上海聯合水泥股份有限公司

Shanghai Allied Cement Limited

(Stock Code : 1060)

2007

Interim Report

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 (collectively the "Group") for the six months ended 30th June, 2007 were as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	Notes	Six months ended 30th June, **2007** HK$'000 (unaudited)	2006 HK$'000 (unaudited)
Turnover	3	**191,081**	178,869
Cost of sales		**(174,638)**	(160,831)
Gross profit		**16,443**	18,038
Other income		**13,488**	8,369
Distribution costs		**(4,360)**	(2,908)
Administrative and other expenses		**(15,113)**	(12,489)
Allowance for bad and doubtful debts		**(2,180)**	(457)
Finance costs	4	**(8,284)**	(7,340)
Gain on disposal of subsidiaries		**2,330**	–
Profit before taxation		**2,324**	3,213
Taxation credit (charge)	5	**3,045**	(1,456)
Profit from continuing operations		**5,369**	1,757
Discontinued operation:			
Loss for the period from discontinued operation	6	**–**	(1,149)
Profit for the period	7	**5,369**	608
Attributable to:			
Equity holders of the Company		**1,002**	(1,293)
Minority interests		**4,367**	1,901
		5,369	608
		HK cents	HK cents
Earnings (loss) per share	8		
From continuing and discontinued operations			
– Basic		**0.14**	(0.18)
– Diluted		**0.14**	N/A
From continuing operations			
– Basic		**0.14**	(0.02)
– Diluted		**0.14**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2007

	Notes	At 30th June, 2007 HK$'000 (unaudited)	At 31st December, 2006 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**456,415**	459,809
Prepaid lease payments on land use rights		**15,416**	15,301
Goodwill		**69,479**	69,479
Mining right		**7,210**	7,142
Interest in a jointly controlled entity		**–**	–
Interest in an associate		**–**	–
Club debenture		**–**	330
		548,520	552,061
CURRENT ASSETS			
Properties held for sale		**1,197**	2,252
Prepaid lease payments on land use rights		**395**	387
Inventories		**40,366**	36,593
Trade and other receivables	10	**227,340**	203,369
Deposits and prepayments		**5,131**	4,865
Amounts due from fellow subsidiaries		**–**	1,927
Amount due from a minority shareholder		**835**	–
Pledged short-term bank deposits		**25,314**	24,808
Bank balances and cash		**51,199**	42,192
		351,777	316,393
CURRENT LIABILITIES			
Trade and other payables, and deposits	11	**149,981**	114,571
Amount due to ultimate holding company		**–**	7,937
Amount due to a fellow subsidiary		**–**	9,603
Amount due to a minority shareholder		**–**	4,974
Amounts due to related companies		**3,794**	935
Tax liabilities		**2,224**	1,578
Bank borrowings due within one year	12	**148,358**	136,227
		304,357	275,825
NET CURRENT ASSETS		**47,420**	40,568
TOTAL ASSETS LESS CURRENT LIABILITIES		**595,940**	592,629
CAPITAL AND RESERVES			
Share capital		**182,349**	182,349
Reserves		**124,446**	118,298
Equity attributable to equity holders of the Company		**306,795**	300,647
Minority interests		**180,914**	173,093
TOTAL EQUITY		**487,709**	473,740
NON-CURRENT LIABILITIES			
Amount due to a minority shareholder		**560**	494
Amounts due to fellow subsidiaries		**–**	203
Bank borrowings due after one year	12	**78,500**	86,000
Deferred taxation		**29,171**	32,192
		108,231	118,889
		595,940	592,629

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	Attributable to equity holders of the Company										
	Share capital HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2006	182,349	918	44,203	873	1,799	824	14,108	45,566	290,640	159,822	450,462
Exchange difference arising on translation of foreign operation recognised directly in equity	–	–	–	2,235	–	–	–	–	2,235	1,525	3,760
(Loss) profit for the period	–	–	–	–	–	–	–	(1,293)	(1,293)	1,901	608
Total recognised income and expense for the period	–	–	–	2,235	–	–	–	(1,293)	942	3,426	4,368
Imputed interest adjustment on long term liabilities	–	–	–	–	–	–	407	–	407	–	407
At 30th June, 2006	182,349	918	44,203	3,108	1,799	824	14,515	44,273	291,989	163,248	455,237
At 1st January, 2007	**182,349**	**918**	**44,203**	**10,493**	**1,799**	**824**	**14,108**	**45,953**	**300,647**	**173,093**	**473,740**
Exchange difference arising on translation of foreign operation recognised directly in equity	**–**	**–**	**–**	**5,146**	**–**	**–**	**–**	**–**	**5,146**	**3,454**	**8,600**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,002**	**1,002**	**4,367**	**5,369**
Total recognised income and expense for the period	**–**	**–**	**–**	**5,146**	**–**	**–**	**–**	**1,002**	**6,148**	**7,821**	**13,969**
At 30th June, 2007	**182,349**	**918**	**44,203**	**15,639**	**1,799**	**824**	**14,108**	**46,955**	**306,795**	**180,914**	**487,709**

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition under the reorganisations.

