

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 September 2002 (2001: HK\$Nil per share).

REVIEW OF OPERATIONS AND RESULTS

Business review

For the six months ended 30 September 2002, the Group recorded a consolidated turnover of approximately HK\$79.5 million. Net loss for the period was approximately HK\$43.4 million compared to approximately HK\$96.3 million for the corresponding period in the previous year.

During the period under review, the operating environment of building material industry in Hong Kong remains difficult due to local economic downturn and sluggish property market. Keen competition in the building materials industry also exerted downward pressure on prices of ceramics tiles. Despite the unfavorable performance in the local market, the Group's business in the United States still manages to progress well.

With a view to improve its financial position, the Group has implemented a series of measures to enhance cost competitiveness and operational efficiency. During the period, the Group has not only divested its non-performing building material retail business in Hong Kong and adopted stringent cost control, it has also been exploring new business opportunities to generate revenue and cash flow stream. As the natural gas industry in the PRC is under active growth, the Directors believed that investment in the natural gas market in the PRC is an excellent opportunity to bring in high quality and sustainable income for the Group and it has therefore entered into a conditional acquisition agreement ("Nanning Acquisition Agreement") for certain interests in Nanning City Gas Co. Ltd. ("Nanning City Gas"), the details of which are set out in the section headed "Material Acquisition and Disposal" below, to capture the business potential from the development and growth of the natural gas business in the PRC.

中期股息

董事並不建議派付截至二零零二年九月三十日止六個月之中期股息(二零零一年：每股零港元)。

業務回顧及業績

業務回顧

於截至二零零二年九月三十日止六個月，本集團錄得綜合營業額約79,500,000港元。期內虧損淨額約為43,400,000港元，而上年度同期則約為96,300,000港元。

於回顧期內，鑑於本地經濟低迷，以及地產市場疲弱，故此香港建築材料行業的經營環境仍然艱難。建築材料行業競爭激烈，亦對瓷磚的價格造成下調壓力。雖然本地市場表現不濟，但本集團在美國的業務仍然造好。

為改善財政狀況，本集團已實施一系列措施，以提升成本方面的競爭力及經營效率。期內，本集團不單已放棄表現欠佳的香港建材零售業務，並採納嚴格的成本控制。本集團亦已開拓新的商機，務求為本集團帶來收益及現金來源。由於中國的天然氣行業現正蓬勃增長，董事相信投資於中國的天然氣市場是為本集團帶來優質及可持續收入的絕佳良機，故此已訂立有條件收購協議(「南寧收購協議」)，以收購南寧管道燃氣有限責任公司(「南寧燃氣」)的若干權益(有關詳情載於下文「重大收購及出售事宜」一節)，藉以把握中國天然氣業務的發展和增長所帶來的業務潛力。

MATERIAL ACQUISITION AND DISPOSAL

Acquisition of Nanning City Gas

On 8 November 2002, China Crystal Investment Ltd., an indirect wholly-owned subsidiary of the Company, entered into the Nanning Acquisition Agreement with Great City Associates Limited ("Great City") to acquire 63% interests in WIT International Group Ltd. ("WIT") at a consideration of HK\$120.0 million ("Nanning Acquisition").

WIT is an investment holding company incorporated in the British Virgin Islands. After reorganization, WIT shall hold 49% equity interest in Nanning City Gas in which the Company shall indirectly hold 30.87% attributable interests in Nanning City Gas after completion. Nanning City Gas is principally engaged in the construction and operation of the city gas pipelines and the provision of the related equipment, apparatus and other ancillary services. It is principally operating in Nanning City, Guangxi Zhuang Autonomous Region, the PRC.

As one of the conditions for completion of the Nanning Acquisition Agreement, Great City has undertaken to procure completion of the reorganization which involves the completion of the procedures in respect of the transfer of 49% equity interest in Nanning City Gas from one of the existing shareholders to WIT. Great City has also undertaken to take all steps and obtain all necessary consents and approvals to convert Nanning City Gas from a domestic limited liability company into a sino-foreign equity joint venture enterprise under the relevant PRC laws.

Further details of the Nanning Acquisition have been disclosed in the Company's announcement and circular dated 13 November 2002 and 4 December 2002 respectively.

