SAC GROUP

上海聯合水泥股份有限公司

Shanghai Allied Cement Limited

Shanghai Allied Cement Limited • 2004 Interim Report

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MANAGEMENT AND CORPORATE INFORMATION

Executive Directors

Mr. Ng Qing Hai *(President and Chief Executive Officer)*
Mr. Ko Sing Ming *(Vice President)*
Mr. Li Chi Kong

Non-Executive Director

Lee Siu Chung, Steven

Independent Non-Executive Directors

Mr. Lai Hin Wing, Henry
Mr. Lo Wai On

Company Secretary

Ms. Law Sau Lai

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Stock Code

Stock Code on The Stock Exchange of
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Stock Code on Singapore Exchange
Securities Trading Limited : ShanghaiAC 2k HK$

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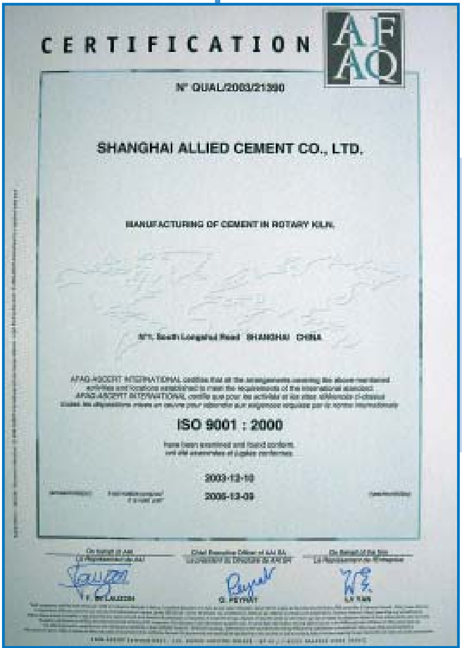

CERTIFICATION

AFAQ

N° QUAL/2003/21390

SHANGHAI ALLIED CEMENT CO., LTD.

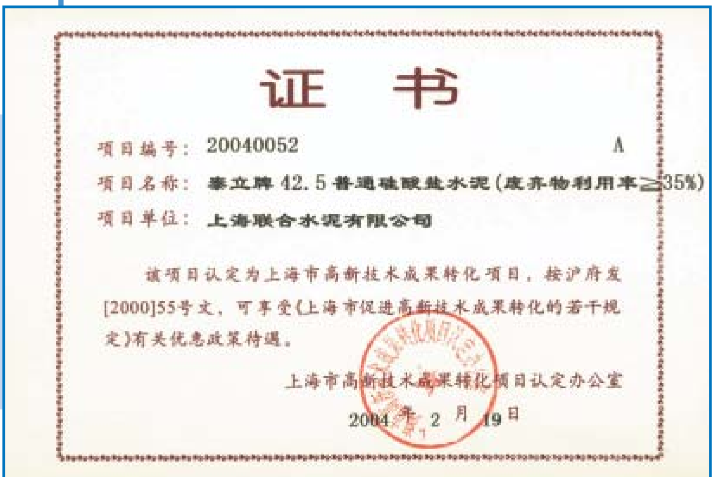
MANUFACTURING OF CEMENT IN ROTARY KILN.

ISO 9001 : 2000

2003-12-10

2006-12-09

Shanghai Allied Cement Co., Ltd. has been awarded with the internationally accredited "ISO 9001" Certificate.


证　书

项目编号：20040052　A

项目名称：泰立牌 42.5 普通硅酸盐水泥（废弃物利用率≥35%）

项目单位：上海联合水泥有限公司

该项目认定为上海市高新技术成果转化项目，按沪府发[2000]55号文，可享受《上海市促进高新技术成果转化的若干规定》有关优惠政策待遇。

上海市高新技术成果转化项目认定办公室

2004 年 2 月 19 日

Shanghai Allied Cement Co., Ltd. has been awarded with the Certificate of High and New Technology Result Transfer

The board of directors (the "Board") of Shanghai Allied Cement Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004 were as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