Other reserves comprise reserve fund and enterprise expansion fund of Shanghai Allied Cement Co., Ltd and Shandong Shanghai Allied Cement Co., Ltd and the effect of fair value adjustment at initial recognition of interest-free amount due to ultimate holding company. 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.

The remittance outside the People's Republic of China ("PRC") of retained profits of the subsidiaries established in the PRC is subject to approval of the local authorities and the availability of foreign currencies generated and retained by these subsidiaries.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	Six months ended 30th June,	
	2007	2006
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**15,530**	(27,341)
INVESTING ACTIVITIES		
Increase in pledged bank deposits	**–**	27,819
Other investing cash flows	**1,115**	(3,721)
NET CASH GENERATED FROM INVESTING ACTIVITIES	**1,115**	24,098
FINANCING ACTIVITIES		
New bank loans raised	**69,106**	66,908
Repayments of bank loans	**(66,797)**	(70,412)
Other financing cash flows	**(10,776)**	(8,135)
NET CASH USED IN FINANCING ACTIVITIES	**(8,467)**	(11,639)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,178**	(14,882)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**42,192**	39,084
Effect of foreign exchange rate changes	**829**	(318)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balance and cash	**51,199**	23,884

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

1. BASIS OF PREPARATION

The condensed consolidated 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 with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st March, 2006.
3 Effective for annual periods beginning on or after 1st May, 2006.
4 Effective for annual periods beginning on or after 1st June, 2006.
5 Effective for annual periods beginning on or after 1st November, 2006.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]

1 Effective for annual periods beginning on or after 1st January, 2009.
2 Effective for annual periods beginning on or after 1st March, 2007.
3 Effective for annual periods beginning on or after 1st January, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions – (1) distribution and manufacturing of cement and clinker and (2) distribution and manufacturing of slag powder. The Group's operations are principally located in the PRC. An analysis of the Group's revenue and segment results by business segments is as follows:

Business Segments:

	Continuing operations			Discontinued operation	
	Distribution and manufacturing of cement and clinker	Distribution and manufacturing of slag powder	Total	Distribution of ceramic tiles, granite and marble products	Consolidated
	HK$'000 (unaudited)	HK$'000 (unaudited)	HK$'000 (unaudited)	HK$'000 (unaudited)	HK$'000 (unaudited)
For the six months ended 30th June, 2007					
Segment revenue	**185,506**	**5,575**	**191,081**	**–**	**191,081**
Segment results	**13,887**	**(1,129)**	**12,758**	**–**	**12,758**
Unallocated income			**2,417**	**–**	**2,417**
Unallocated expenses			**(4,567)**	**–**	**(4,567)**
Finance costs			**(8,284)**	**–**	**(8,284)**
Profit before taxation			**2,324**	**–**	**2,324**
Taxation credit			**3,045**	**–**	**3,045**
Profit for the period			**5,369**	**–**	**5,369**
For the six months ended 30th June, 2006					
Segment revenue	171,069	7,800	178,869	1,584	180,453
Segment results	11,857	696	12,553	(1,145)	11,408
Unallocated income			561	2	563
Unallocated expenses			(2,561)	–	(2,561)
Finance costs			(7,340)	–	(7,340)
Profit before taxation			3,213	(1,143)	2,070
Taxation charge			(1,456)	(6)	(1,462)
Profit for the period			1,757	(1,149)	608

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

4. FINANCE COSTS

	Six months ended 30th June, 2007 HK$'000 (unaudited)	2006 HK$'000 (unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	**7,326**	7,327
Obligations under a finance lease	**–**	1
Imputed interest on interest-free amounts due to fellow subsidiaries and a minority shareholder	**958**	12
Total borrowings costs	**8,284**	7,340

5. TAXATION (CREDIT) CHARGE

	Continuing operations Six months ended 30th June, 2007 HK$'000 (unaudited)	2006 HK$'000 (unaudited)	Discontinued operation Six months ended 30th June, 2007 HK$'000 (unaudited)	2006 HK$'000 (unaudited)	Consolidated Six months ended 30th June, 2007 HK$'000 (unaudited)	2006 HK$'000 (unaudited)
Current tax:						
PRC Enterprise Income Tax	**615**	10	**–**	6	**615**	16
Deferred tax:						
Current period	**(1,275)**	1,446	**–**	–	**(1,275)**	1,446
Attributable to change in tax rate	**(2,385)**	–	**–**	–	**(2,385)**	–
	(3,660)	1,446	**–**	–	**(3,660)**	1,446
	(3,045)	1,456	**–**	6	**(3,045)**	1,462

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

5. TAXATION (CREDIT) CHARGE (continued)

The PRC income tax is calculated at the rates applicable to respective subsidiaries. In accordance with the tax legislations applicable to foreign investment enterprises, certain subsidiaries in the PRC are entitled to exemptions from PRC Enterprise Income Tax for the two years commencing from the first profit-making year of operation and thereafter, entitled to a 50% relief from PRC Enterprise Income Tax for the following three years.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 27% to 25% for a subsidiary from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

6. DISCONTINUED OPERATION

On 27th March, 2006, the Group has agreed to dispose of certain subsidiaries, which carried out the Group's distribution of ceramic tiles, granite and marble products. The disposal was completed on 22nd December, 2006, on which date control of those subsidiaries was passed to the acquirer.

