

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

The Group recorded an unaudited consolidated net loss from ordinary activities attributable to shareholders of HK\$48,864,000 for the six months ended 30 June 2001. A loss of HK\$453,337,000 was recorded for the corresponding period in the preceding financial year. Similar to the preceding financial year, the Group's results for the period were significantly affected by the performance of the share price of TCL International Holdings Limited ("TCL"). The consolidated net loss mainly comprised of the following: the loss from the disposal of TCL shares and provision for unrealised holding loss of the remaining TCL shares amounted to HK\$39,202,000 in aggregate and share of loss of Luks-Lavico Co., Ltd., the holding company of the Saigon Trade Centre ("STC"), of HK\$8,504,000, whereas the contribution to profit mainly came from operating activities of the cement plant in Vietnam which produced a profit of HK\$16,461,000. The turnover of the cement plant of HK\$78,392,000 represented 98.6% of the total turnover of the Group. It is expected that contribution from the cement plant will remain the main source of turnover and profits contribution of the Group for the foreseeable future, but the Group will probably record a loss for the full year of 2001. Nevertheless, in view of more stable income and cashflow streams for the coming years, the board of directors resolved to declare an interim dividend of HK\$0.08 per share to the shareholders.

Sales of cement in Vietnam recorded a significant growth for the first half of 2001. In terms of volume, a total of 260,000 tonnes of cement had been sold representing a growth of 70% as compared to the same period of the last year, but the sales amount only recorded a growth rate of 40% due to the lowering of sales price. It is however pleased to note that the cement plant has successfully reduced its production cost and thus increased its gross profit margin so as to compensate the decrease in sales price. It is expected that the local demand for cement will remain robust for the second half of the year as more and more construction projects are expected to start, especially in the central part of Vietnam where the cement plant is located.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review and Prospects (continued)

The leasing of the STC remained steady and the lease out rate as at 30 June 2001 and the date of this report were 51% and 55% respectively. It is expected that the final seal-off date of the bilateral trade agreement between the USA and Vietnam will take place in about mid-2002 and an increase in foreign investments is expected to follow after the agreement. Besides, the average rental rate also remained stable. Seeing the prospect of increasing demand in prime office spaces in Ho Chi Minh City in Vietnam, the Group on 15 September 2001 through its wholly owned subsidiary, Luks Land Co., Ltd., entered into an acquisition agreement for the acquisition of the remaining 25% equity interest in Luks-Lavico Company Limited which holds STC. The consideration for the acquisition is approximately US\$1,525,000 (equivalent to HK\$11,895,000). Details of the transaction have been disclosed in the announcement of the Company on 21 September 2001.

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2001 amounted to HK\$36,358,000 (as at 31 December 2000: HK\$25,622,000). The Group's total borrowings amounted to HK\$87,179,000 (as at 31 December 2000: HK\$88,056,000), of which HK\$65,744,000 was repayable within 1 year. The percentage of the Group's borrowings denominated in HK\$ and Vietnamese Dong ("VND") were 53% and 47% respectively. Of the total borrowings, about 47% were at fixed interest rates.

The gearing ratio, expressed as the percentage of long-term debt to equity, was 3% as at 30 June 2001 (as at 31 December 2000: 3.2%).

Significant investments held

As at 30 June 2001, the Group still held approximately 61,000,000 shares of TCL International Holdings Ltd. representing a value of approximately HK\$90,000,000. Due to the bearish atmosphere in Hong Kong stock market, the Group's holding value in TCL shares has decreased dramatically. Besides, the Group also holds 31,405,954 B shares of Shenzhen Huafa Electronics Co., Ltd. As disclosed in an announcement dated 4 June 2001, the said shares have been frozen by a local court in Wuhan as security pending the result of a legal proceedings (the "Proceedings") instituted in Wuhan. Accordingly, the Group has not revaluated the said shares to its market value but recorded it at its book value of HK\$32,034,000 in the accounts of the Group. The market value of the said shares, for reference only, as at the date of this report was approximately HK\$175,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**Employees and Remuneration Policy**

As at 30 June 2001, the Group has approximately 650 employees. Most of them are in Vietnam. The total staff cost was approximately HK\$8,220,000 for the period. A performance appraisal system has been introduced for the staff in the cement plant in Vietnam to boost the motivation of the staff, which has proved to be successful. Apart from that, there was no significant change in the Group's remuneration policy.

Details of charges

As at 30 June 2001, the Group has pledged certain investment properties with a total value of HK\$74,121,000 and certain fixed assets at a net book value of HK\$201,046,000 to secure banking facilities.

Exposure to fluctuations in exchange rates and related hedges

The Group's investments in Vietnam, mainly consisting of the cement plant and the STC, are subject to the exchange fluctuation, and especially that from the risk of devaluation of VND. As VND is a restricted currency and thus there is in lack of hedging instruments. In order to minimize its exposure, the cement plant intends to utilise its surplus cashflow and VND borrowings in local banks to repay loans currently denominated in foreign currency, especially the loan due to the parent company. Besides, most of the expenses of the cement plant and STC are to be kept in VND. Of all the leasing contracts of STC, 98% are denominated in USD. The Group will keep future leasing contracts denominated in USD in order to minimize its exposure to the devaluation risk of the VND.

