

The Board of Directors of TCC International Holdings Limited (the “Company”) is pleased to announce the condensed consolidated results of the Company and its subsidiaries (the “Group”) for six months ended 30 June 2004, which are unaudited but reviewed by the audit committee of the Company, together with the unaudited comparative figures for the corresponding period in 2003, as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>Six months ended 30 June</b>	
		<b>2004</b>	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	2	<b>159,282</b>	125,169
Cost of sales		<b>(108,672)</b>	(92,178)
Gross profit		<b>50,610</b>	32,991
Other revenue and gains		<b>22,118</b>	8,699
Selling and distribution expenses		<b>(7,224)</b>	(5,592)
General and administrative expenses		<b>(17,206)</b>	(8,488)
Other operating expenses		<b>(19,647)</b>	(2,719)
Profit from operating activities	2, 3	<b>28,651</b>	24,891
Unrealised gain on merger of an investment		<b>75,557</b>	—
Finance costs		<b>(4,469)</b>	(6,377)
Share of profits less losses of associates		<b>429</b>	5,233
Amortisation of goodwill of associates		<b>(1,643)</b>	—
Profit before tax		<b>98,525</b>	23,747
Tax	4		
Group		<b>(1,621)</b>	(2,740)
Associates		<b>(423)</b>	(467)
		<b>(2,044)</b>	(3,207)
Profit before minority interests		<b>96,481</b>	20,540
Minority interests		<b>(7,369)</b>	(473)
Net profit from ordinary activities attributable to shareholders		<b>89,112</b>	20,067
Dividend	5	<b>15,458</b>	—
Earnings per share	6		
— Basic		<b>11.5 cents</b>	2.6 cents
— Diluted		<b>N/A</b>	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June 2004</b>	31 December 2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>445,902</b>	357,668
Goodwill		<b>697</b>	1,774
Rental deposits	7	<b>1,800</b>	1,800
Interests in associates		<b>110,714</b>	113,925
Investment securities		<b>98,311</b>	114,511
		<hr/> <b>657,424</b>	<hr/> 589,678
<b>CURRENT ASSETS</b>			
Inventories		<b>17,116</b>	9,844
Prepayments, deposits and other receivables		<b>14,469</b>	18,048
Trade receivables	8	<b>30,385</b>	44,192
Short term investments		<b>643,244</b>	828,602
Time deposits		<b>111,481</b>	41,191
Cash and bank balances		<b>139,257</b>	47,080
		<hr/> <b>955,952</b>	<hr/> 988,957
<b>CURRENT LIABILITIES</b>			
Short term portion of bank loans	9	<b>471,560</b>	474,081
Trade payables	10	<b>28,560</b>	27,710
Other payables and accrued liabilities		<b>34,771</b>	34,645
Unclaimed dividends		<b>1,125</b>	728
Tax payable		<b>12,308</b>	11,734
		<hr/> <b>548,324</b>	<hr/> 548,898
<b>NET CURRENT ASSETS</b>		<hr/> <b>407,628</b>	<hr/> 440,059

**CONDENSED CONSOLIDATED BALANCE SHEET** (Continued)

		<b>30 June</b>	31 December
		<b>2004</b>	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
<b>TOTAL ASSETS LESS</b>			
<b>CURRENT LIABILITIES</b>		<b>1,065,052</b>	1,029,737
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax		<b>2,910</b>	299
Long term portion of bank loans	9	<b>56,241</b>	107,000
		<b>59,151</b>	107,299
<b>MINORITY INTERESTS</b>			
		<b>85,238</b>	71,681
		<b>920,663</b>	850,757
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>77,292</b>	77,292
Reserves		<b>827,913</b>	754,142
Proposed dividend		<b>15,458</b>	19,323
		<b>920,663</b>	850,757