The results of the discontinued operation which represented the ceramic tiles, granite and marbles operation for the period were as follows:

	Six months ended 30th June,	
	2007	2006
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Turnover	–	1,584
Cost of sales	–	(1,293)
Other income	–	34
Distribution expenses	–	(463)
Administrative expenses	–	(286)
Allowance for bad and doubtful debts	–	(719)
Loss before taxation	–	(1,143)
Taxation charge	–	(6)
Loss for the period	–	(1,149)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

7. PROFIT FOR THE PERIOD

	Continuing operations Six months ended 30th June,		Discontinued operation Six months ended 30th June,		Consolidated Six months ended 30th June,	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period has been arrived at after charging (crediting):						
Amortisation of mining right (included in administrative and other expenses)	**78**	74	**–**	–	**78**	74
Depreciation of property, plant and equipment	**12,800**	11,821	**–**	47	**12,800**	11,868
Impairment of property, plant and equipment	**938**	–	**–**	–	**938**	–
Release of prepaid lease payments on land use rights	**197**	176	**–**	–	**197**	176
Interest income	**(442)**	(552)	**–**	(2)	**(442)**	(554)
Gain on disposal of trading securities	**(1,244)**	–	**–**	–	**(1,244)**	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

8. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30th June,	
	2007	2006
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings (loss) for the purposes of calculating basic and diluted earnings (loss) per share	**1,002**	(1,293)
Weighted average number of ordinary share for the purpose of basic earnings (loss) per share	**729,395,043**	729,395,043
Effect of dilutive potential ordinary shares: Share options	**751,351**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**730,146,394**	729,395,043

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30th June,	
	2007	2006
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit (loss) for the period attributable to equity holders of the Company	**1,002**	(1,293)
Less: Loss for the period from discontinued operation	**–**	(1,149)
Profit (loss) for the purposes of basic earnings (loss) per share from continuing operations	**1,002**	(144)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

8. EARNINGS (LOSS) PER SHARE (continued)

From discontinued operation

For the six months ended 30th June, 2006, basic loss per share from discontinued operation was 0.16 HK cents per share. The calculation of the basic loss per share was based on the loss for the period from the discontinued operation of HK$1,149,000 attributable to the ordinary equity holders of the Company.

No diluted loss per share was presented for the six months ended 30th June, 2006 because the exercise price of the Company's share options was higher than the average market price of shares.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of HK$1,174,000.

10. 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$216,257,000 (at 31st December, 2006: HK$191,501,000) and their aged analysis is as follows:

	At 30th June, 2007 HK$'000 (unaudited)	At 31st December, 2006 HK$'000 (audited)
0 – 90 days	**140,777**	128,793
91 – 180	**52,423**	26,892
181 – 365 days	**18,921**	16,833
Over 1 year	**4,136**	18,983
	216,257	191,501

As at 30th June, 2007, discounted bills receivable with recourse of approximately of HK$44,888,000 (at 31st December, 2006: HK$15,453,000) was included in trade receivables.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

11. TRADE AND OTHER PAYABLES, AND DEPOSITS

Included in trade and other payables, and deposits are trade payables of approximately HK$84,924,000 (at 31st December, 2006: HK$72,337,000) and their aged analysis is as follows :

	At 30th June, 2007 HK$'000 (unaudited)	At 31st December, 2006 HK$'000 (audited)
0 – 90 days	**50,570**	64,953
91 – 180 days	**28,775**	3,820
181 – 365 days	**3,653**	2,097
Over 1 year	**1,926**	1,467
	84,924	72,337

12. BANK BORROWINGS

During the period, the Group obtained new bank loans of HK$69,106,000 and repaid bank loans of HK$66,797,000. The bank loans raised are used to finance the operations of the Group. Included in new bank borrowings is amount of approximately HK$44,173,000 which represents the proceeds from discounted bills receivable.

13. 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 in June 2003 and at the end of every two years after June 2003. The Group has a commitment up to May 2009 in respect of such agreement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

13. OPERATING LEASE COMMITMENTS (continued)

At 30th June, 2007, the Group had non-cancellable commitments for future minimum lease payments under the above arrangement and other operating leases for premises which fall due as follows:

	At 30th June, 2007 HK$'000 (unaudited)	At 31st December, 2006 HK$'000 (audited)
Not later than one year	**1,813**	1,131
Later than one year and not later than five years	**2,607**	1,360
Later than five years	**169**	76
	4,589	2,567

Operating leases are negotiated and rentals for an average term of two to eight years.