Disposal of Subsidiaries

On 24 May 2002, Companion Building Material (Holdings) Limited ("CBM"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement and a deed of assignment with a third party pursuant to which CBM disposed of the entire issued share capital of three wholly-owned subsidiaries and the shareholders' loans due from such subsidiaries in the sum of approximately HK\$54.8 million as at 31 March 2002 to the third party at a consideration of approximately HK\$15.0 million.

重大收購及出售事宜

收購南寧管道燃氣有限責任公司

於二零零二年十一月八日，本公司的間接全資附屬公司China Crystal Investment Ltd.與Great City Associates Limited (「Great City」) 訂立南寧收購協議，藉以按120,000,000港元之代價，收購WIT International Group Ltd. (「WIT」) 的63%權益 (「南寧收購」)。

WIT是於英屬處女群島註冊成立之投資控股公司。在重組後，WIT會持有南寧燃氣的49%股權，而在重組及完成後，本公司會佔南寧燃氣的30.87%權益。南寧燃氣的主要業務為城市燃氣管道的建設及營運，以及提供有關設備、儀器和其他配套服務。南寧燃氣主要在中國廣西壯族自治區轄下的南寧市經營業務。

作為完成南寧收購協議的條件之一，Great City已承諾促使重組完成，當中涉及完成將南寧燃氣的49%股權由現有股東其中一方轉讓給WIT的程序。Great City亦已承諾會採取一切步驟及取得所有所需的同意及批准，以根據中國法律將南寧燃氣由一間國內的有限責任公司轉為一間中外合資合營企業。

本公司已分別於二零零二年十一月十三日及於二零零二年十二月四日發表公佈及發出通函，披露有關收購事宜之進一步詳情。

出售附屬公司

於二零零二年五月二十四日，本公司的全資附屬公司友聯建築材料(集團)有限公司(「友聯建材」)與第三方訂立了買賣協議及轉讓契據，據此，友聯建材向第三方出售三間全資附屬公司全部已發行股本及應收該等附屬公司的股東貸款(於二零零二年三月三十一日約為54,800,000港元)，代價約為15,000,000港元。

PLACING AND SUBSCRIPTION OF NEW SHARES

Subscription of New Shares

Pursuant to a subscription agreement dated 4 June 2002, China Strategic Holdings Limited ("China Strategic") subscribed 20,000,000,000 new shares in the Company at an issue price of HK\$0.01 per subscription share amounting to a total consideration of HK\$200.0 million. The subscription agreement was completed on 20 September 2002 with net proceeds amounted to approximately HK\$198.9 million.

Placing of New Shares

Pursuant to a placing agreement dated 4 June 2002, the Company placed through an independent placing agent 25,000,000,000 new shares in the Company at an issue price of HK\$0.01 per placing share. The placing agreement was completed on 20 September 2002 and the net proceeds amounted to approximately HK\$242.6 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2002, the Group had net current assets of approximately HK\$131.7 million (31 March 2002: net current liabilities of HK\$298.0 million) and a current ratio of 1.33 (31 March 2002: 0.34). Cash, bank balances and pledged time deposits as at 30 September 2002 were approximately HK\$375.4 million (31 March 2002: HK\$19.4 million). Gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 1.70. No calculation of gearing ratio as at 31 March 2002 has been made as the shareholders' funds were negative as at 31 March 2002.

As at 30 September 2002, total borrowings of the Group (including bank overdraft) amounted to approximately HK\$217.7 million (31 March 2002: HK\$273.5 million), of which approximately HK\$214.5 million was due within one year and approximately HK\$3.2 million was due after one year from 30 September 2002. All these borrowings were interest bearing, of which approximately HK\$92.3 million carried fixed interest rate of 9.8% per annum and approximately HK\$125.4 million carried floating interest rates. Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi. Borrowings were mainly denominated in Renminbi, United States dollars and Hong Kong dollars while cash and cash equivalents were mainly held in Hong Kong dollars. Given the exchange rate of these currencies are fairly stable, exchange rate fluctuations had no material impact on the Group during the period. No hedging measures was considered necessary and adopted during the period.