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital <i>HK\$ '000</i>	Share premium account <i>HK\$ '000</i>	Contributed surplus <i>HK\$ '000</i>	Capital reserve <i>HK\$ '000</i>	Capital redemption reserve <i>HK\$ '000</i>	Property revaluation reserve <i>HK\$ '000</i>	Exchange fluctuation reserve <i>HK\$ '000</i>	Accumulated losses <i>HK\$ '000</i>	Proposed dividend <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 January 2003	77,778	1,123,525	208,263	2,076	3,192	13,810	(21,825)	(612,341)	—	794,478
Exchange realignment on translation of the financial statements of overseas subsidiaries	—	—	—	—	—	—	(244)	—	—	(244)
Net gains and losses not recognised in the profit and loss account	—	—	—	—	—	—	(244)	—	—	(244)
Net profit for the period	—	—	—	—	—	—	—	20,067	—	20,067
Repurchases of shares	(368)	(2,328)	—	—	368	—	—	(368)	—	(2,696)
At 30 June 2003	<u>77,410</u>	<u>1,121,197</u>	<u>208,263</u>	<u>2,076</u>	<u>3,560</u>	<u>13,810</u>	<u>(22,069)</u>	<u>(592,642)</u>	<u>—</u>	<u>811,605</u>
At 1 January 2004	77,292	1,100,703	208,263	2,076	3,678	14,924	(22,682)	(552,820)	19,323	850,757
Exchange realignment on translation of the financial statements of overseas subsidiaries	—	—	—	—	—	—	2,728	—	—	2,728
Movement of deferred tax	—	—	—	—	—	(2,611)	—	—	—	(2,611)
Net gains and losses not recognised in the profit and loss account	—	—	—	—	—	(2,611)	2,728	—	—	117
Net profit for the period	—	—	—	—	—	—	—	89,112	—	89,112
2003 final dividend	—	—	—	—	—	—	—	—	(19,323)	(19,323)
2004 interim dividend proposed	—	(15,458)	—	—	—	—	—	—	15,458	—
At 30 June 2004	<u>77,292</u>	<u>1,085,245</u>	<u>208,263</u>	<u>2,076</u>	<u>3,678</u>	<u>12,313</u>	<u>(19,954)</u>	<u>(463,708)</u>	<u>15,458</u>	<u>920,663</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Net cash inflow from operating activities</b>	<b>50,723</b>	21,180
<b>Net cash inflow/(outflow) from investing activities</b>	<b>169,493</b>	(15,725)
<b>Net cash outflow from financing activities</b>	<b>(57,749)</b>	(15,940)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>162,467</b>	(10,485)
Cash and cash equivalents at beginning of the period	<b>88,271</b>	52,312
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>250,738</b>	41,827
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>139,257</b>	26,801
Time deposits with original maturity of less than three months when placed	<b>111,481</b>	15,026
	<b>250,738</b>	41,827



## **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **1. Accounting policies**

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2003.

## 2. Segment information

### *Business segments*

The following tables present revenue and profit/(loss) for the Group's business segments.

	Import, distribution and handling of cement		Manufacturing and distribution of cement and slag powder		Production and distribution of ready- mixed concrete		Investment holding		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales and services										
to external customers	75,449	95,288	83,833	29,881	—	—	—	—	159,282	125,169
Other revenue	2,486	2,897	93	30	—	—	15,604	4,252	18,183	7,179
Total revenue	77,395	98,185	83,926	29,911	—	—	15,604	4,252	177,465	132,348
Segment results	17,247	24,762	14,424	(1,928)	—	—	(6,955)	537	24,716	23,371
Interest income, dividend income and unallocated gains									3,935	1,520
Profit from operating activities									28,651	24,891
Unrealised gain on merger of an investment									75,557	—
Finance costs									(4,469)	(6,377)
Share of profits less losses of associates	—	—	—	—	429	5,233	—	—	429	5,233
Amortisation of goodwill of associates									(1,643)	—
Profit before tax									98,525	23,747
Tax	(1,549)	(2,740)	—	—	(423)	(467)	(72)	—	(2,044)	(3,207)
Minority interests									(7,369)	(473)
Net profit from ordinary activities attributable to shareholders									89,112	20,067



## 2. Segment information (Continued)

### *Geographical segments*

The following table presents revenue and profit/(loss) for the Group's geographical segments.