14. DISPOSAL OF SUBSIDIARIES

(1) On 27th April, 2007, the Group entered into a sale and purchase agreement to dispose of its subsidiaries, Year Invest Investments Limited and its subsidiaries, which engaged in property investment, at an aggregate consideration of HK$1,000,000. Details of the net liabilities of these subsidiaries as at the date of disposal were as follows:

	HK$'000
NET LIABILITIES DISPOSED OF	
Trade and other receivables	1,144
Deposits and prepayments	11
Other payables	(1,534)
Net liabilities disposed of	(379)
Gain on disposal	1,379
Total consideration	1,000
Satisfied by:	
Cash consideration	1,000
Net cash inflow arising on disposal:	
Cash consideration	1,000

During the period, the above disposed subsidiaries contributed to the Group's increase in investing cash inflow of HK$1,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

14. DISPOSAL OF SUBSIDIARIES (continued)

(2) On 10th May, 2007, the Group entered into a sale and purchase agreement to dispose of its subsidiary, Max Target Holdings Limited, which engaged in holding of club debenture, at a consideration of HK$800,000. Details of the net liabilities of this subsidiary as at the date of disposal were as follows:

	HK$'000
NET LIABILITIES DISPOSED OF	
Club debenture	330
Trade and other receivables	109
Bank balances and cash	42
Trade and other payables	(632)
Net liabilities disposed of	(151)
Gain on disposal	951
Total consideration	800
Satisfied by:	
Cash consideration	800
Net cash inflow arising on disposal:	
Cash consideration	800
Bank balances and cash disposed of	(42)
	758

During the period, the above disposed subsidiary contributed to the Group's increase in investing cash inflow of HK$758,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

15. RELATED PARTY TRANSACTIONS

(1) On 16th December, 1995, a leasing agreement was entered into between Shanghai Allied Cement Co., Ltd. ("Shanghai SAC"), a subsidiary of the Company and Shanghai Cement Factory ("SCF"), which held a 40% interest in Shanghai SAC. According to the leasing agreement, Shanghai SAC should pay to SCF an annual leasing fee which consisted of (1) a fixed asset leasing fee mainly based on the depreciation of the property, plant and equipment leased under the leasing agreement plus a mark-up of about 10%; and (2) an usage fee mainly based on the volume of raw materials off-load and the applicable unit rate for the relevant raw materials agreed by the parties when the leasing agreement was signed. The underlying assets are also used by SCF. During the period ended 30th June, 2007, Shanghai SAC paid a total fee of HK$2,863,000 to SCF (six months ended 30th June, 2006: HK$2,659,000).

(2) In July 2002, the Company entered into a master agreement with Tian An China Investments Company Limited ("Tian An") for a reciprocal arrangement of guarantee. Accordingly, the Group provides guarantees to secure certain borrowings of subsidiaries of Tian An (the "Tian An Group") in PRC and the Tian An Group provides guarantees to secure certain borrowings of the Group in PRC. A guarantee fee of 1% per annum on the principal amount of the guarantees is chargeable between the relevant parties. At 30th June, 2007, Shanghai SAC provided guarantees of nil (at 30th June, 2006: HK$29,126,000) to secure borrowings of the Tian An Group in the PRC and the Tian An Group provided guarantees of HK$50,062,000 (at 30th June, 2006: HK$32,932,000) to secure borrowings of Shanghai SAC in the PRC. Details of the guarantee fee income and paid are set out in the table below. During the period, two former directors, who resigned as directors of the Company during the period, were also directors of Tian An.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

15. RELATED PARTY TRANSACTIONS (continued)

In addition, the Group has entered into the following related party transactions:

	Six months ended 30th June,	
	2007	2006
	HK$'000	HK$'000
	(unaudited)	(unaudited)
(i) Fellow subsidiaries		
Interest charge	**501**	508
Management fee expenses	**341**	325
Guarantee fee income	**–**	213
Guarantee fee payment	**166**	177
Sales of ceramic tiles, granite and marble products	**–**	1,648
Rental and office expenses	**22**	–
Proceeds on disposal of a subsidiary	**800**	–
(ii) Subsidiaries of a company which has significant beneficial interests in the Company's ultimate holding company		
Insurance paid	**74**	90
Interest charge	**92**	228
Rental expenses, air conditioning charges, repairs and maintenance	**218**	288
(iii) Company which has significant beneficial interests in the Company's ultimate holding company		
Management fee expenses	**495**	468
(iv) Ultimate holding company		
Guarantee fee payment	**478**	120
(v) Key management compensation		
Short-term employee benefits	**988**	938
Post employment benefit	**42**	44

Certain key management personnel of the Group received remuneration from a company, or a wholly-owned subsidiary of such company which has significant beneficial interests in the Company's ultimate holding company. The company as referred to part (iii) above which has significant beneficial interests in the Company's ultimate holding company provided management services to the Group and charged the Group a fee, which has been included in management fee as disclosed above in part (iii) of this note, for services provided by those personnel as well as others who are not key management personnel of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

15. RELATED PARTY TRANSACTIONS (continued)

The above-mentioned management fee commenced to be charged in 2005 and is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. The total of such apportioned amounts, which have been included in the key management personnel compensation above for 2007, is HK$114,000 (2006: HK$181,000).