		Six months ended 30th June,	
		2004	2003
	Notes	**HK$'000**	HK$'000
		(unaudited)	(unaudited)
Turnover		**199,094**	145,043
Cost of sales		**(150,194)**	(107,418)
Gross profit		**48,900**	37,625
Other operating income		**9,932**	12,667
Distribution costs		**(3,689)**	(3,622)
Administrative expenses		**(13,530)**	(10,618)
Amortisation of goodwill		**(2,553)**	(2,553)
Allowance for doubtful debts		**(1,481)**	(1,285)
Profit from operations	4	**37,579**	32,214
Finance costs	5	**(3,181)**	(3,804)
Profit before taxation		**34,398**	28,410
Taxation	6	**(10,583)**	(3,971)
Profit after taxation		**23,815**	24,439
Minority interests		**(10,318)**	(11,291)
Net profit for the period		**13,497**	13,148
Earnings per share	7	**HK cents**	HK cents
– Basic		**1.85**	1.80
– Diluted		**1.85**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2004

	Notes	At 30th June, 2004 HK$'000 (unaudited)	At 31st December, 2003 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**324,477**	270,308
Goodwill		**86,171**	88,724
Interest in a jointly controlled entity		**–**	–
Interest in an associate		**–**	–
Club debenture		**330**	330
		410,978	359,362
Current assets			
Properties held for sale		**4,820**	4,868
Inventories		**32,361**	29,699
Trade and other receivables	9	**183,421**	194,931
Deposits and prepayments		**1,588**	3,917
Pledged short-term bank deposits		**5,917**	5,914
Bank balances and cash		**74,772**	99,483
		302,879	338,812
Current liabilities			
Trade and other payables and deposits	10	**59,946**	64,510
Amount due to ultimate holding company		**6,147**	6,117
Dividends payable to minority shareholders		**21,673**	4,568
Amount due to a minority shareholder		**8,163**	–
Amount due to a related company		**19**	77
Tax liabilities		**6,805**	5,349
Obligations under a finance lease		**9**	8
Bank borrowings	11	**105,636**	89,463
		208,398	170,092
Net current assets		**94,481**	168,720
		505,459	528,082
Capital and reserves			
Share capital		**182,349**	182,349
Reserves		**140,875**	156,554
		323,224	338,903
Minority interests		**156,593**	164,543
Non-current liabilities			
Amounts due to fellow subsidiaries		**1,087**	1,087
Amount due to a minority shareholder		**2,641**	2,641
Obligations under a finance lease		**12**	16
Deferred tax liabilities		**21,902**	20,892
		25,642	24,636
		505,459	528,082

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Share capital	Capital redemption reserve	Contributed surplus	Translation reserve	Merger reserve	Capital reserve	Other reserves	Accumulated profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 Note	HK$'000	HK$'000
At 1st January, 2003	182,349	918	44,203	(3,654)	1,799	–	–	85,147	310,762
Dividend paid for 2002	–	–	–	–	–	–	–	(21,882)	(21,882)
Net profit for the period	–	–	–	–	–	–	–	13,148	13,148
Transfer to reserves	–	–	–	–	–	824	–	(824)	–
At 30th June, 2003	182,349	918	44,203	(3,654)	1,799	824	–	75,589	302,028
Net profit for the period	–	–	–	–	–	–	–	36,875	36,875
Transfer to reserves	–	–	–	–	–	–	2,405	(2,405)	–
At 31st December, 2003	182,349	918	44,203	(3,654)	1,799	824	2,405	110,059	338,903
Dividend paid for 2003	–	–	(29,176)	–	–	–	–	–	(29,176)
Net profit for the period	–	–	–	–	–	–	–	13,497	13,497
Transfer to reserves	–	–	–	–	–	–	7,085	(7,085)	–
At 30th June, 2004	182,349	918	15,027	(3,654)	1,799	824	9,490	116,471	323,224