	Hong Kong		Mainland China		Philippines		Taiwan		Consolidated	
	Six months		Six months		Six months		Six months		Six months	
	ended 30 June		ended 30 June		ended 30 June		ended 30 June		ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales and services										
to external customers	63,749	83,588	83,833	29,881	11,700	11,700	—	—	159,282	125,169
Other revenue	18,090	6,827	93	30	—	322	—	—	18,183	7,179
Total revenue	<u>81,839</u>	<u>90,415</u>	<u>83,926</u>	<u>29,911</u>	<u>11,700</u>	<u>12,022</u>	<u>—</u>	<u>—</u>	<u>177,465</u>	<u>132,348</u>
Segment results	<u>2,377</u>	<u>17,817</u>	<u>14,424</u>	<u>(1,928)</u>	<u>7,897</u>	<u>7,482</u>	<u>18</u>	<u>—</u>	<u>24,716</u>	<u>23,371</u>

## 3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation	11,347	8,749
Amortisation of goodwill on acquisition of a subsidiary and associates	2,719	2,719
Gain on disposal of short term investments	(2,970)	(30)
Unrealised gain on short term investments	(15,604)	(4,253)
Dividend income from a listed investment	(158)	(110)
Dividend income from an unlisted investment	—	(1,250)
	<u>          </u>	<u>          </u>



**4. Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing law, practices and interpretations in respect thereof.

**5. Dividend**

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interim dividend of HK 2 cents per share (2003: HK\$ nil per share)	<b>15,458</b>	—

**6. Earnings per share**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$89,112,000 (2003: HK\$20,067,000) and the weighted average of 772,922,000 (2003: 776,869,085) shares in issue during the period.

Diluted earnings per share has not been presented as the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for the period.



## 7. Rental deposits

Included in rental deposits were HK\$720,000 (31 December 2003: HK\$720,000) paid to a fellow subsidiary by the Group relating to the leasing of a site on Tsing Yi Island, Hong Kong, and HK\$1,080,000 (31 December 2003: HK\$1,080,000) paid to a related company by the Group in respect of the leasing of a site in Manila, the Philippines (see note 13).

## 8. Trade receivables

Credit is offered to customers following the financial assessment by the management and their established payment record. The Group usually allows an average credit period of 60-90 days to its customers and seeks to maintain strict control over its outstanding trade receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by relevant personnel.

The following is an aging analysis of trade receivables (net of provisions for bad and doubtful debts) based on the invoice date:

	<b>30 June 2004</b>	31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Less than 90 days	<b>26,809</b>	37,527
91 - 180 days	<b>3,483</b>	6,665
181 - 360 days	<b>93</b>	—
	<u><b>30,385</b></u>	<u>44,192</u>

As at 30 June 2004, trade receivables of the Group included a trade balance due from an associate of HK\$13,090,000 (31 December 2003: HK\$20,672,000) which is unsecured, interest-free and repayable in accordance with normal trading terms (see note 13).

**9. Bank loans**

	<b>30 June 2004</b>	31 December 2003
	<b>HK\$'000</b>	HK\$'000
	<i>(Unaudited)</i>	<i>(Audited)</i>
Short term bank loans	<b>302,599</b>	364,081
Long term bank loans repayable:		
Within one year	<b>168,961</b>	110,000
Within two to five years	<b>56,241</b>	107,000
	<u><b>527,801</b></u>	<u>581,081</u>
Portion classified as current liabilities	<u><b>(471,560)</b></u>	<u>(474,081)</u>
Long term portion	<u><b>56,241</b></u>	<u>107,000</u>

Bank loans amounting to HK\$7,477,000 (31 December 2003: HK\$16,823,000) were secured by a pledge of certain of the Group's fixed assets with a net book value of approximately HK\$42,339,000 (31 December 2003: HK\$43,992,000).