Following the completion of the placing of the Company's ordinary shares that Tian An Group was beneficially interested to independent investors on 29th June, 2007, Tian An ceased to be the Company's ultimate holding company and Tian An's subsidiaries ceased to be the Company's fellow subsidiaries.

16. EVENTS AFTER THE BALANCE SHEET DATE

(i) On 3rd August, 2007, the Company has obtained a short-term loan of HK$170,000,000 from a third party for working capital purposes.

(ii) As detailed in the Company's announcement dated 14th August, 2007, a wholly-owned subsidiary of the Company has entered into a conditional agreement for sale and purchase ("Conditional Agreement") with independent third parties in relation to the purchase of the entire issued share capital of a company which is engaging in the business of gold mining in the PRC. The consideration under the Conditional Agreement will be settled by both cash and new shares in the Company. The directors consider that it is impractical to disclose the financial impact which cannot be estimated reliably at this stage.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2007 (2006: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30th June, 2007, the Group's turnover increased by 6.8% to HK$191,081,000 (2006: HK$178,869,000). Net profit attributable to shareholders of the Company was HK$1,002,000 compared to a loss of HK$1,293,000 for the same period in the previous year.

Earnings per share (basic) for the six months ended 30th June, 2007 was 0.14 HK cents (2006 Loss per share: 0.18 HK cents) and the net asset value per share as at 30th June, 2007 was HK$0.42 (at 30th June, 2006: HK$0.40).

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and sales of cement and clinker, and slag powder. Its principal market is mainland China.

Cement and Clinker Business

Turnover of the cement business of the Group for the period increased by 8.4% to HK$185,506,000 (2006: HK$171,069,000). However, the sales volume of cement and clinker decreased by 4.5% to 1,030,000 tonnes (2006: 1,078,000 tonnes) mainly due to the raw material grinding reform program undertaken by Shandong Shanghai Allied Cement Co., Ltd ("Shandong SAC") in the first quarter of 2007, during which time the kiln was closed for large-scale restoration and did not reopen until April. Segment profit amounted to HK$13,887,000 (2006: HK$11,857,000), representing an increase of 17.1%.

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

Shanghai SAC's clinker production volume increased by 0.9% to 323,000 tonnes (2006: 320,000 tonnes) while cement production volume decreased by 2.6% to 407,000 tonnes (2006: 418,000 tonnes), compared to the same period last year. Sales of P.O42.5 cement for the period decreased by 20% to 343,000 tonnes. However, sales of P.II52.5 cement achieved a substantial increase of 94.7% to 70,500 tonnes. Such changes in sales mix reflects the expansion of Shanghai SAC's production capacity of high-end cement, with the doubling of the production volume of P.II52.5 cement. Segment profit amounted to HK$8,439,000 (2006: HK$7,183,000).

2. *Shandong SAC*

In view of the continuous increase in the price of cement and clinker, Shandong SAC resumed its raw material grinding by using the same machinery which had been converted for cement grinding during the previous year. Production of clinker started in April and is now in normal operation. The interruption of production caused by the kiln restoration has resulted in the decrease of both the production and sales volume to 59,900 tonnes and 99,000 tonnes respectively. Taking into account the related additional amortisation cost, a segment loss of HK$5,093,000 was recorded, compared with a profit of HK$801,000 achieved last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Cement and Clinker Business (continued)

3. *Shandong Allied Wangchao Cement Limited ("Allied Wangchao")*

The clinker output of Allied Wangchao increased by 11.3% to 472,000 tonnes (2006: 424,000 tonnes). Utilization rate of the kiln exceeded 90%. Segment profit amounted to HK$10,541,000 (2006: HK$3,873,000) representing an increase of 172.2% as compared to the same period last year. Allied Wangchao has become one of the major profit centres of the Group and will continue to utilize its strengths in resources, pier facilities and technology to enhance its competitiveness.

Slag Powder Business

The production output of the slag powder business amounted to 37,600 tonnes (2006: 52,000 tonnes), representing a decrease of 27.7% over the same period last year. Sales volume increased by 15.4% to 60,000 tonnes (2006 : 52,000 tonnes). Segment loss amounted to HK$1,129,000 (2006: Profit of HK$696,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure, daily operations and investments were funded by cash generated from its internal operations and loans from principal bankers. As at 30th June, 2007, the Group maintained reasonable liquidity and had cash reserves of approximately HK$76,513,000 (at 30th June, 2006: HK$40,546,000) including pledged short-term bank deposit of approximately HK$25,314,000 (at 30th June, 2006: HK$16,662,000). The Group had a current ratio of approximately 1.16 (at 30th June, 2006: 1.01). At 30th June, 2007, the net assets of the Group amounted to HK$306,795,000 (at 30th June, 2006: HK$291,989,000). The borrowings in liabilities amounted to HK$226,858,000 (at 30th June, 2006: HK$239,389,000), of which borrowings from a fellow subsidiary and a related company amounted to Nil (at 30th June, 2006: HK$15,000,000) and approximately 50.2% (at 30th June, 2006: 37.2%) of the borrowings were at fixed rates. The gearing ratio (net bank borrowings over net assets) was 49.0% (at 30th June, 2006: 63.0%).