Note: Other reserves are attributable to reserve fund and enterprise expansion fund of Shanghai Allied Cement Co., Ltd and Shandong Shanghai Allied Cement Co., Ltd. The reserve fund is to be used to expand the enterprise's working capital. When the enterprise suffers losses, the reserve fund may be used to make up unrecovered losses under special circumstances. The enterprise expansion fund is to be used for business expansion and, if approved, can also be used to increase capital.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Six months ended 30th June,	
	2004	2003
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**46,177**	33,030
Net cash used in investing activities	**(61,701)**	(1,852)
Net cash used in financing activities	**(8,966)**	(58,047)
Net decrease in cash and cash equivalents	**(24,490)**	(26,869)
Cash and cash equivalents at beginning of the period	**99,262**	87,308
Cash and cash equivalents at end of the period	**74,772**	60,439
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**74,772**	60,658
Bank overdraft	**–**	(219)
	74,772	60,439

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Company's financial statements for the year ended 31st December, 2003.

3. Segment information

For management purposes, the Group is currently organised into two operating divisions-distribution and manufacturing of cement and clinker, and distribution of ceramic tiles, granite and marble products. The Group's operations are principally located in Hong Kong and other areas in the People's Republic of China ("Mainland China" or the "PRC"). An analysis of the Group's revenue and segment results by business segments are as follows:

Business segments

	Distribution and manufacturing of cement and clinker HK$'000 (unaudited)	Distribution of ceramic tiles, granite and marble products HK$'000 (unaudited)	Consolidated HK$'000 (unaudited)
For the six months ended 30th June, 2004			
Segment revenue	**188,972**	**10,122**	**199,094**
Segment results	**42,445**	**1,554**	**43,999**
Amortisation of goodwill	**(2,553)**	**–**	**(2,553)**
Unallocated expenses			**(3,867)**
Profit from operations			**37,579**
Finance costs			**(3,181)**
Profit before taxation			**34,398**
For the six months ended 30th June, 2003			
Segment revenue	137,398	7,645	145,043
Segment results	36,251	1,520	37,771
Amortisation of goodwill	(2,553)	–	(2,553)
Unallocated expenses			(3,004)
Profit from operations			32,214
Finance costs			(3,804)
Profit before taxation			28,410

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

4. Profit from operations

	Six months ended 30th June,	
	2004	2003
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit from operations has been arrived at after charging (crediting) :		
Depreciation of property, plant and equipment	**7,470**	7,252
Interest income	**(386)**	(632)

5. Finance costs

	Six months ended 30th June,	
	2004	2003
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	**3,180**	3,802
Obligations under a finance lease	**1**	2
	3,181	3,804

6. Taxation

	Six months ended 30th June,	
	2004	2003
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax	**9,573**	2,969
Deferred tax	**1,010**	1,002
	10,583	3,971

6. Taxation (cont'd)

Current tax represents PRC Income Tax calculated at the applicable rate on estimated assessable profits. In accordance with the tax legislation applicable to foreign investment enterprises, certain subsidiaries in the PRC are entitled to exemptions from PRC Income Tax for the two years commencing from the first profit-making year of operation and thereafter, entitled to a 50% relief from PRC Income Tax for the following three years. Certain of the Company's subsidiaries operating in the PRC are not eligible for tax exemptions and concessions since the beginning of this period.

No provision for Hong Kong Profits Tax has been made as the group companies operating in Hong Kong do not have any assessable profit for both periods.

7. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the period of HK$13,497,000 (six months ended 30th June, 2003: HK$13,148,000) and on 729,395,043 (six months ended 30th June, 2003: 729,395,043) shares in issue throughout the period.

The computation of diluted earnings per share for the six months ended 30th June, 2004 does not assume the exercise of the Company's outstanding share options as the exercise price is higher than the average market price per share. No diluted earnings per share has been presented for the six months ended 30th June, 2003 as the Company has no dilutive potential ordinary shares.