**10. Trade payables**

The following is an aging analysis of trade payables based on the respective due dates of the receipts of goods and services:

	<b>30 June 2004</b>	31 December 2003
	<b>HK\$'000</b>	HK\$'000
	<i>(Unaudited)</i>	<i>(Audited)</i>
Less than 90 days	<b>27,384</b>	27,242
91 - 180 days	<b>29</b>	23
Beyond 181 days	<b>1,147</b>	445
	<u><b>28,560</b></u>	<u>27,710</u>

At 30 June 2004, trade payables of the Group included a trade balance due to the ultimate holding company of the Group of HK\$19,556,000 (31 December 2003: HK\$21,121,000) which is unsecured, interest-free and repayable in accordance with normal trading terms (see note 13).



## 11. Contingent liabilities

The Group did not have any significant contingent liabilities as at the balance sheet date (31 December 2003: Nil).

## 12. Capital commitments

	<b>30 June 2004 HK\$'000 (Unaudited)</b>	31 December 2003 HK\$'000 (Audited)
Purchase of fixed assets	<b>26,201</b>	59,113
Construction of buildings and structures	<b>50,355</b>	48,211
Capital contributions payable to subsidiaries incorporated in Mainland China:		
– wholly-owned	—	108,030
– non wholly-owned	<b>18,720</b>	28,080
	<b>95,276</b>	243,434

## 13. Related party transactions

### A. Transactions of a recurring nature

Transactions (i) to (iii) also constituted connected transactions as defined under the Listing Rules:

		<b>Six months ended 30 June</b>	
		<b>2004</b>	2003
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Purchases of cement from the ultimate holding company	(i)	<b>38,800</b>	51,286
Rental expenses paid to a fellow subsidiary	(ii)	<b>2,160</b>	2,400
Rental expenses paid to a related company*	(iii)	<b>1,080</b>	1,620
Sales of cement to an associate	(iv)	<b>28,057</b>	34,275

\* *The related company is an associate of the ultimate holding company.*

**13. Related party transactions** (Continued)

**A. Transactions of a recurring nature** (Continued)

*Notes:*

- (i) The directors consider that purchases of cement from the ultimate holding company were made according to prices and conditions similar to those available to other cement importers in Hong Kong in respect of supplies from the same country of origin.

During the six months ended 30 June 2004, the prices charged by the ultimate holding company in respect of shipments to Hong Kong did not exceed 2.5% over the benchmark price for imports from Taiwan.

The basis of these pricing policies was set out in greater detail in circulars to the shareholders of the Company dated 25 August 1998, 9 July 2001 and 5 December 2003.

The balance due to the ultimate holding company in respect of cement supplies as at 30 June 2004 amounted to HK\$19,556,000 (31 December 2003: HK\$21,121,000) (see note 10).

- (ii) The rental expenses related to a leasehold land in Hong Kong on which an industrial building of the Group is located. The monthly rentals of HK\$360,000 (six months ended 30 June 2003: HK\$400,000) were based on a market rental valuation provided by an independent professional valuer in 2003 (six months ended 30 June 2003: in 2001). A separate market rental valuation is subject to review every two years pursuant to the leasing agreement entered into between the Group and the fellow subsidiary in 1997. The terms of the leasing agreement were also disclosed in the Company's prospectus dated 23 September 1997. The next review will be conducted in September 2005.

A rental deposit of HK\$720,000 (31 December 2003: HK\$720,000) was paid to the fellow subsidiary (see note 7).



### **13. Related party transactions (Continued)**

#### **A. Transactions of a recurring nature (Continued)**

*Notes: (Continued)*

(iii) The rental expenses related to a freehold land in the Philippines on which an industrial building of the Group is located. The monthly rentals of Pesos 1,200,000 (six months ended 30 June 2003: Pesos 1,800,000) were based on a market rental valuation provided by an independent professional valuer in 2003 (six months ended 30 June 2003: in 2001). A separate market rental valuation is subject to review every two years pursuant to the leasing agreement entered into between the Group and the related company in 1997. The terms of the leasing agreement were also disclosed in the Company's prospectus dated 23 September 1997. The next review will be conducted in September 2005.