Foreign Exchange Fluctuation

Since the Group's operations were mainly located in mainland China, transactions carried out were primarily denominated in Renminbi. As the fluctuation in exchange rates of Renminbi against Hong Kong dollars was relatively stable, the foreign exchange exposure will have no significant impact to the Group.

Charges on Assets

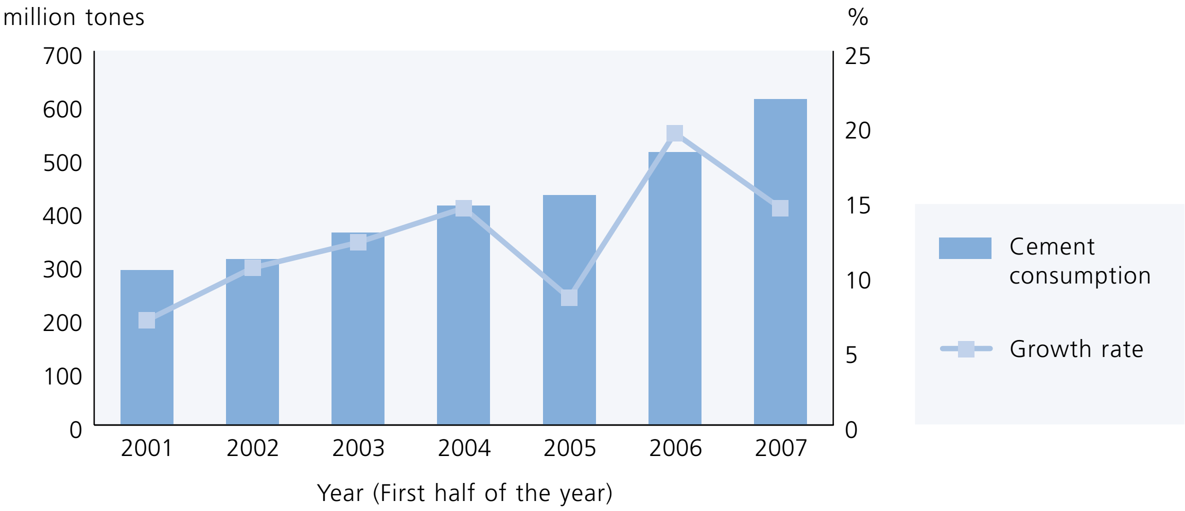
As of 30th June, 2007, short-term bank deposits of HK$24,490,000 (at 30th June, 2006: HK$15,878,000) were pledged to banks and financial institutions as collateral to secure short-term banking facilities in respect of bills payable issued to suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS DEVELOPMENT

China's national production of cement reached 610 million tonnes during the first half of 2007, representing an increase of 13.4% over the previous year. However, the production growth has slowed down by about 7% as compared with 2006.

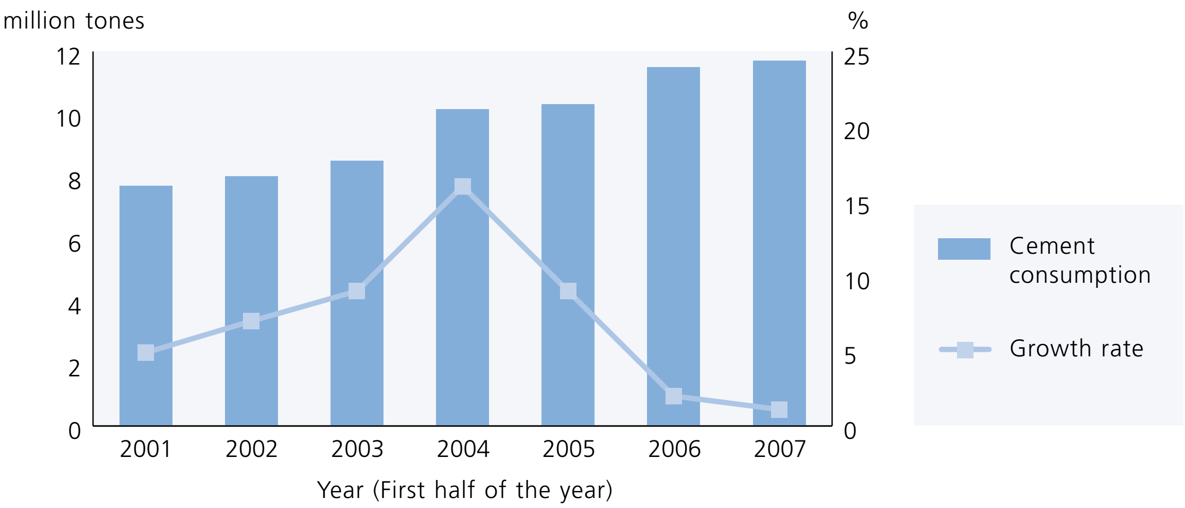
Chart showing national output and growth rate of cement production during the first half of 2001 – 2007