8. Property, plant and equipment

During the period, the Group acquired property, plant and equipment of HK$61,716,000.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

9. Trade and other receivables

The Group has a policy of allowing its trade customers credit periods normally ranging from 30 days to 120 days. Included in trade and other receivables are trade receivables of approximately HK$145,897,000 (at 31st December, 2003: HK$164,270,000) and their aged analysis is as follows:

	At 30th June, 2004 HK$'000 (unaudited)	At 31st December, 2003 HK$'000 (audited)
0 – 90 days	**88,702**	130,907
91 – 180 days	**22,786**	12,905
181 – 365 days	**23,355**	6,466
Over 1 year	**11,054**	13,992
	145,897	164,270

Included in trade and other receivables above are commercial bills of HK$27,055,000 (at 31st December, 2003: HK$12,954,000), which are available to be discounted for cash with financial institutions.

10. Trade and other payables and deposits

Included in trade and other payables and deposits are trade payables of approximately HK$25,832,000 (at 31st December, 2003 : HK$18,943,000) and their aged analysis is as follows:

	At 30th June, 2004 HK$'000 (unaudited)	At 31st December, 2003 HK$'000 (audited)
0 – 90 days	**22,197**	15,424
91 – 180 days	**1,062**	1,064
181 – 365 days	**733**	1,929
Over 1 year	**1,840**	526
	25,832	18,943

11. Bank borrowings

During the period, the Group obtained new bank loans of HK$19,103,000 and repaid bank loans of HK$2,930,000. The bank loans are used to finance the operations of the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

12. Operating lease commitments

In June 2001, the Group entered into an arrangement with a third party in the PRC to lease the production facilities for manufacture of cement with a term of twenty years. Under a supplemental agreement with the third party in the PRC, the Group has an option to terminate the said lease once every two years provided that a notice period of three months is given. The Group has no current intention to terminate the lease. Under another supplemental agreement entered into with the third party in the PRC during the period, the third party agreed to reduce the amount of rental charges starting from the beginning of this period.

At 30th June, 2004, the Group had commitments for future minimum lease payments under the above arrangement and other non-cancellable operating leases for premises which fall due as follows:

	At 30th June, 2004 HK$'000 (unaudited)	At 31st December, 2003 HK$'000 (audited)
Not later than one year	**1,680**	4,561
Later than one year and not later than five years	**185**	1,900
Later than five years	**47**	47
	1,912	6,508

13. Commitments

At 30th June, 2004, the Group had the following commitments:

	At 30th June, 2004 HK$'000 (unaudited)	At 31st December, 2003 HK$'000 (audited)
Capital expenditure contracted for but not provided for in the condensed financial statements in respect of:		
Property, plant and equipment	**124,781**	–
Contribution to establish joint venture in which the Group would invest to develop manufacturing facilities in the PRC	**13,022**	37,192

14. Contingent liabilities

	At 30th June, 2004 HK$'000 (unaudited)	At 31st December, 2003 HK$'000 (audited)
Guarantees given to banks and financial institutions in respect of:		
Banking facilities utilised by:		
– Fellow subsidiaries	**75,472**	75,377
– Third parties	**47,170**	28,302
Bills of exchange discounted with recourse	**58,142**	50,061
	180,784	153,740

15. Related party transactions

During the period, the Group has entered into the following related party transactions:

		Six months ended 30th June,	
		2004	2003
		HK$'000	HK$'000
		(unaudited)	(unaudited)
(i)	**Fellow subsidiaries**		
	Management fee	**315**	420
	Guarantee fee income	**373**	281
	Guarantee fee payment	**113**	164
	Sales of ceramic tiles, granite and marble products	**3,113**	–
(ii)	**Minority shareholder**		
	Rental expenses and repairs and maintenance	**2,390**	2,625
(iii)	**Subsidiaries of a company which has significant beneficial interests in the Company's ultimate holding company**		
	Office cleaning charges and repairs and maintenance	**17**	20
	Rental expenses and office management fee for office	**251**	146
	Insurance paid	**99**	–
	Additional air conditioning charges for office	**9**	–

The above transactions were carried out at terms agreed between the related parties.

INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 30th June, 2004 (six months ended 30th June, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th June, 2004, the Group's turnover was HK$199,094,000, representing an increase of 37.3% as compared to the same period of last year. The profit from operations was HK$37,579,000, representing an increase of 16.7% as compared to the corresponding period of last year. The net profit was HK$13,497,000, representing a growth of 2.7% as compared to the same period of last year. Earnings per share amounted to HK1.85 cents, an increase of 2.7%. The increase of profit was mainly attributed to the continued growth of the domestic economy and implementation of cost control measures.

Business Review

The Group is principally engaged in the manufacturing and distribution of cement and the distribution of ceramic tiles and natural stones in Mainland China, its primary market.

Cement Business

Due to the implementation of policies of macro-economic adjustments and control in the PRC in the first half of 2004, the growth pace of demand in the cement market slowed down and a decrease of the price of cement was resulted. Under such circumstances and together with the rising price of raw materials, the Group's gross profit was inevitably affected in spite of its constant technological innovation and reform. During the period, the turnover and profit from operations were HK$188,972,000 and HK$42,445,000 respectively, representing a growth of 37.5% and 17.1% as compared to the same period of last year. The volume of cement and clinker sold reached 691,000 tonnes, representing an increase of 8.0% as compared to the preceding year.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Business Review (cont'd)

Cement Business (cont'd)

In late April 2004, the State adopted a high profile in adjusting the economy, with the cement industry as one of the main targets. The Group has taken adequate action beforehand which enabled its subsidiaries to face the challenges with ease. In the short run, such adjustments and control have negatively affected the industry to a certain extent as it brought about market fluctuations and the fall of selling price. Nevertheless, it is a fact that the cement industry was overdeveloped. In 2003, 98 production lines were newly added nationwide, with the newly-added production capacity at 63.72 million tonnes. The number of projects under construction reached 1,050 and the additional production capacity would amount to over 0.2 billion tonnes. With many unprofessional companies entering into the cement industry and coupled with the fact that some large-scale cement enterprises have overly relied on bank financing which drove up the risks of the banks, over-supply of cement was resulted. After the implementation of policies of macro-economic adjustments and control, many projects under construction came to a halt and various cement enterprises have become more rational in their development. The commencement of the falling of prices of raw materials and fuels and transportation costs would generate positive effects to the cement industry, particularly the professional cement companies like this Group. Macro-economic adjustments and control are conducive to the long term development of the cement industry. Accordingly, the Group is in favour of such policies.

There have been power shortages in 21 provinces and cities since last year which resulted in the suspension of production in some enterprises. Our Shanghai and Shandong cement plants were however unaffected.

Business Review (cont'd)

Shanghai Allied Cement Co., Ltd. ("Shanghai SAC")

The output of Shanghai SAC's clinker and cement of the period amounted to 285,000 tonnes and 444,000 tonnes respectively, representing a decrease of 20.2% and 4.9% as compared to the corresponding period in the preceding year. The volume of clinker and cement sold was 434,000 tonnes, representing a decrease of 6.5% as compared to last year. The profit from operations amounted to HK$31,495,000, representing an increase of 4.2% as compared to the preceding year.

A thorough overhaul and technical reform, including the replacement of coal dust burner pipes and parts of the kiln, undertaken early this year suspended the kiln operation for about a month, causing the output and the costs of the first half of the year to be negatively affected. However, when normal operation of the equipments resumed, the consumption of coal for each tonne of clinker dropped by approximately 10% and the daily output volume of kiln rose 5%. The production lines have become more competitive. The tax reduction and exemption privileges previously enjoyed by Shanghai SAC, being a technological advanced enterprise, expired at the end of 2003. Starting from the beginning of 2004, Shanghai SAC has to pay the profits tax at normal rate according to the State tax regulation.

Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC")

The output of Shandong SAC's clinker and cement of the period amounted to 175,000 tonnes and 220,000 tonnes respectively, representing a decrease of 5.4% and an increase of 25.7% as compared to the same period of last year. The volume of clinker and cement sold reached 257,000 tonnes, representing an increase of 46.0% as compared to the preceding year. The profit from operations was HK$10,950,000, representing a growth of 82.1% as compared to the previous year.

