

The directors present their report and the audited financial statements for the period from 1st April, 2001 to 31st December, 2001.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the annual general meeting held on 28th September, 2001, the name of the Company was changed from Interform Ceramics Technologies Limited to Shanghai Allied Cement Limited and the Chinese trade name adopted by the Company was changed from 圓方陶瓷科技有限公司 to 上海聯合水泥股份有限公司.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries, jointly controlled entity and associates are set out in notes 47, 20 and 21 to the financial statements respectively.

RECEIVERSHIP AND FINANCIAL RESTRUCTURING

Against the background of the Group's past liquidity difficulties, on 1st September, 2000, Messrs. Nicolas Timothy Cornforth Hill and Wong Tak Man, Stephen of Nelson Wheeler Corporate Advisory Services Limited (the "Receivers") were appointed as receivers and managers to take care of the assets and businesses of the Group and work with the former directors and management to stabilise the Group's operations. After the Receivers took control of the Group's assets and businesses, the standstill arrangement which had been in force with certain of the Group's bankers, finance lease creditors and holder of convertible note was terminated.

On 19th and 20th December, 2000, the Company entered into conditional agreements with Oasis Star Limited and Tian An China Hotel and Property Investments Company Limited ("TACHP") (the "Restructuring Agreements"), which were related to the financial restructuring of the Group (the "Financial Restructuring"). Both Oasis Star Limited and TACHP are subsidiaries of Tian An China Investments Company Limited ("Tian An"), a company which is incorporated in Hong Kong with limited liability and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Financial Restructuring was completed on 15th May, 2001 when all the relevant conditions of the Restructuring Agreements were fulfilled and completed. The Receivers were released and discharged with effect on the same date. Details of the Financial Restructuring are set out in note 2 to the financial statements.

CHANGE OF FINANCIAL YEAR END DATE

Following the Financial Restructuring, during the period, the Company changed its financial year end date from 31st March to 31st December which is in line with the year end date of its Mainland subsidiary and other investments and its ultimate holding company. The financial statements presented therefore cover the nine months from 1st April, 2001 to 31st December, 2001.

RESULTS

The results of the Group for the period from 1st April, 2001 to 31st December, 2001 are set out in the consolidated income statement on page 24.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 86.

SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATES

Details of the Company's principal subsidiaries, jointly controlled entity and associates as at 31st December, 2001 are set out in notes 47, 20 and 21 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the period are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the period in the share capital and share options of the Company are set out in notes 30 and 31 to the financial statements respectively.

RESERVES

Movements in the reserves of the Group and the Company during the period are set out in note 32 to the financial statements.

BORROWINGS

Bank loans and overdrafts and other borrowings repayable within one year or on demand are classified under current liabilities. Details of long term borrowings are set out in note 28 to the financial statements. No interest was capitalised by the Group during the period.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Directors:

David Hui Yip Wing, <i>Chairman</i>	(appointed on 3rd December, 2001)
Ng Qing Hai, <i>President and Chief Executive Officer</i>	(appointed on 15th May, 2001)
Edwin Lo King Yau	(appointed on 15th May, 2001 and resigned on 3rd December, 2001)
Ko Sing Ming, <i>Vice President</i>	(appointed on 15th May, 2001)
Li Chi Kong	(appointed on 16th January, 2002)
Ngan Man Po	(resigned on 15th May, 2001)
Ngan Man Hay	(resigned on 15th May, 2001)
Chan Sau Kuen	(resigned on 15th May, 2001)
Raymond Yiu Woon Shing	(resigned on 15th May, 2001)

Independent non-executive directors:

Henry Lai Hin Wing	(appointed on 15th May, 2001)
Lo Wai On	(appointed on 15th May, 2001)

In accordance with the provisions of the Company's Bye-laws, Mr. Ko Sing Ming and Mr. Li Chi Kong retire and, being eligible, offer themselves for re-election. The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the provisions of the Company's Bye-laws.

The directors proposed for re-election at the forthcoming annual general meeting do not have any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2001, none of the directors, chief executives and their associates had any interests in the share capital of the Company and its associated corporations, within the meaning of the Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 22nd April, 1994 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 21st April, 2004. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme was terminated on 21st August, 2001 pursuant to a board resolution.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of grant. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 25% of the shares of the Company for which options have been granted.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal amount of the Company's share or 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

SHARE OPTIONS (Cont'd)

The following table discloses movements in the Company's share options during the period:

		Option type	Outstanding at 1.4.2001	Lapsed during the period	Outstanding at 31.12.2001
Directors					
	Ngan Man Hay	October 2004	11,700,000	11,700,000	—
	Chan Sau Kuen	October 2004	2,400,000	2,400,000	—
		December 2004	3,000,000	3,000,000	—
	Raymond Yiu Woon Shing	October 2004	2,400,000	2,400,000	—
Employees		October 2004	9,000,000	9,000,000	—

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
October 2004	25th October, 1994	Nil	25th October, 1994 to 24th October, 2004	0.64
December 2004	19th December, 1994	Nil	19th December, 1994 to 18th December, 2004	0.53

The share options previously granted to the directors under the Scheme lapsed on 15th May, 2001, following their resignations as directors on the same date according to the terms of the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option scheme adopted by Tian An, the Company's ultimate holding company, options have been granted to and accepted by the following directors of the Company to subscribe for shares of Tian An. Details of these directors' personal interests in the options to subscribe for shares of Tian An previously granted at nominal consideration are as follows:

	Number of shares under options				Exercisable period		Exercise price HK\$
	At	Granted during	Exercised/ lapsed during the	At			
	1.4.2001	the period	period	31.12.2001	From	To	
David Hui Yip Wing	20,000,000	—	—	20,000,000	1st September, 2000	31st August, 2002	0.51
Ng Qing Hai	800,000	—	—	800,000	1st September, 2000	31st August, 2002	0.51
Edwin Lo King Yau	14,000,000	—	—	14,000,000	1st September, 2000	31st August, 2002	0.51
Ko Sing Ming	1,200,000	—	—	1,200,000	1st September, 2000	31st August, 2002	0.51

Save as disclosed above and in the section "Share Options", at no time during the period was the Company, any of its holding companies, any of its subsidiaries or any of its fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors, chief executive or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, any of its holding companies, any of its subsidiaries or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance showed that other than the interests as disclosed above in respect of certain directors, chief executives and their associates, the following shareholders had interests of 10% or more of the issued share capital of the Company:

Name	Number of shares	Notes
TACHP	25,000,000,000	1, 8
Tian An	27,174,282,000	1, 2, 8
Sun Hung Kai & Co. Limited ("SHK")	27,174,282,000	2, 3, 8
AP Emerald Limited ("APE")	27,174,282,000	2, 4, 8
Grace Crown Limited ("GCL")	27,174,282,000	2, 5, 8
Allied Properties (H.K.) Limited ("APL")	27,174,282,000	2, 6, 8
Allied Group Limited ("AGL")	27,174,282,000	2, 7, 8
Best Advantage Limited ("BAL")	7,200,000,000	8

Notes:

1. The figure referred to the aggregate holding of 17,800,000,000 shares held by TACHP and also included the deemed interest in the 7,200,000,000 shares charged by Mr. Ng Siu Chun ("Mr Ng") to BAL.
2. The figure referred to the aggregate holding of 2,174,282,000 shares held by Oasis Star Limited, a wholly owned subsidiary of Tian An Industrial Investments Company Limited ("TAIICL"), 17,800,000,000 shares held by TACHP and also included the deemed interest in the 7,200,000,000 shares charged by Mr. Ng to BAL. Both TACHP and TAIICL were wholly owned subsidiaries of Tian An.
3. SHK held a total of 43.27% interest directly and indirectly in Tian An and was therefore deemed to have interest in the shares.
4. APE was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of SHK and was therefore deemed to have interest in the shares.
5. GCL owned 100% interest in the issued share capital of APE and was therefore deemed to have interest in the shares.
6. APL owned 100% interest in the issued share capital of GCL and was therefore deemed to have interest in the shares.
7. AGL was the holding company of APL and was therefore deemed to have interest in the shares.
8. On 20th December, 2001, Mr. Ng has entered into a share charge with BAL, a wholly owned subsidiary of TACHP whereby Mr. Ng charged his 7,200,000,000 shares 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.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2001.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

LITIGATIONS

Pursuant to the completion of the Financial Restructuring, in the opinion of the current directors, the litigations as described in the audited financial statements for the year ended 31st March, 2001 were either settled or discontinued.

CORPORATE GOVERNANCE

The current directors are unable to form an opinion as to whether the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period from 1st April, 2001 to 15th May, 2001.

On 21st August, 2001, the Company established an audit committee with written terms of the reference based on the guidelines set out in "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive directors, namely Henry Lai Hin Wing and Lo Wai On.

Other than aforementioned, the current directors are of the opinion that the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules from 16th May, 2001 to 31st December, 2001.

SPECIAL COMMITTEE

A special committee, comprising executive directors, was set up on 21st August, 2001 by the Company to attend to those outstanding items set out in the auditors' report for the year ended 31st March, 2001 ("Qualified Items").

Although much resources were devoted to attend to the Qualified Items, about a thousand boxes of documents handed over to or retrieved by the Company were found not to be able to address the Qualified Items adequately. As the costs to further pursue the documents are estimated to far outweigh the benefits, the Company would rather concentrate on generating revenue on the existing businesses. However, it is pleased to note that the degree of qualification of the audit opinion for the nine months ended 31st December, 2001 has comparatively reduced.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 70% and the largest customer accounted for approximately 28% of the Group's total turnover for the period.

MAJOR CUSTOMERS AND SUPPLIERS (Cont'd)

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 57% and the largest supplier accounted for approximately 28% of the Group's total purchases for the period.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and five largest suppliers.

CONNECTED TRANSACTIONS

The current directors are unable to form an opinion as to whether there were any connected transactions as defined by the Listing Rules entered by the Group during the period from 1st April, 2001 to 15th May, 2001.

On 13th March 2002, the Company announced that the shareholders of Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") had entered into an agreement to amend the joint venture contract and joint venture articles of Shanghai SAC on 28th December 2001 for the purpose of enhancing efficient management in Shanghai SAC (the "Amendment"). Pursuant to the Amendment, resolutions of the board of directors of Shanghai SAC will be approved by majority affirmative voting of the directors of Shanghai SAC. As the Amendment has recently become effective, Shanghai SAC has become a subsidiary of the Group and a pro-forma consolidated balance sheet of the Company as at 31st December 2001 has been stated in Note 48 to the financial statements.

Certain transactions of the Company or its subsidiaries (including Shanghai SAC) have become connected transactions of the Company and are subject to the disclosure and/or shareholders' approval requirements under the Listing Rules. Details of these connected transactions were set out in the announcement of the Company dated 13th March 2002.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 48 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Ng Qing Hai

Chief Executive Officer

Hong Kong, 21st March 2002