Source: China Building Material News

It is shown in the chart below that cement output rose steadily during the first half of 2007. Please also refer to the chart below for the trend in cement consumption in Shanghai:

Chart showing output and growth rate of cement production in Shanghai during the first half of 2001 – 2007



Source: Shanghai Cement Association

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS DEVELOPMENT (continued)

Cement consumption in Shanghai increased by 0.13 million tonnes or 1.1% from last year to 11.73 million tonnes during the first half of 2007. As shown in the chart above, cement consumption of Shanghai during the first half of the 2007 remained within the four-year range of 10 to 11.8 million tonnes, while its growth has gradually slowed down, reflecting both the stable demand environment and the significant impact of the austerity measures imposed in Shanghai. Any expectation of an upsurge in cement consumption driven by large-scale construction project in Shanghai is now deemed unrealistic.

Compared to China as a whole, the growth in cement production of Shanghai is significantly slower, which tends to reflect the emphasis in investment in fixed assets. During the first half of 2007, fixed assets investment in China increased by 25.9% to RMB5,416.8 billion. Fixed assets investment in Shanghai during the first half of 2007 amounted to RMB192.836 billion, an increase of 9.6% over the corresponding period last year. Investment in fixed assets of Shanghai is underlined by the rapid growth in infrastructure investments, which increased by 33% to RMB60.6 billion during the first half of 2007.

The Group's market expansion in Northern Jiangsu and Southern Shangdong as well as its quality products has enhanced its reputation. The Group is pleased that the "Titan" brand cement and clinker has become the first choice of our customers. The Group also advocates regular communication and cooperation within the cement industry to avoid vicious competition. The cement market of China is substantial but very competitive with low profit margin compared to the more mature markets elsewhere.

The pursuit of economies of scale in production is a strategy commonly adopted in the cement industry in China while research on recycling technology is still at a very preliminary phase. In view of China's emphasis on energy conservation, the Group aims to achieve a leading position in the recycling technology in cement production. Positive results have been achieved in recycling urban wastes and obtaining approval for the reuse of urban mud, with no adverse effect on product quality but with improvement in resource consumption and lower production cost. This recycling technology has significantly improved the value-added component by the cement industry in the overall industrial chain in a metropolitan city. The use of such recycling technology is also welcomed by China Cement Association, Shanghai Cement Association and the relevant State's authorities. The Group will continue its endeavors in "clean and green" production with emphasis on research and development of reduction in energy consumption, wastage discharge and natural resources consumption to achieve better results.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2007, the Group employed 694 employees (at 30th June, 2006: 676). The remuneration policies of the Group are based on the prevailing remuneration level in the market and the performances of respective companies and employees.

RISK MANAGEMENT

The Group periodically updates its risk management system, including customer credit assessment, government policy risk, treasury management, etc to strengthen its risk management.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

The cement industry in China has experienced rapid growth from early 2001 onwards. Many cement companies with annual production capacity of over ten million tonnes have been established across China. 60 of such cement companies have been jointly selected by the State Development and Reform Commission, the Ministry of Land and Resources and People's Bank of China to be under the auspices of the State. This key cement group has now become the pillar of the cement industry of China. Shanghai SAC is part of this key cement group but we still have to face severe challenges and operate in a very competitive market. The major challenge is the excess supply of cement. Although the State has proposed to close down cement companies which employ shaft kiln, an outdated technology, with aggregate production capacity of 250 million tonnes before 2010, it still fails to address the fundamental problem of excess supply. The Group will focus on cash sales with the A-category clients to mitigate the risk.

The continued increases in coal price and electricity tariff pose another challenge to the Group on cost control. The Group has initiated the recycling technology and streamlining programme to respond to such risks. The Group will adhere to the streamlining program initiated in 2006 to boost efficiency and rationalize the organizational structure.

On 26th July, 2007, a wholly-owned subsidiary of the Group has entered into a conditional agreement for sale and purchase (the "Conditional Agreement") with independent third parties in relation to the purchase of the entire issued share capital of a company which is engaging in the business of gold mining in China. The consideration under the Conditional Agreement will be settled by both cash and new shares in the Company. The Group is in the process of preparing an announcement which complies with the requirements under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and will issue such announcement in due course.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 30th June 2007, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to 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 Issuers (the "Model Code") were as follows:–

Long position in the shares of the Company

	Number of ordinary shares of HK$0.25 each					Percentage to the issued
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	share capital
Ms. Chong Sok Un ("Ms. Chong")	–	–	196,858,680 *(Note)*	–	196,858,680	26.99%

Note: As at 30th June 2007, COL Capital Limited ("COL") held 196,858,680 ordinary shares of the Company. Vigor Online Offshore Limited, a wholly-owned subsidiary of China Spirit Limited ("China Spirit") held 38.43% interest in COL. Ms. Chong maintains 100% beneficial interests in China Spirit. Accordingly, Ms. Chong is deemed to have corporate interests in 196,858,680 ordinary shares of the Company.

Save as disclosed above, as at 30th June 2007, none of the directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained 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.