The thorough overhaul and technical reform undertaken in Shandong SAC early this year further enhanced the overall efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Business Review (cont'd)

Shandong Allied Wangchao Cement Ltd. ("Allied Wangchao")

The Group's new Shandong plant Allied Wangchao with a daily clinker production capacity of 2,500 tonnes has been unaffected by the policies of macro economic adjustments and control and is actively under construction according to schedule. It is anticipated that the plant will commence production in late 2004 and would enable the Group to progress towards the target capacity of cement production of 3,000,000 tonnes per annum. That production line is equipped with the most advanced technology and facilities, coupled with its own quarry and pier, and together with the superiority enjoyed by its proximity to a coal mine and source of gypsum while leveraging upon the Group's edges of brand name, marketing and management, the plant would become another important profit centre for the Group after the commencement of operation.

Based on the strategic requirements, the Group will put a stronger emphasis on the sales force in Shandong, the north of Jiangsu and the north of Anhui to avoid the over-concentration of its market distribution in Shanghai and to allow a higher anti-risk capability.

Ceramic Tile and Natural Stone Business

The turnover of the period was HK$10,122,000, representing an increase of 32.4% as compared to the preceding year. The profit from operations was HK$1,554,000, representing a growth of 2.2% as compared to the preceding year. After two years of business development, the Group's products and services provided under the brand name "TRIWA" are well-recognised and supported by our clients. The Group also made a successful move in expanding the sales network of the Group's business by way of the participation in exhibitions and suitable marketing strategies. The product mix continued to expand during the period and the Group has established friendly working relationship with a number of Italian prestigious suppliers. This not only helps to satisfy the needs of various clients, but also increases the profitability.

Business Review (cont'd)

Slag Powder Plant

The Group's slag powder plant with an output of 140,000 tonnes slag powder per annum located in the western suburb of Beijing is under construction according to schedule. It is expected to commence production in the second half of 2004. Slag powder is one of the supplementary materials in the production of high quality concrete, while its cost is lower than its substitute – gelatinous material. Thus, slag powder is very popular among concrete manufacturers. It is expected that the plant will become another profit centre of the Group after its commencement of production.

Financial Review

Liquidity, Financial Resources and Capital Structure

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 healthy balance sheet, with high liquidity and cash reserves of approximately HK$80,689,000, which included approximately HK$5,917,000 of pledged short-term bank deposit. The Group had a current ratio of approximately 1.45 (at 31st December, 2003: 1.99). At 30th June, 2004, the net assets of the Group amounted to HK$323,224,000. The bank borrowings in current liabilities amounted to HK$105,636,000 of which approximately 98% were at fixed rates. The gearing ratio (net bank borrowings over net assets) was 7.7% (at 31st December, 2003: negative 4.7%). The Group closely monitored the borrowings to maintain the gearing ratio at a reasonable level.

Foreign Exchange Fluctuation

Since the Group's operations were mainly located in Mainland China, working capital including bank deposits and borrowings were denominated in Renminbi. Therefore, risks arising from foreign exchange fluctuations have no adverse effect against the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Financial Review (cont'd)

Charges on Assets

At 30th June, 2004, bank deposits of HK$5,917,000 were pledged with banks to secure the Group's bank borrowings. At 31st December, 2003, the amount was HK$5,914,000.

Contingent Liabilities

At 30th June, 2004, guarantees given to bank and financial institution by the Group in respect of facilities utilised by fellow subsidiaries and third parties were HK$75,472,000 (at 31st December, 2003: HK$75,377,000) and HK$47,170,000 (at 31st December, 2003: HK$28,302,000) respectively. The discounted commercial bills amounted to HK$58,142,000 (at 31st December, 2003: HK$50,061,000).

Commitment

At 30th June, 2004, the Group's capital expenditure for the acquisition of property, machinery and equipment contracted but not provided in the financial statements was HK$124,781,000 (at 31st December, 2003: Nil) and the investment for the establishment of joint venture in developing the production facilities in Mainland China was HK$13,022,000 (at 31st December, 2003: HK$37,192,000).

