INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 30th June, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The net profit for the period was HK$13,148,000, decreasing by 62.5% compared to the profit of HK$35,090,000 for the corresponding period of last year. The decrease was mainly due to the gain on deconsolidation of subsidiaries of HK$27,838,000 accounted for in the corresponding period of last year. If the gain had been excluded, the net profit for the period would have increased by 81.3%.

It should be noted that the Group's financial statements have since 14th March, 2002 consolidated those of Shanghai Allied Cement Co., Ltd. ("Shanghai SAC"), when that company became a subsidiary of the Company. Accordingly, the comparative condensed consolidated income statement should be interpreted with regard to this abbreviated period of consolidation.

Business Review

1. *Cement Business*

Despite the impact of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003, demand for cement in Shanghai remained strong due to the rapid growth of investment in properties and public infrastructures. For instance, property investment increased by 16.5% from that of last year to RMB39.5 billion, floor area completed increased by 53% from that of last year to 4.28 million square metres, and floor area sold increased by 83% from last year to 5.17 million square metres. The floor area sold and the growth of sale outpaced the floor area completed and the growth of completion respectively. Investment in urban infrastructures also experienced significant growth. The Shanghai Lupu Bridge has been open to traffic. The construction of fourteen major projects, including the 70-kilometre Middle Ring Road, the Xiangyin Road cross-river construction and the Donghai Bridge, have commenced. Other construction projects, such as the Huchong cross-river construction and the Shanghai Universal Studio will also commence soon.

Furthermore, the cities and provinces adjacent to Shanghai also reached the peak of infrastructure construction, such as the Sutong Yangzi River Highway Bridge, the South-to-North Water Diversion Project, the West-to-East Gas Pipeline Project, the construction of Hangzhou Bay New Zone, as well as the rapid development of many small and medium size cities. As a result, the cement supply to Shanghai slightly decreased instead of going up. The price of cement rose marginally due to the short supply.

The Group has raised the price of cement 4 times separately during April, July and August, representing an increase of 12.5% in aggregate. Evidently, the price dropping trend in Shanghai cement market since the second half of last year was reversed and the price has begun to increase gradually. However, as the current price has not rebounded to the level of 2001 yet, it is expected that there will be room for further increases of the price in the second half of this year. The actual increase will be dependent upon the prevalent market conditions then.

As Shanghai is the major market of the Group, the above scenario represents a favourable factor to the Group. The Group's two cement factories therefore operated at maximum production capacity. The kiln operation rates of Shanghai SAC and Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC") were 90.0% and 92.4% respectively. The Group sold a total of 645,000 tonnes of cement and clinker, representing an increase of 17.7% as compared to the corresponding period of last year.

Shanghai SAC

For the period under review, Shanghai SAC's clinker output reached its historically highest level at 357,000 tonnes. Average kiln output was 2,192 tonnes per day, representing an increase of 119 tonnes per day as compared to that of last year. This was achieved by the technological innovations undertaken by Shanghai SAC during the second half of last year.

Shanghai SAC also strengthened its coal usage management and implemented certain measures to reduce coal consumption. The amount of coal for producing each tonne of clinker was reduced by 4.35 kilograms, cutting coal consumption by 1,550 tonnes and cost by RMB480,000 in total. Environmental protection was another important issue on Shanghai SAC's agenda. It put emphasis on maintaining a hygienic production environment. Plant, machinery and equipment were cleaned daily and roads and buildings were renovated and artistically decorated. The newly refurbished office building has formed part of the good view on the shore of Huangpu River, setting a good model for industrial and commercial enterprises operating in the metropolis and thus Shanghai SAC has gained a good reputation among government authorities. It was recommended by the environmental protection department of Shanghai to represent the industrial sector of Shanghai to attend and deliver a key speech at the "International Forum on New Energy and Environmental Protection" convened in Shanghai. Shanghai SAC was greatly encouraged by and proud of these achievements.

For the period under review, Shanghai SAC's profit before taxation amounted to RMB28,024,000, remaining as one of the major sources of profit for the Group.

Shanghai SAC persists in expediting the progress of its production and sales by introducing technological innovations and nourishing a team spirit among its senior staff. The production cost of cement has been reduced from RMB299 per tonne in 1995 to the current RMB180 per tonne, representing a drop of 39.8%. Power consumption is lower by 30 KWH per tonne or 34% less than the designed level. This strength allows it to maintain its competitiveness in the industry. Its labour production rate, power consumption, production cost per tonne of cement, kiln operation rate and profit per tonne of cement are among the best in the industry in the People's Republic of China (the "PRC").