SHARE OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. No share option was granted under the share option scheme of the Company during the six months ended 30th June, 2007, nor there any share option outstanding as at 1st January, 2007 and 30th June, 2007.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30th June, 2007, the following persons had interests or short positions 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 of Shareholders	**Number of shares held**	Notes	**Percentage to the issued share capital**
Tian An China Investments Company Limited ("Tian An")	65,000,000	1	8.91%
Sun Hung Kai & Co. Limited ("SHK")	65,000,000	2	8.91%
Allied Properties (H.K.) Limited ("APL")	65,000,000	3	8.91%
Allied Group Limited ("AGL")	65,000,000	4	8.91%
Lee and Lee Trust ("LL Trust")	65,000,000	5	8.91%
Ng Siu Chun ("Mr. Ng")	65,000,000	6	8.91%
COL Capital Limited ("COL")	196,858,680	7	26.99%
Vigor Online Offshore Limited ("VOOL")	196,858,680	8	26.99%
China Spirit Limited ("CSL")	196,858,680	9	26.99%
Chong Sok Un ("Ms. Chong")	196,858,680	10	26.99%

Notes:

1. The figure referred to the deemed interest in the 65,000,000 shares charged by Mr. Ng to Best Advantage Limited ("BAL"), an indirect wholly-owned subsidiary of Tian An.

2. SHK owned approximately 39.58% interest in the issued share capital of Tian An and was therefore deemed to have an interest in the same 65,000,000 shares held by Tian An.

3. Through AP Jade Limited and AP Emerald Limited, direct and indirect wholly-owned subsidiaries of APL respectively, APL owned approximately 65.16% interest in the issued share capital of SHK and was therefore deemed to have the same interest held by SHK.

4. AGL owned approximately 74.93% interest in the issued share capital of APL and was therefore deemed to have the same interest held by APL.

5. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of the LL Trust, being a discretionary trust. They together owned approximately 42.11% interest in the issued share capital of AGL and were therefore deemed to have the same interest held by AGL.

6. On 20th December, 2001, Mr. Ng entered into a share charge with BAL 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. As at 30th June, 2007, the number of shares charged by Mr Ng to BAL was reduced to 65,000,000 shares.

7. The figure referred to the aggregate holding of 196,858,680 shares beneficially held by Honest Opportunity Limited ("HOL"), an indirect wholly-owned subsidiary of Classic Fortune Limited ("CFL"). CFL was an direct wholly-owned subsidiary of COL; COL was therefore deemed to have the same interest held by HOL.

8. VOOL owned approximately 38.43% interest in the issued share capital of COL and was therefore deemed to have the same interest held by COL.

9. CSL owned 100% interest in the issued share capital of VOOL and was therefore deemed to have the same interest held by VOOL.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS (continued)

Notes: (continued)

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

All the interests disclosed above represent long positions. As at 30th June, 2007, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

CORPORATE GOVERNANCE

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30th June, 2007, the Company has applied the principles of, and complied with, the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

1. Code Provision A.2.1

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual.

The Company does not at present have a Chairman. Mr. Ng Qing Hai, being the President and CEO of the Company, is responsible for running the business of the Group and implementation of the Group's strategy in achieving the overall commercial goals as well as part of the duties of Chairman which constitute a deviation from the code provision A.2.1 of the CG Code.

To comply with this code provision, the Company is considering the appointment of a Chairman of the Board if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group.

2. Code Provisions B.1.3 and C.3.3

Code provisions B.1.3 and C.3.3 stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the remuneration committee (the "Remuneration Committee") adopted by the Company are in compliance with the code provision B.1.3 except that the Remuneration Committee should review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management (as opposed to Directors and senior management under the code provision).

CODE ON CORPORATE GOVERNANCE PRACTICES (continued)

2. Code Provisions B.1.3 and C.3.3 (continued)

The terms of reference of the audit committee (the "Audit Committee") adopted by the Company are in compliance with the code provision C.3.3 except that the Audit Committee (i) should recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has discharged its duty to have an effective internal control system; and (iii) can promote (as opposed to ensure under the code provision) the coordination between the internal and external auditors, and check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.

The reasons for the above deviations are set out in the section "Corporate Governance Report" contained in the Company's annual report for the financial year ended 31st December, 2006. The Board has reviewed the terms during the period under review and considers that the Remuneration Committee and the Audit Committee should continue to operate according to the terms of reference adopted by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management of the Company 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 report for the six months ended 30th June, 2007. 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 HKICPA as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2007.

By Order of the Board
Shanghai Allied Cement Limited
Dato' Wong Peng Chong
Vice President

Hong Kong, 30th August, 2007

As at the date of this report, the Board comprises Mr. Ng Qing Hai (President and Chief Executive Officer), Dato' Wong Peng Chong (Vice-President) and Mr. Kong Muk Yin, being the Executive Directors; Ms. Chong Sok Un, being the Non-Executive Director; and Mr. Chen Ching, Mr. Jin Hui Zhi and Mr. Li Chak Hung being the Independent Non-Executive Directors.