Employees and Remuneration Policies

At 30th June, 2004, the Group including its subsidiaries but excluding its associates, employed 580 employees. The remuneration policies and bonus schemes of the Group are based on the performance of the staff and market conditions.

PROSPECTS

With the policies of macro-economic adjustments and control currently being adopted, the State has exerted stringent control on approval for over-heated projects (including the cement industry) for the avoidance of over-investments. Accordingly, the banks have implemented stricter control over financing for cement manufacturing projects and such control measures included the raising of the equity portion to 35%. These measures, on the one hand, are a fatal blow to those enterprises that lack foresight in their development and that are over-reliant on loan financing to establish their cement production lines, while on the other hand facilitate the healthier development of the cement industry. In the long run, the favorable impacts brought about by the policies of macro-economic adjustments and control to the Group are more than the drawbacks. In addition, although a downward trend of domestic prices for raw materials is expected to be caused by the macro-economic adjustments and control, an approximately 30% increase as compared with 2003 has still been observed. Shanghai SAC has taken special measures to counteract the effects of price increase in raw materials, including the price re-negotiation with long-term suppliers, the enhancement of efforts in sourcing raw material suppliers in low cost regions as well as the improvement in the formula mix of cement. As the Group's new clinker factory being built in Shandong is in a geographical location which has cost advantages, it is expected that after commencement of its operations, the Group's cement production can maintain its competitiveness.

The Group is cautiously optimistic as to the domestic development of the ceramic tile and natural stone business. In diversifying the product mix, the Group will also introduce high-quality products for the purpose of providing wider choices to customers and further expand its levels of sales in order to increase its profitability.

Despite its smooth operations, the Group, similar to a great number of enterprises, has to face many uncertainties, including whether China's economy can achieve a "soft landing", whether the vertical kiln cement plants, which currently account for 70% of the total production volume, will reduce production after the commencement of operations of many new dry process cement plants and whether the global economy can proceed steadily to a recovery. The Group's management considers that it is not appropriate to be either over optimistic or pessimistic, but will face the challenges positively.

PROSPECTS (cont'd)

The management believes that the above integrated development strategy and cost-control measures shall enable the Group to still maintain stable growth under the environment of domestic macro-economic adjustments and the management shall, under the belief of "opportunities in association with risks", be able to lead the Group in embarking upon a new era.

DIRECTORS' INTERESTS

As at 30th June, 2004, the interests of the directors of the Company in the shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

The Company

Name	Nature of interest	Number of underlying shares held pursuant to share options	Percentage of holding
Ng Qing Hai	Personal	4,000,000	0.54%
Ko Sing Ming	Personal	1,500,000	0.21%
Li Chi Kong	Personal	600,000	0.08%

The details of the Directors' interests in the share options of the Company are stated in the section "Share Options" below.

DIRECTORS' INTERESTS (cont'd)

The Company (cont'd)

All the interests stated above represent long positions. As at 30th June 2004, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, none of the directors of the Company nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company or any of its associated corporations, nor had there been any exercise of such rights by any of them.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the six months ended 30th June, 2004:–

				Number of share options		
Name	Date of Grant of share options	Exercisable period	Exercise price per share HK$	outstanding at 1st January, 2004	granted during the period	outstanding at 30th June, 2004
Ng Qing Hai	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	4,000,000	–	4,000,000
Ko Sing Ming	28th July, 2003	28th January, 2004 to 27th July 2013	0.70	1,500,000	–	1,500,000
Li Chi Kong	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	600,000	–	600,000
Hui Yip Wing, David*	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	2,000,000	–	2,000,000
Employees	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	15,600,000	–	15,600,000
				23,700,000	–	23,700,000

* Mr. Hui Yip Wing, David resigned as Chairman and director of the Company effective 20th May, 2004.