A rental deposit of Pesos 7,200,000 (equivalent to HK\$1,080,000) (31 December 2003: Pesos 7,200,000, equivalent to HK\$1,080,000) was paid to this related company (see note 7).

(iv) Sales of cement to an associate were made according to prices and conditions offered to other major customers of the Group. The balance due from the associate at 30 June 2004 was HK\$13,090,000 (31 December 2003: HK\$20,672,000) (see note 8).

In respect of (i) the purchases of cement from the ultimate holding company; (ii) rental expenses paid to a fellow subsidiary; and (iii) rental expenses paid to a related company stated above, the Group entered into agreements with the respective parties for a period of 10 years, 30 years and 25 years (renewable for another 25 years), respectively, commencing from the year ended 31 December 1997.

#### **B. Transactions among Group companies**

The Company also granted a corporate guarantee to banks in favour of certain of its subsidiaries in securing banking facilities available to these subsidiaries.

### **14. Approval of the interim financial statements**

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 15 September 2004.

## **INTERIM DIVIDEND**

The Board of Directors recommends the payment an interim dividend of HK 2 cents per share for the six months ended 30 June 2004 to shareholders whose names appear on the Register of Members of the Company on 13 October 2004. Dividend cheques will be sent to shareholders on or before 20 October 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Operations review**

#### *Overall results*

For the six months ended 30 June 2004, the unaudited consolidated turnover and operating profit of the Group grew by 27.3% and 15.1% to HK\$159.3 million and HK\$28.7 million, respectively, from the corresponding period in 2003, mainly due to the high demand of construction materials in Mainland China and their sustained high prices in the period. The Group's net profit attributable to shareholders amount during the period was HK\$89.1 million, a rise of 344.1% from the prior period, largely attributable to the recognition on an unrealised gain of HK\$75.6 million upon the merger of KG Telecommunications Co., Ltd. ("KG Telecom") and Far EasTone Telecommunications Co., Ltd. ("FET").

#### *Hong Kong*

The environment in which the Group's construction materials businesses in Hong Kong operate remained highly challenging during the period under review. Selling prices of cement started to stabilise after the gradual decrease in recent years, but the continued contraction of cement consumption in the market thinned the profit margin of the Group's cement distribution business in Hong Kong. The sluggishness of construction activities in both infrastructure and housing sectors worsened in the period and had caused a significant contraction in the demand for concrete, and consequently ready-mixed concrete businesses carried on by the Group's associates achieved marginal results.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Operations review (Continued)

#### *Mainland China*

Anhui King Bridge Cement Co., Ltd. (“AKB”), the Group’s 60%-owned subsidiary which operates a cement and slag powder grinding plant in Wuhu, took advantage of the boom of the construction industry in the Yangtze River Delta and achieved outstanding results during the period. Sales volume and net profit of this joint venture rose by 48.1% and 89 times, respectively, from the corresponding period last year.

Construction of the Group’s cement grinding plant and related berth facilities in Fuzhou, Fujian Province is approaching completion and commercial production is expected to commence in the fourth quarter of 2004. The cement grinding plant will have an annual production capacity of 1.5 million tonnes, and the related berth can handle vessels with tonnage up to a maximum of 25,000 tonnes.

The Group’s joint venture with Guangxi Liuzhou Steel (Group) Corporation in which the Company’s subsidiary has a 60% equity interest is currently constructing a slag powder grinding mill with an annual production capacity of 700,000 metric tonnes in Liuzhou, Guangxi Province. The construction of the plant is expected to be completed by the second quarter of 2005.

After acquiring the cement manufacturing plant in Yingde, Guangdong Province at the end of December 2003, the Group was able to turn around its results and it contributed positive earnings to the Group for the period. The Group intends to turn this area into a large-scale cement manufacturing base with a production capacity of 4 million metric tonnes to take advantage of convenient access to the Pearl River Delta, where the Directors consider as having a high growth potential. Due to a recent change of approval procedures promulgated by the government regarding cement projects, there has been some delay in obtaining such approval. The Directors anticipate that construction of the base can commence before the end of the year.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Operations review (Continued)

#### *The Philippines*

The Group owns cement distribution facilities in Manila and renders cement handling services. During the period under review, the Philippine operation continued to produce a steady stream of income to the Group.

