



Highlights

Financial Highlights

- Turnover was HK\$2,002 million, down 17%.
- Profit attributable to shareholders was HK\$72 million, down 72%.
- Basic earnings per share were HK\$0.27, down 72%.
- Interim dividend per share was HK\$0.15, down 75%.

Business Review

- The HKSAR government's recent suspension of sale of Home Ownership Scheme ("HOS") flats for ten months and the capping of annual sales of HOS units at 9,000 thereafter till end of March 2006 has reduced works opportunities for the Group in the already difficult construction market.
- The depressed public housing and private property sectors and the delay in construction of a number of infrastructural projects, coupled with wet weather in this past summer, have adversely affected the sales and profitability of concrete and quarrying operations.
- The site of Phase II of Rui Hong Xin Cheng residential development in Shanghai is being cleared. Construction work will commence in early 2002 and sales will start in the first quarter of 2003.
- TH Cement has become the largest high grade cement producer in Chongqing with an annual capacity of 2.8 million tonnes after acquiring 80% of the Diwei Cement Group. In Guizhou, the Group has acquired four cement operations and is building three new kilns, with combined capacity reaching 1.9 million tonnes of high grade cement by end of 2002. The Group will continue to expand into other strategic locations in Guizhou.

Prospects

- In Hong Kong, the on-going restructuring of the economy has dampened market sentiment. Combined with the government's abrupt changes in housing policy, these have put unprecedented strain on the traditional sources of the Group's profitability.
- The Group has, however, planned well in advance to reposition its business both in Hong Kong and the Chinese Mainland, and has introduced cost saving measures to help bridge the anticipated profit gap.
- The rapidly expanding cement operations in Chongqing and Guizhou as well as property development business in Shanghai are anticipated to start making significant contributions to the Group's profit in two to three years.



Results

The Board of Directors of Shui On Construction and Materials Limited ("the Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2001 as follows:-

Condensed Consolidated Income Statement

	<i>Notes</i>	Six months ended 30 September	
		2001	2000
		(Unaudited)	
		<i>HK\$ million</i>	<i>HK\$ million</i>
Turnover	2	2,002	2,409
Other revenue		31	29
Changes in inventories of finished goods, work in progress, contract work in progress and properties under development for sale		(111)	(48)
Raw materials and consumables used		(241)	(399)
Staff costs		(255)	(274)
Depreciation and amortisation expenses		(33)	(35)
Subcontracting, external labour costs and other operating expenses		(1,299)	(1,388)
Profit from operations	3	94	294
Finance costs		(1)	(1)
Share of results of jointly controlled entities		(3)	14
Profit from ordinary activities before taxation		90	307
Taxation	4	(18)	(50)
Profit before minority interests		72	257
Minority interests		-	(3)
Profit attributable to shareholders		72	254
Dividends	5	40	158
Earnings per share	6		
Basic		HK\$0.27	HK\$0.97
Diluted		HK\$0.27	HK\$0.96
Interim dividend per share		HK\$0.15	HK\$0.60

INTERIM REPORT 2001-2002

Condensed Consolidated Balance Sheet

		As at 30 September 2001 (Unaudited) HK\$ million	As at 31 March 2001 (Restated) HK\$ million
	Notes		
Non-Current Assets			
Investment property		140	140
Property, plant and equipment		257	272
Interests in jointly controlled entities		264	159
Investments in securities	7	193	186
Site establishment expenditure		17	20
		<u>871</u>	<u>777</u>
Current Assets			
Inventories		53	43
Properties held for sale		58	192
Properties under development for sale		351	-
Debtors, retentions and prepayments	8	1,030	3,456
Amounts due from customers for contract work		279	210
Amounts due from jointly controlled entities		254	193
Bank balances, deposits and cash		248	293
		<u>2,273</u>	<u>4,387</u>
Current Liabilities			
Creditors and accrued charges	9	1,135	1,218
Amounts due to customers for contract work		194	174
Amounts due to jointly controlled entities		25	40
Provision for taxation		96	91
Bank borrowings, due within one year		295	2,027
		<u>1,745</u>	<u>3,550</u>
Net Current Assets		<u>528</u>	<u>837</u>
Total Assets Less Current Liabilities		<u>1,399</u>	<u>1,614</u>
Capital and Reserves			
Share capital	10	264	263
Reserves	11	1,077	1,319
		<u>1,341</u>	<u>1,582</u>
Minority Interests		<u>24</u>	<u>28</u>
Non-Current Liabilities			
Bank borrowings, due in 2004		30	-
Deferred taxation		4	4
		<u>34</u>	<u>4</u>
		<u>1,399</u>	<u>1,614</u>