Shandong SAC

For the period under review, Shandong SAC's clinker output increased by 11.5% from that of the corresponding period of last year to 185,000 tonnes. As compared to the corresponding period of last year, its kiln operation rate increased by 2.8%, heat consumption of clinker per tonne decreased by 2.2%, composite power consumption of cement decreased by 8.3%, and the production cost per tonne of 42.5 cement decreased by 16.8%.

As a result, Shandong SAC reported a profit before taxation of RMB6,374,000 for the period, representing an increase of RMB4,459,000, or 232.8%, as compared to that of the corresponding period of last year.

The operation mode of Shandong SAC is different from that of Shanghai SAC. The Group invested in Shangdong SAC on a lease basis beginning in June 2001, which managed to contribute profit for the Group in the same year. Furthermore, the stable quality of Shandong SAC's products, especially the "TITAN" cement, has made them widely popular with customers. Shandong SAC is a remarkable example of the successful implementation of the Group's strategy. Notwithstanding the satisfactory development of Shandong SAC in the past two years, its consumption indices are still considerably inferior to those of Shanghai SAC, representing further room for improvement.

According to the State Construction Materials Information Centre（國家建材資訊中心）, the output of the Group was ranked 43rd in the PRC, and its realised profit was ranked 8th among enterprises engaging in the same industry in the PRC. In addition, as the stable quality of the Group's products has been trusted and appreciated by a group of long term and premium customers, both Shanghai SAC and Shandong SAC were appraised by the Shanghai Cement Association（上海市水泥協會）as Enterprises of Trustworthy Quality for 2002.

2. *Ceramic Tile and Natural Stone Business*

During the period under review, the turnover attributed to ceramic tile and natural stone business was HK$7,645,000, representing an increase of 195.3% as compared to that of the corresponding period of last year. Profit before taxation was HK$1,520,000, representing an increase of 671.6% as compared to that of the corresponding period of last year.

During the first half of this year, Hong Kong was adversely affected by the outbreak of SARS. As the property market remained weak and the number of construction projects dwindled, the demand for construction materials, including ceramic tiles and natural stones, continued to drop. During the period under review, the Group only conducted a small number of maintenance projects in Hong Kong. It is expected that the building sector in Hong Kong will not recover within a short period. To reduce the reliance upon Hong Kong's building sector, the Group has focused on the exploration of the Mainland market and expanded its business coverage to major cities in the PRC, such as Shenzhen, Shanghai, Beijing and Nanjing. The product mix will be further broadened from ceramic tiles, natural stones and artificial stones to include other construction materials such as sanitary ware, construction steel, water pipes and tubing in the second half of the year. During the period, the Company's PRC subsidiary賽華順升建材有限公司was primarily engaged in the sales of quality natural stone products with higher gross profit margin. This strategy will provide more profit contribution to the Group's ceramic tile and natural stone business.

Financial Review

Liquidity and Financial Resources

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

The Group continued to maintain a healthy balance sheet, with liquid and cash reserves of HK$65,795,000 (at 31st December, 2002: HK$92,631,000) which included HK$5,137,000 (at 31st December, 2002: HK$5,107,000) of pledged short term bank deposit. The Group had a current ratio of 1.67 (at 31st December, 2002: 1.52).

Capital Structure

At 30th June, 2003, the net assets of the Group amounted to HK$302,028,000 (at 31st December, 2002: HK$310,762,000). The bank borrowings under current liabilities amounted to HK$109,232,000 (at 31st December, 2002: HK$133,946,000) of which approximately 99% (at 31st December, 2002: 99%) of the Group's bank borrowings were at fixed interest rate. The gearing ratio (net bank borrowings over net assets) was 14.4% (at 31st December, 2002: 13.3%). 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

At 30th June, 2003, bank deposits of HK$5,137,000 (at 31st December, 2002: HK$5,107,000) were pledged with banks to secure the Group's bank borrowings. At 30th June, 2003, the Group had secured bank borrowings of HK$219,000 (at 31st December, 2002: HK$216,000).

Contingent Liabilities

At 30th June, 2003, guarantees given to bank and financial institution by the Group in respect of facilities utilised by fellow subsidiaries and third parties were HK$56,604,000 (at 31st December, 2002: HK$56,604,000) and HK$40,000,000 (at 31st December, 2002: HK$22,169,000) respectively. The discounted commercial bills amounted to HK$37,690,000 (at 31st December, 2002: HK$35,577,000).

Employees and Remuneration Policies

At 30th June, 2003, the Group including its subsidiaries but excluding its associates, employed 561 employees. The remuneration policies and bonus schemes of the Group are based on the performance of the staff and market conditions.