INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2002 (30th September, 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

1. **Cement Business**

   During the first six months of 2002, despite the vigorous demand for cement in Shanghai, cement factories in the periphery which entered into production successively have created a situation of the rate of increase of supply above that of demand and resulted in lowering the price of cement by approximately 10%.

   a. Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") became a subsidiary of the Group on 14th March, 2002. During the first six months of the year under review, Shanghai SAC recorded a sales volume up to 454,000 tonnes, representing an increase of 9% as compared to last year. Its profit recorded an increase of about 70% to approximately HK$23,000,000, as compared to last year.

      Due to Shanghai SAC's strengthened earning ability, its financial position became increasingly strong, the demand for bank loans declined gradually and loan size continued to diminish, reflecting a robust financial structure. A credit rating company, Shanghai Far East Credit Rating Co., Ltd., entrusted by the People's Bank of China has appraised and elevated the credit rating of Shanghai SAC from A+ to AA, which objectively reflects the latter's financial situation. The valuator stated, "Shanghai SAC had introduced world-class cement production equipment achieving low energy consumption and pollution, and "TITAN" products were named by China Consumers Association as "The Top Ten Most Reputable Cement Products". "TITAN" cement was extensively used by the Shanghai government in municipal construction projects, key construction projects and property development projects. Taking advantage of the goodwill enjoyed by its products owing to a reputable brand name, Shanghai SAC managed to obtain high gross profit margin while at the same time maintained a steady growth in sales volume, hence guaranteeing high profits in return. Furthermore, with the rates of return from net assets and on total assets higher than the corresponding reference values, Shanghai SAC achieved good economic results."

In view of the huge investment made by Shanghai for the construction of general communication facilities, the implementation of development plans along the sides of Huangpu River and the rapid rise of the property sector, future market opportunities for Shanghai SAC will be vast. However, facing severe competition from foreign companies as well as cement manufacturers in the periphery, Shanghai SAC will take on each challenge by relying on stable product quality, matured sales strategy and superior management mechanism.

b. Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC") operated smoothly and produced 166,000 tonnes of clinker, with a kiln operation rate of approximately 90%. During the period under review, operating costs decreased by approximately 10% as the amount of energy used in producing each tonne of cement was reduced by approximately 15 KWH and the amount of coal used in producing one tonne of clinker had dropped by approximately 20 kilograms. Also, Shandong SAC attributed much importance to the establishment of a production management system, which was certified by the Office for the Building Materials Industry of Shandong Province in the first six months of 2002 with the issuance of a production permit. This will facilitate the comprehensive sale in the market of the "TITAN" cement manufactured by Shandong SAC. During the first six months of the year under review, Shandong SAC sold a total of 178,000 tonnes of cement and clinker, leading to an increase in the company's profit.

2. Tiles, Granite and Marble Business

The segment revenue attributable to the distribution of ceramics tiles, granite and marble products to approximately HK$2,589,000 (30th September, 2001: HK$6,023,000), a large decrease of 57%. Segment results amounted to HK$197,000 (30th September, 2001: HK$1,493,000).

The over-supply situation of ceramic tiles in the PRC market has not improved and led to severe competition on price. During the period under review, the two Foshan factories continued to undergo reorganization in order to make the product portfolios more competitive. For this reason, product combinations were rearranged and the quality of products relative to the price was raised accordingly. The Group entered into alliances with other factories in order to provide a comprehensive range of high-quality products and reinforce its competitive edge. Due to improvement in the engineering techniques, effective control in the purchase cost, all granite-related projects have managed to obtain a reasonable return. The sales distribution network of tiles, granite and marble has been expanding rapidly through its controlling shareholder's property development network and the cement distribution network. The Group will contribute appropriate resources to develop new products for ceramic tiles and upgrade engineering techniques for granite processing. Should there be no unforeseeable circumstance, the ceramic tiles, granite and marble business should be able to contribute more to the Group's earnings.

3. **Asset Re-organization**

During the period under review, the Group proceeded with the liquidation of Interform Building Material Supplies Limited, and resulted in a net profit of approximately HK$27,819,000.

Financial Review

The net profit attributable to shareholders for the period under review was HK$35,523,000. The financial statements of the Group have consolidated those of Shanghai SAC since 14th March, 2002, the date of it becoming a subsidiary of the Group.

Liquidity and Financial Resources

The Group's capital expenditure and daily operations and investments were funded by cash generated from internal operations and loans by principal bankers.

The Group continued to maintain a sound and liquid balance sheet, with cash reserves of approximately HK$93,632,000, which included approximately HK$5,068,000 of pledged short-term bank deposits. The Group had a current ratio of approximately 1.49 compared to that of 1.97 as at 31st December, 2001.

Capital Structure

As at 30th June, 2002, the net assets of the Group amounted to HK$301,399,000, an increase of 13.3% compared to that as at 31st December, 2001. The bank borrowings in current liabilities and non-current liabilities amounted to HK$143,849,000 and HK$14,151,000 respectively, of which approximately 99% of the Group's bank borrowings were at fixed rate. The gearing ratio (net bank borrowings over net assets) was 21.4%, compared to that of a negative 10.8% as at 31st December, 2001. The Group closely monitored the borrowings to maintain the gearing at a reasonable level.

Foreign Exchange Fluctuation

Since the Group's operations were mainly located in Mainland China, most of the bank borrowings were obtained from the banks in Mainland China in Renminbi, which resulted in minimal risk of foreign exchange fluctuations..

Charges on Assets

During the period under review, bank deposits of HK$5,068,000 were pledged with banks to secure the Group's bank borrowings. As at 30th June 2002, the Group had secured bank borrowings of HK$214,000, compared to that of HK$1,089,000 as at 31st December, 2001.

Contingent Liabilities

As at 30th June, 2002, guarantees given to bank and financial institution by the Group in respect of facilities utilised by a fellow-subsidiary and a third party were HK$14,151,000 and HK$6,981,000 respectively. The discounted commercial bills amounted to HK$9,675,000.

Employees and Remuneration Policies

As at 30th June, 2002, the Group, including its subsidiaries but excluding associates, employed 554 persons. The remuneration policies and bonus schemes of the Group are based on the performance of the staff and market conditions.