配售及認購新股

認購新股

根據二零零二年六月四日訂立之認購協議，中策集團有限公司(「中策」)按每股認購股份0.01港元之發售價，認購本公司20,000,000,000股新股，總代價為200,000,000港元。認購協議於二零零二年九月二十日完成。所得款項淨額約為198,900,000港元。

配售新股

根據二零零二年六月四日訂立之配售協議，本公司透過一獨立配售代理，按每股配售股份0.01港元之發售價，配售本公司25,000,000,000股新股。配售協議於二零零二年九月二十日完成。所得款項淨額約為242,600,000港元。

流動資金及財務資源

於二零零二年九月三十日，本集團之流動資產淨額約為131,700,000港元(二零零二年三月三十一日：流動負債淨額298,000,000港元)，而流動比率則為1.33(二零零二年三月三十一日：0.34)。於二零零二年九月三十日之現金、銀行結餘及已抵押定期存款約為375,400,000港元(二零零二年三月三十一日：19,400,000港元)。資產負債比率(即負債總額及少數股東權益相對於股東資金之比率)為1.70。於二零零二年三月三十一日由於股東資金為負數，故此並無計算二零零二年三月三十一日之資產負債比率。

於二零零二年九月三十日，本集團之借貸總額(包括銀行透支)約為217,700,000港元(二零零二年三月三十一日：273,500,000港元)，其中約214,500,000港元於二零零二年九月三十日起一年內到期，而約3,200,000港元則由二零零二年九月三十日起一年後到期。所有該等借貸均屬附息，其中約92,300,000港元按定息計息，年息為9.8%，而約125,400,000港元按浮動息率計息。本集團大部份業務交易、資產及負債均以港元及人民幣列值。借貸主要以人民幣、美元及港元計值，而現金及現金等價物則主要以港元持有。鑑於該等貨幣匯率相當穩定，期內匯率波動對本集團並不造成重大影響。本集團於期內認為無需作出而且並無採納任何對沖措施。

The Group is in breach of a covenant in respect of certain banking facilities with utilised amount of approximately HK\$4.2 million as at 30 September 2002, of which all sum has been fully repaid as at the date of this report. As disclosed in the annual report of the Company for the year ended 31 March 2002, repayment of the unsecured Convertible Loan of outstanding principal sum of approximately US\$11.9 million advanced from an independent third party to a subsidiary of the Company is technically repayable on demand due to default in repayment of certain part of the loan by the Group in prior years. Details of the above transactions were disclosed in the announcement of the Company dated 18 February 2002.

PLEDGE OF ASSETS

As at 30 September 2002, the Group has pledged certain land and buildings, motor vehicles, plant and machinery with an aggregate carrying value of approximately HK\$98.6 million (31 March 2002: HK\$110.8 million) and time deposits of approximately HK\$14.5 million (31 March 2002: HK\$Nil) to secure the banking facilities granted to the Group.

The Group has also pledged certain land and buildings in Hong Kong with an aggregate carrying value of approximately HK\$6.5 million (31 March 2002: HK\$6.8 million) and investments in securities with market value of approximately HK\$16.5 million (31 March 2002: HK\$17.3 million) and the entire issued shares of two wholly-owned subsidiaries to secure an other loan in the sum of HK\$60.0 million together with interest thereon and certain sum due to a trade creditor.

CONTINGENT LIABILITIES

As at 30 September 2002, the Group's contingent liabilities were approximately HK\$10.3 million, representing corporate guarantee given to bankers in respect of banking facilities utilized by an associate ("Corporate Guarantee for Associate"). As at 31 March 2002, the Group's contingent liabilities were approximately HK\$15.0 million, representing Corporate Guarantee for Associate of approximately HK\$10.3 million, other corporate guarantee in lieu of utility deposit of approximately HK\$0.5 million and unprovided loan interests of approximately HK\$4.2 million.

本集團違反若干銀行融資(於二零零二年九月三十日已動用金額約為4,200,000港元)之一項契約條款,於本報告日期,全部款項已悉數歸還。誠如本公司於截至二零零二年三月三十一日止年度之年報所披露,本公司之一間附屬公司獲獨立第三方墊付一筆無抵押可換股貸款,該筆款項的未償還本金金額約為11,900,000美元。由於本集團在過往年度未能償還貸款的若干部分,故此該筆貸款在技術上須於接獲要求時償還。詳情已於二零零二年二月十八日日本公司公佈中披露。

資產抵押

於二零零二年九月三十日,本集團已抵押總賬面值約98,600,000港元(二零零二年三月三十一日:110,800,000港元)之若干土地及樓宇、汽車、廠房及機器及約14,500,000港元(二零零二年三月三十一日:零港元)之定期存款,以取得本集團獲授銀行融資。