### Other significant investments held

The completion of the merger of KG Telecom and FET took place in May 2004 and an unrealised gain of approximately HK\$75.6 million, based on the total of cash consideration received and market value of FET shares received (traded over the counter in the GreTai Securities Exchange in Taiwan) from the merger, was recognised in the current period.

Provision for impairment of HK\$16.2 million was made in the period against the Group's long term investments which are engaged in technology-related industries.

As at 30 June 2004, the Group was holding highly liquid short term investments with an aggregate market value of HK\$643.2 million, consisting of shares listed on stock exchanges in Taiwan and Hong Kong and unit trusts. Gain on disposals of and unrealised holding gains on these investments for the period amounted to approximately HK\$3.0 million and HK\$15.6 million, respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects

The stagnancy of construction activities in Hong Kong is expected to continue towards the second half of the year, but selling prices are rebounding. The Directors believe that the Group's cement business in Hong Kong will remain profitable, while the ready-mixed concrete businesses will continue to produce marginal results.

The Group is accelerating its pace of investment expansion in Mainland China. The recent introduction of macroeconomic austerity measures to curb excessive investment in the cement industry should benefit established and sizeable cement producers. As demand for high-quality construction materials is yet to be met, the market in Mainland China seems to be promising.

- The joint venture in Wuhu is expected to continue to be profitable in the second half of the year, taking advantage of the strong demand for slag powder in the Yangtze River Delta.
- The Fuzhou operation will become a major profit contributor to the Group in the coming years owing to the high demand and market prices of cement in Fuzhou and its adjacent areas.
- The continuing increase in demand in construction materials in the Pearl River Delta region in Guangdong Province provides a good target market for the Group's slag powder operation in Liuzhou.
- The government is implementing the policy of eliminating inefficient vertical shaft kilns and replacing them with new dry process kilns, which the Group's Yingde cement base will use. Given that the majority of cement is produced by vertical kilns at present, replacing them, together with the continued prosperity of the Pearl Delta Region, will provide the Group's Yingde base significant room to develop its business.

**MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)**Prospects** (Continued)

When the above-mentioned projects are complete, the Group will have an annual production capacity of approximately 7 million metric tonnes in Mainland China. The Directors are seeking other investment opportunities in the construction materials industry there, and are confident that Group will be able to achieve an aggregate annual production capacity in cement and slag powder of 10 million metric tonnes by 2007.

**Liquidity, financial resources and capital structure**

The Group adopts prudent treasury policies in managing its cash resources and bank borrowings.

Total cash and bank balances of the Group as at 30 June 2004 amounted to HK\$250.7 million, of which 99.9% were denominated in HK\$, US\$ or RMB. Highly liquid short term investments with a market value of HK\$643.2 million as at 30 June 2004 were also held by the Group.

The maturity profile of the Group's bank loans as at 30 June 2004 are as follows:

	<b>30 June 2004</b>	31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount repayable:		
Within one year	<b>471,560</b>	474,081
Within two to five years	<b>56,241</b>	107,000
	<hr/>	<hr/>
Total bank loans	<b>527,801</b>	581,081
	<hr/> <hr/>	<hr/> <hr/>



## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

### **Liquidity, financial resources and capital structure** (Continued)

Out of the bank loans as at 30 June 2004, HK\$490.1 million was denominated in HK\$, HK\$30.2 million in US\$ and HK\$7.5 million in RMB. The loan in RMB was of fixed rate structure and the other bank loans were of floating rate structures.

As at 30 June 2004, loans amounting to HK\$7.5 million were secured by the pledge of certain plant and machinery of a subsidiary. All other bank loans were not secured by any charge against assets of the Group.

