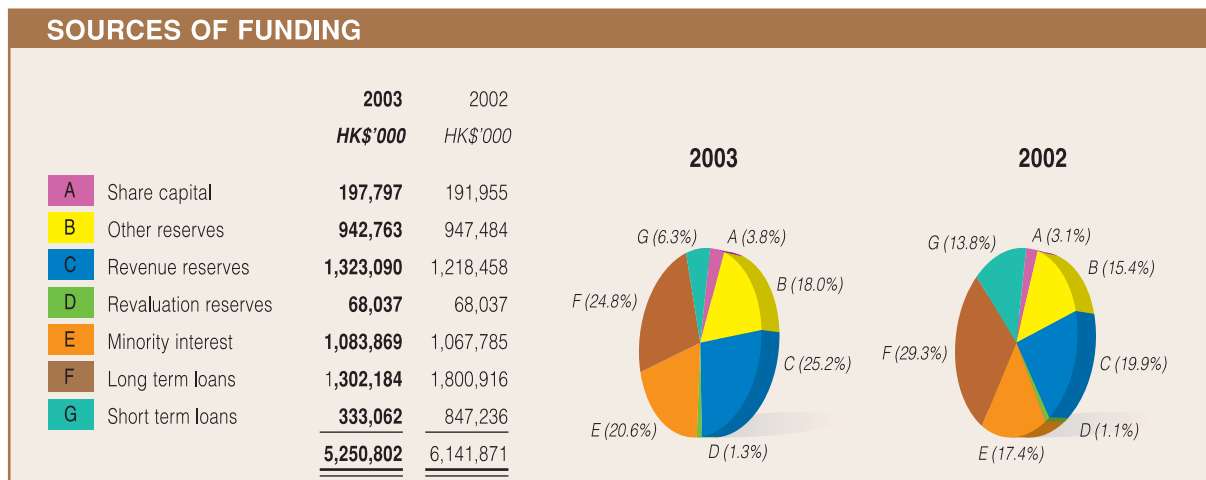
The Group's quarry operations in Beijing, the Beijing Shoujia Stone Co., Ltd., in which KWCML has 55% interest, has achieved increases in both sales volume and profit contribution. The Group has also set up a ready-mixed concrete plant, Beijing K. Wah Gaoqiang Concrete Co., Ltd., to serve the growing market in Beijing.

In Guangzhou, KWCML's 50% owned cement operation, Guangzhou K. Wah Nanfang Cement Limited, has recorded a satisfactory result in 2003. Both turnover and profit contribution have increased over that of last year. The Group is considering to further expanding the cement production facilities at appropriate time to enhance the profitability of the joint venture.

*(C) Technology Investment*

In accordance with the strategic mandate, the Group has continued to maintain a balanced investment portfolio similar to that of last year and the total investments at 31st December 2003 stood at approximately HK\$116 million, same as last year.

REVIEW OF FINANCE



(1) Financial Position

Total funds employed decreased by 15% to HK\$5.3 billion at 31st December 2003 from HK\$6.1 billion at 31st December 2002, mainly due to the repayment of bank loans.

Property, plant and equipment increased by HK\$44 million representing mainly the acquisition of plants and machinery for the Construction Materials operation.

Number of the issued shares of the company increased through the shares issued for scrip dividend paid and share options exercised during the year. The dilutive effect, however, was offset by the increase in profit earned for the year.

(2) Group Liquidity, Financial Resources and Gearing Ratio

The liquidity position of the Group was maintained at a satisfactory level during the year. Cash and bank balances less short term loans and overdrafts at 31st December 2003 was HK\$340 million as compared to the net balance of HK\$533 million at 31st December 2002.

The total long-term bank borrowings decreased by HK\$1,036 million representing mainly repayments of project development bank loans from the sales proceeds received during the year. Out of the total long-term bank borrowings, over 89% of these borrowings mature over a period of one year and above.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a satisfactory level of 21% at 31st December 2003 as compared to 32% for last year.

In addition to the aggregate cash balances of HK\$517 million, the total undrawn banking facilities of the Group at 31st December 2003 amounted to over HK\$1.4 billion.

The Group's liquidity position and gearing ratio stayed at a healthy level and the Group has sufficient funds to meet its commitment and operational requirements.

**(3) 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 derivative products, which are considered not necessary for the Group's treasury management activities.

**(4) Charges on Group Assets**

Details of charges on group assets are set out in note 13 to the financial statements.

**(5) Contingent Liabilities**

Details of contingent liabilities are set out in note 33 to the financial statements.

**(6) Convertible Bonds**

On 23rd March 2004, the Group issued an aggregate amount of HK\$864,260,000 0.5% guaranteed convertible bonds due in March 2009. The bonds are listed on the Luxembourg Stock Exchange and are convertible into ordinary shares of the Company, at a conversion price of HK\$2.25 per share on or after 23rd April 2004 up to the close of business on 8th March 2009. The bonds are redeemable at 91.49% of their principal amount on 23rd March 2009 according to relevant terms and conditions of the bonds.

## **EMPLOYEES**

### **Employees and Remuneration Policy**

The Group, excluding associated companies and jointly controlled entities, employs 2,141 employees in Hong Kong and the Mainland. Employee costs, excluding Directors' emoluments, amounted to HK\$219 million.

The Group recruits and promotes individuals based on merit and their development potential and ensures remuneration packages are competitive. Following approval by the shareholders in 1989, the Group has a share option scheme for senior executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in the Mainland China, employees' remuneration is commensurate with market pay levels with the emphasis on provision of training and development opportunities.

### **Training and Development**

The Group believes that achievement of our business goals greatly relies on the competencies of our staff. To strive for excellence, the Group promotes continuous learning culture by sponsoring staff to attend external and internal training courses.

The Group enters into the 17th Anniversary of its Annual Corporate Seminar. This year, an innovative and interactive forum with the theme on "Crisis Management" is organized. Several professional consultants and keynote speakers are invited to host the forum in sharing their insights and skills in handling crisis and challenges with our executives. Besides, a series of tailor-made management development programs with the focus on Teambuilding, Analytical Thinking and Problem Solving Skills are organized to equip our management with the latest and advanced knowledge and skills so as to strengthen and enhance their managerial and technical competencies.

Besides, the Group continues to sponsor staff in attending external training courses/workshops which cover the areas of languages, finance, taxation, laws, human resources, computer software applications, quality awareness and safety etc.

To augment the growth of our China business, we have re-launched the Management Trainee Programme targeted at recruiting and training up high potential university graduates in the Mainland and develop them to be our future managers and leaders.