

On behalf of the Board of Directors (the "Directors"), I hereby present the annual report and the audited financial statements for the nine months ended 31st December, 2001 of Shanghai Allied Cement Limited (the "Company", together with its subsidiaries, the "Group").

With the effort of the new management team, the Group has recorded profitability during the period. Turnover of the Group was HK\$35,469,000 and the net profit for the period amounted to HK\$1,028,584,000. The Group's net profit was mainly attributable to the share of profit after taxation of HK\$15,315,000 from Shanghai Allied Cement Co., Ltd, gain on financial restructuring of HK\$976,860,000 and gain on deconsolidation of subsidiaries of HK\$61,121,000. The results signaled that the financial position of the Group has achieved a successful recovery.

The Directors do not recommend the payment of a final dividend for the nine months ended 31st December, 2001.

Year 2001 was a turning point for the Group as financial restructuring was completed in mid-May 2001 and the new management took over the control of the Group. During the past several months, the management and our staff contributed significant effort in streamlining the Group's operational environment including the elimination of obsolete stock of ceramic tiles and marble, implementation of cost control policies and re-establishment of internal control systems. Besides, the Group also liquidated or disposed some of the subsidiaries which were problematic. As a result of this, the financial and operational conditions of the Group have been greatly improved and promising operational results were recorded. On the other hand, the Group implemented its strategy on further expanding its cement business by leasing a production line in June 2001 in Shandong province. This move enabled the Group to complete its first stage of its expansion plan and enhance its market share of its cement business in the eastern part of the Mainland China (the "PRC").

PROSPECTS

Year 2002 is a challenging year for the Group. Through stimulation of domestic demand, the government of the PRC is expecting its economic growth will reach around 7% this year. Investments in infrastructure and property sectors will increase substantially and these will benefit the cement market. However, competition will also increase in the same manner. With our staff's talent, our superior services and our flexible marketing strategy, we are prepared to meet these challenges.

With the solid foundation of Shanghai Allied Cement Co., Ltd and the successful operation of Shandong Shanghai Allied Cement Co., Ltd, the platform for further development of the Group's cement business has been formed and consolidated. In the coming year, the Group will continue to expand its cement production capacity efficiently and enhance its competitive ability.



PROSPECTS *(Cont'd)*

Concurrently, the Group will continue to devote its resources to the restructured ceramic tiles, granite and marble businesses and to continue to implement measures to further upgrade the quality of the Group's products and after-sales services, to reduce the production costs so as to increase our competitiveness.

APPRECIATION

On behalf of the Directors, I would like to express my appreciation to our shareholders, customers and dedicated staff for their consistent support. Besides, the Directors are dedicated to achieve a satisfactory return to our shareholders in the coming years and to provide the best of our services to our customers.

David Hui Yip Wing

Chairman

21st March, 2002