The Group's financial position remain strong, with net current assets of HK\$407.6 million as at 30 June 2004 and gearing ratio, calculated based on total bank borrowings and total assets as at 30 June 2004, of 32.7%.

### **Future investment plans**

Details of the Group's future investment plans can be found in the section "Prospects" above.

All financing methods, including equity, debt and other means, will be considered so long as such methods are beneficial to shareholders as a whole.

### **Foreign currency exposures**

The Group utilised various methods to mitigate foreign currency exposures arising from the currency mismatch of transactions undertaken by the Group. To protect the benefits of shareholders, cost-efficient hedging methods will be considered in future foreign currency transactions.

No foreign exchange contracts were outstanding as at 30 June 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Employees

As at 30 June 2004, the Group had 329 full-time employees. Total wages and salaries of the Group for the six months then ended amounted to HK\$10.2 million. Discretionary bonuses, decided by top management, are payable to employees in Hong Kong and senior management of overseas subsidiaries based on performance. In addition, the Company's directors may, at their discretion, invite employees, including directors, of the Company or any of its subsidiaries and associates to take up options to subscribe for shares of the Company. During the period, no share options were granted to any director or employee of the Group. As at 30 June 2004, the number of outstanding options granted to non-director employees was 2,000,000. These options, granted on 11 April 2000, are exercisable within the period from 11 October 2000 to 10 April 2005, both days inclusive, at an exercise price of HK\$1.6504 per share. No share options were exercised by these employees during the period, and no share options granted to these employees lapsed or were cancelled during the period.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”), were as follows:

### Long positions in ordinary shares of the Company

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
KOO Cheng Yun, Leslie	Directly beneficially owned	1,700,000	0.22
WU Yih Chin	Directly beneficially owned	2,000,000	0.26
TSAO Jas Yee, James	Directly beneficially owned	1,220,000	0.16
HUI-BON-HOA			
Khien Piau, Pierre	Directly beneficially owned	5,680,000	0.73
	Through spouse or minor children	4,752,000	0.61
		<u>15,352,000</u>	<u>1.98</u>

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, and employees of the Company and any of its subsidiaries and associates. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 5 October 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**

### **Long positions in ordinary shares of the Company (Continued)**

Subsequent to the adoption of the Scheme on 5 October 1997, the Stock Exchange has introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001, since then no share options have been granted under the Scheme. However, any option to be granted in the future under the Scheme shall be subject to the new rules.

The Company does not intend to amend the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes. However, the Company shall ensure that future grants of share options shall comply with such requirements.

Details of options granted to the directors, supervisors and chief executives of the Company and their associates under the Scheme and outstanding as at 30 June 2004 are as follows:

KOO Cheng Yun, Leslie	<b>7,000,000</b>
WU Yih Chin	<b>4,500,000</b>
TSAO Jas Yee, James	<b>1,000,000</b>
CHIANG Cheng Hsiung	<b>3,000,000</b>
CHEN Chi Hsiung	<b>2,500,000</b>
	<hr/>
	<b>18,000,000</b>
	<hr/> <hr/>

No share options were granted to or exercised by the directors or lapsed for the six months ended 30 June 2004.

The share options were granted on 11 April 2000 and are exercisable within the period from 11 October 2000 to 10 April 2005, both days inclusive, at an exercise price of HK\$1.6504 per share.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

### Long positions in shares and underlying shares of associated corporations

(i) *Taiwan Cement Corporation ("TCC") \**

Name of director	Number of shares held, capacity and nature of interest				Total	Percentage of the associated corporation's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Through		
KOO Cheng Yun, Leslie	22,013,573	84 <i>(Note 1)</i>	9,254,000 <i>(Note 2)</i>		31,267,657	1.23
WU Yih Chin	468,197	—	—		468,197	0.02
CHIANG Cheng Hsiung	518,543	31,203 <i>(Note 1)</i>	—		549,746	0.02
CHEN Chi Hsiung	356,730	1,042	—		357,772	0.01
LIAO Poon Huai, Donald	397,327	638,926 <i>(Note 1)</i>	—		1,036,253	0.04
					33,679,625	1.32

\* *The ultimate holding company of the Company*

*Notes:*

- (1) The shares are held by the respective directors' spouse as the registered and beneficial shareholder.
- (2) KOO Cheng Yun, Leslie, together with his spouse, hold 44% of the issued capital of a company which holds 9,254,000 shares of TCC.