本集團亦已抵押總賬面值約6,500,000港元(二零零二年三月三十一日:6,800,000港元)之香港若干土地及樓宇,及市值約16,500,000港元(二零零二年三月三十一日:17,300,000港元)之證券投資,以及兩間全資附屬公司的全部已發行股份,以取得為數60,000,000港元之其他貸款連同應計利息以及用以償還若干應付貿易帳款。

或然負債

於二零零二年九月三十日,本集團之或然負債約為10,300,000港元,為有關一間聯營公司動用之銀行融資而向銀行作出的公司擔保(「為聯營公司作出的公司擔保」)。於二零零二年三月三十一日,本集團之或然負債約為15,000,000港元,包括約10,300,000港元為聯營公司作出的公司擔保、其他代替公用事業保證金約500,000港元的公司擔保及約4,200,000港元的未撥備貸款利息。

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2002, the Group employed approximately 500 staff. The Group's remuneration policies are in line with prevailing industry practices and formulated on the basis of performance and experience of the employees and will be reviewed regularly. The Group also provided staff comprehensive benefits including medical insurance and training programmes.

Further, the Company maintains a share option scheme, of which no share option was granted or exercised during the period.

PROSPECTS AND PLANS FOR THE FUTURE

Approaching the end of a calendar year, the world economies have not shown significant sign of recovery. To deflect from its loss making businesses and improve its financial position, the Group, with the proceeds from the subscription and placing, has been exploring new business opportunities which will enhance its growth and development potentials in the long run.

During the second half of 2002, the PRC signed several multi-billion dollar deals in relation to development of natural gas market in the PRC, including the construction of 4,000 km "West-East Gas Pipeline" and sourcing of the liquefied natural gas supply for both Guangdong and Fujian provinces in the south east region, which clearly demonstrates its desires to develop the natural gas market. Foreign investments and management skills are indispensable for swift development of a sizeable and modern gas industry, especially in the crucial sector of local gas distribution. The Company believed this creates enormous market potential.

To realise the premium market for natural gas business in the PRC, the Group has shown its dedication through the Nanning Acquisition. After the completion of the Nanning Acquisition, the Group will continue to actively look for high quality natural gas businesses and investments in the PRC so that it will become its new source of income. Further, the Group will also evaluate the existing businesses and future development plans from time to time, and consider any business rationalization which may include scaling down of any non-performing business, whenever it deems appropriate and necessary so as to improve its performance as a whole. Keeping enhancement of shareholders' value as its underlying focus, the Group shall strive vigorously to better perform for the remaining of the fiscal year.

員工及薪酬政策

於二零零二年九月三十日，本集團之僱員總數約為500人。本集團之薪酬政策乃參照現時行業情況及根據僱員之表現及經驗釐定，並會定期檢討。本集團亦向員工提供綜合福利，包括醫療保險及培訓計劃。

此外，本公司設有一項購股權計劃，於期內並無授出或行使任何購股權。

未來前景及計劃

一年漸近尾聲，全球經濟仍然欠缺復甦跡象。為了從有虧損的業務轉移至其他方面，及改善其財務狀況，本集團憑藉認購及配售所得款項，一直開拓新的商機，藉此提升長期的增長及發展潛力。

於二零零二年下半年，中國簽訂了多項關於發展天然氣市場數以十億元計的交易，其中包括興建長達4,000公里的西氣東輸管道，及在東南地區之廣東及福建省採探液化天然氣的供應。這明確展示中國著意發展天然氣市場。外國投資及管理技巧對於具規模及現代燃氣行業的快速發展舉足輕重，尤其是在本地燃氣分銷之重要環節方面，本公司相信會帶來巨大的市場潛力。

為把握有發展遠景的中國天然氣市場業務，本集團已透過南寧收購之事，展示其致力投入。在南寧收購完成後，本集團將會在中國繼續積極尋找優質天然氣業務及投資，以開拓新的收入來源。此外，本集團亦將會不時評估既有的業務及未來發展，及可能在其認為合適及有需要之時，考慮任何業務精簡安排，當中可包括縮減一些表現不理想的業務，以提升本集團之業務表現。本集團以提升股東價值作為首要目標，將會盡力在本財政年度餘下時間爭取更佳表現。