Details of future plans for material investments or capital assets and their expected sources of funding in the coming year

Apart from the acquisition of 25% interest in Luks-Lavico as mentioned above, the Group has plans to expand the production capacity of the cement plant from 500,000 tonnes per annum to 750,000 tonnes per annum by raising the productivity of the existing production lines of the cement plant in the coming 2 years. The expected investment amount is about HK\$23,400,000 and shall be financed by local Vietnamese bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Details of contingent liabilities

The Group received a claim of RMB30,000,000 (approximately HK\$28,037,000) in relation to the Proceedings. Regarding the Proceedings details of which was disclosed in the announcement of the Company dated 4 June 2001, we are advised by PRC legal counsel that the court is now considering the capacity of Grand Effort Holding Limited ("Grand Effort"), a plaintiff of the Proceedings, to institute the Proceedings. As Grand Effort is a company under liquidation in Hong Kong any matter or action concerning it should be conducted by its liquidator and the Group has recently been advised by the liquidator of Grand Effort that it intend to deliver a notification to the court in Wuhan to withdraw the Proceedings. If that is the case, the Proceedings will most probably be terminated accordingly.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 15 October 2001 to Wednesday, 17 October 2001, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Friday, 12 October 2001. Cheques for interim dividends will be despatched on or before 23 October 2001.

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2001 – UNAUDITED

The results have been reviewed by the Audit Committee of the Company established in compliance with the additional requirement of the Stock Exchange to its Code of Best Practice.

WARRANTS

During the period, a bonus issue of warrants was made in the proportion of one warrant for every five existing shares held by members on the register of members on 8 June 2001, and 65,172,592 warrants were issued pursuant to the bonus issue.

Each warrant entitles the holder thereof to subscribe in cash for one ordinary share of HK\$0.01 each of the Company at a subscription price of HK\$0.90 per share, subject to the provision for adjustment, from the date of issue to 17 June 2004.

On 28 June 2001, 7,800 warrants were exercised at the exercise price of HK\$0.90 per share. At the balance sheet date, the Company had 65,164,792 warrants outstanding. If the exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 65,164,792 additional shares of HK\$0.01 each.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 30 June 2001, the interests of the directors in the share capital and warrants of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as set out below:

	<i>Notes</i>	Number of shares held	Number of warrants held	Nature of interest
Luk King Tin	(a)	38,983,261	7,796,652	Personal
Cheng Cheung	(b)	10,430,000	2,086,000	Personal
Wong Hoi Wah		702,400	140,480	Personal
Luk Yan	(c)	309,000	61,800	Personal
Lo Kai Yiu, Anthony		<u>130,000</u>	<u>26,000</u>	Personal

Notes:

- (a) In addition to the above personal interest, Mr. Luk King Tin had a beneficial interest in K T (Holdings) Limited, which held 47,688,393 shares of HK\$0.01 each and 9,537,678 warrants of the Company at the balance sheet date.
- (b) In addition to the above personal interest, Madam Cheng Cheung had a beneficial interest in C C (Holdings) Limited, which held 31,574,819 shares of HK\$0.01 each and 6,314,963 warrants of the Company at the balance sheet date.
- (c) In addition to the above personal interest, Mr. Luk Yan had a family interest, which held 45,000 shares of HK\$0.01 each and 9,000 warrants of the Company at the balance sheet date.

The interests of the directors in the share options of the Company are separately disclosed below in the section "Directors' rights to acquire shares".

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company, or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme approved on 12 February 2001, the Company granted options on the Company's ordinary shares in favour of certain directors, the summary details of which are as follows:

Name of director	Number of share options outstanding at the end of period
Luk King Tin	6,700,000
Luk Yan	3,000,000
Fan Chiu Tat, Martin	500,000
	<hr/> 10,200,000 <hr/>

Each share option entitles the holders to subscribe in cash for fully paid ordinary share of HK\$0.01 each in the Company at a subscription price of HK\$0.65 per share. The share options are exercisable during the period from 12 February 2001 to 11 August 2004.

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the following interest of 10% or more of the share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held
KT (Holdings) Limited	47,688,393

The above interest has also been disclosed as an interest of Mr. Luk King Tin under the section "Directors' interests in shares and warrants".

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the period, the Company repurchased 12,652,000 ordinary shares of HK\$0.01 each of the Company on the Stock Exchange of Hong Kong as follows:

Month	Number of Shares	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
April 2001	4,442,000	0.73	0.66	3,086
May 2001	5,792,000	0.92	0.74	4,814
June 2001	2,418,000	0.97	0.92	2,303
	<u>12,652,000</u>			<u>10,203</u>

The repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$10,076,000 has been charged to the contributed surplus.

PURCHASE, SALE AND REDEMPTION OF SHARES (CONTINUED)

The repurchase of the Company's shares during the period were effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share of the Group.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

LOANS TO A JOINTLY-CONTROLLED ENTITY

At the balance sheet date, the Group had loans to a jointly-controlled entity of HK\$279,809,000. The balance sheet of jointly-controlled entity, disclosed pursuant to Practice Note 19 of the Listing Rules, is set out below:

	<i>HK\$'000</i>
Non-current assets	253,802
Current assets	7,110
Current liabilities	(96,749)
Non-current liabilities	(215,172)
	<u>(51,009)</u>
Share capital	136,322
Accumulated losses	(187,331)
	<u>(51,009)</u>

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific terms but are 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.

ON BEHALF OF THE BOARD

Luk King Tin

Chairman

Hong Kong

25 September 2001