**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES  
AND UNDERLYING SHARES** (Continued)

**Long positions in shares and underlying shares of associated corporations** (Continued)

(ii) *Hong Kong Cement Manufacturing Company Limited* \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
HUI-BON-HOA	Directly beneficially owned	710	1.58
Khien Piau, Pierre	Through spouse or minor children	593	1.32
		<u>1,303</u>	<u>2.90</u>

(iii) *Prosperity Dielectrics Company Limited* \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
KOO Cheng Yun, Leslie	Directly beneficially owned	1,040	—
CHIANG Cheng Hsiung	Directly beneficially owned	23,090	0.02
		<u>24,130</u>	<u>0.02</u>



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

### Long positions in shares and underlying shares of associated corporations (Continued)

(iv) *Taiwan Cement Engineering Corporation* \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
CHIANG Cheng Hsiung	Directly beneficially owned	25,517	0.04

(v) *Ta-Ho Maritime Corporation* \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
CHIANG Cheng Hsiung	Directly beneficially owned	48,988	0.03
	Through spouse or minor children	110,939	0.07
		<u>159,927</u>	<u>0.10</u>
CHEN Chi Hsiung	Directly beneficially owned	17,403	0.01
	Through spouse or minor children	17,403	0.01
		<u>34,806</u>	<u>0.02</u>

\*\* *Subsidiaries of the ultimate holding company of the Company*

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**

### **Long positions in shares and underlying shares of associated corporations (Continued)**

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries of the Group held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code at the balance sheet date.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from the details as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the year 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 minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>	<b>Number of share options held</b>
TCC International Limited	Directly beneficially owned	558,862,000	72.30%	—
TCC*	Through a controlled corporation	558,862,000	72.30%	—

\* *TCC is interested in the shares of the Company by virtue of its beneficial ownership of the entire issued share capital of TCC International Limited.*

All the interests stated above represent long positions.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO at the balance sheet date.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2004.

## **RULE 13.21 OF THE LISTING RULES**

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 19 March 2004 between the Company and a bank relating to a one-year loan facility of HK\$40,000,000 (being a renewed agreement of the loan agreement dated 27 September 2001 as disclosed in the Company's annual report for the year ended 31 December 2003), a termination event would arise if TCC, the Company's ultimate holding company, ceases to own beneficially, directly or indirectly, at least 51% of the shares in the Company's capital.

Pursuant to loan agreements dated 25 April 2002 between the Company and certain banks relating to a three-year term loan facility and a three-year syndicated loan facility of HK\$25,000,000 and HK\$250,000,000, respectively, a termination event would arise if (i) TCC ceases to own legally and beneficially, at least 35% of the shares in the Company's capital or (ii) the Group fails to meet the financial covenants stipulated in the loan facilities.

## **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 during the period covered by this interim report. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company according to the provisions of the Company's articles of association.

## **CODE OF SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the Model Code set out in Appendix 10 to the Listing Rules with effect from 31 March 2004. The Company confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the said code from the date of adoption of the code to 30 June 2004.



## **AUDIT COMMITTEE**

The Company has established an audit committee consisting of three non-executive directors, of which two are independent non-executive directors, in accordance with paragraph 14 of the Code of Best Practice.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed its internal controls and financial reporting matters, including a review of the unaudited interim financial statements of the Group for the six months ended 30 June 2003.

## **ACKNOWLEDGEMENT**

The Directors would like to take this opportunity to express our sincere gratitude to our shareholders for their support and to our staff for their commitment and hard work during the period.

On behalf of the Board  
**Koo Cheng Yun, Leslie**  
*Chairman*

15 September 2004