No share options were granted, exercised, cancelled or lapsed under the share option scheme of the Company during the period under review.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

At 30th June, 2004, the following persons or corporations had interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:–

Name	**Number of shares**	Notes	**Percentage of holding**
Tian An China Hotel and Property Investments Company Limited ("TACHP")	500,000,000	1, 8	68.54%
Oasis Star Limited ("OSL")	43,485,640	2	5.96%
Tian An Industrial Investments Company Limited ("TAIICL")	43,485,640	2	5.96%
Tian An China Investments Company Limited ("Tian An")	543,485,640	3	74.51%
Sun Hung Kai & Co. Limited ("SHK")	543,485,640	4	74.51%
Allied Properties (H.K.) Limited ("APL")	543,485,640	5	74.51%
Allied Group Limited ("AGL")	543,485,640	6	74.51%
Lee and Lee Trust ("LL Trust")	543,485,640	7	74.51%
Best Advantage Limited ("BAL")	144,000,000	8	19.74%
Ng Siu Chun	144,000,000	8	19.74%
Honest Opportunity Limited ("HOL")	72,858,680	9	9.99%
Classic Fortune Limited ("CFL")	72,858,680	10	9.99%
COL Capital Limited ("COL") (formerly known as China Online (Bermuda) Limited)	72,858,680	11	9.99%

Notes:

1. The figure referred to the aggregate holding of 356,000,000 shares beneficially held by TACHP, a wholly-owned subsidiary of Tian An, and also included the deemed interest in the 144,000,000 shares charged by Mr. Ng Siu Chun ("Mr. Ng") to BAL.

2. The shares held by OSL were held in the capacity of beneficial owner. OSL was a wholly-owned subsidiary of TAIICL which in turn was a wholly-owned subsidiary of Tian An. TAIICL was therefore deemed to have interest in the same 43,485,640 shares held by OSL.

3. The figure referred to the aggregate holding of 43,485,640 shares held by OSL, 356,000,000 shares held by TACHP and also included the deemed interest in the 144,000,000 shares charged by Mr. Ng to BAL.

4. SHK owned approximately 48.17% interest directly and indirectly in the issued share capital of Tian An and was therefore deemed to have interest in the same 543,485,640 shares held by Tian An.

5. Through AP Jade Limited and AP Emerald Limited, direct and indirect wholly-owned subsidiaries of APL respectively, APL owned approximately 74.98% interest in the issued share capital of SHK and was therefore deemed to have the same interest held by SHK.

6. AGL owned approximately 74.62% interest in the issued share capital of APL and was deemed to have the same interest held by APL.

7. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of LL Trust, being a discretionary trust, who together owned approximately 38.62% interest in the issued share capital of AGL. They were therefore deemed to have the same interest held by AGL.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS (cont'd)

8. On 20th December, 2001, Mr. Ng entered into a share charge with BAL, a wholly-owned subsidiary of TACHP whereby Mr. Ng charged his 7,200,000,000 shares (adjusted to 144,000,000 shares for the share consolidation of 50 to 1 with effect from 20th December, 2002) in the Company to BAL to secure the due observance and performance by Mr. Ng of his obligations under a sale and purchase agreement and a supplemental agreement entered among, inter alia, Mr. Ng and BAL.

9. The shares held by HOL were held in the capacity of beneficial owner.

10. CFL owned 100% interest in the issued share capital of HOL and was therefore deemed to have the same interest held by HOL.

11. COL owned 100% interest in the issued share capital of CFL and was therefore deemed to have the same interest held by CFL.

All the interests disclosed above represent long positions. At 30th June, 2004, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2004.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial statements for the six months ended 30th June, 2004. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the HKSA as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company was not for any part of the six months ended 30th June, 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

By Order of the Board
Ng Qing Hai
Chief Executive Officer

Hong Kong, 18th August, 2004

「泰立」牌水泥經典項目
Major projects for "TITAN" cement

上海外高橋造船有限公司
Shanghai Waigaoqiao Shipbuilding Co., Ltd.

上海環球金融中心
Shanghai World Financial Center

上海旗忠國際網球中心
Shanghai Qizhong Forest Sports City Tennis Center

上海陽光綠園
Shanghai Solar Greenery

上海松江大學城
Shanghai Songjiang University Campus