**Condensed Consolidated Statement of Recognised Gains and Losses**

	Six months ended 30 September	
	2001	2000
	(Unaudited)	
	HK\$ million	HK\$ million
Exchange loss arising on translation of overseas operations	(3)	-
Profit attributable to shareholders	72	254
Total recognised gains and losses	69	254
Goodwill arising from additional interests in a subsidiary and a jointly controlled entity	-	(4)
	69	250

Condensed Consolidated Cash Flow Statement

	Six months ended 30 September	
	2001	2000
	(Unaudited)	
	HK\$ million	HK\$ million
Net cash inflow (outflow) from operating activities	2,107	(296)
Net cash outflow from returns on investments and servicing of finance	(315)	(329)
Tax paid	(13)	(13)
Net cash outflow from investing activities	(124)	(285)
Net cash inflow (outflow) before financing	1,655	(923)
Net cash (outflow) inflow from financing	(1,697)	460
Decrease in cash and cash equivalents	(42)	(463)
Cash and cash equivalents at the beginning of the period	293	880
Effect of foreign exchange rate changes	(3)	-
Cash and cash equivalents at the end of the period	248	417
Analysis of the balance of cash and cash equivalents		
Bank balances, deposits and cash	248	417

Notes on the Unaudited Interim Financial Statements

(1) Basis of Preparation and Principal Accounting Policies

These unaudited condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

These condensed interim financial statements should be read in conjunction with the 2000/2001 audited financial statements.

The principal accounting policies and method of computation adopted for preparing these condensed interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants, which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (Revised)	: Events after the balance sheet date
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets

(a) Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised), dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment which increases shareholders' funds at 31 March 2001 and 30 September 2001 by HK\$316 million and HK\$40 million respectively.

(b) Segment reporting

The segment information set out in Note (2) below is based on the requirements of SSAP 26. For management purposes, the Group has determined that business segments and their geographical segments are the basis on which the Group reports its primary and secondary segment information respectively. Segment disclosures for the same period in 2000 have been amended to conform with current period's presentation.

(c) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present obligation as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

(d) Goodwill

In the current period, the Group has adopted SSAP 30 and elected not to restate goodwill/negative goodwill previously eliminated against/credited to reserves. Goodwill/negative goodwill arising on acquisitions prior to 1 April 2001 will continue to be held in reserves and will be charged/credited to income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement.

Goodwill arising on acquisitions on or after 1 April 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Negative goodwill arising on acquisitions on or after 1 April 2001 is presented as a deduction from assets, and will be released to income based on an analysis of the circumstances from which the balance resulted.

(e) Impairment of assets

SSAP 31 has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets and investment properties.

With the exception of SSAP 9 (Revised), the adoption of the above accounting standards has had no material effect on amounts reported in prior years.



(2) Segmental Information

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Six months ended 30 September 2001				Six months ended 30 September 2000			
	HK\$ million				HK\$ million			
	Turnover				Turnover			
	Total revenue	Inter-segment sales	External sales	Segment results	Total revenue	Inter-segment sales	External sales	Segment results
Construction and building maintenance	1,533	-	1,533	66	1,863	(408)	1,455	81
Sale of construction materials	436	(116)	320	24	451	(127)	324	33
Trading of building materials	8	-	8	(18)	-	-	-	(4)
Property development	134	-	134	1	623	-	623	162
Property investment	7	-	7	4	7	-	7	5
	<u>2,118</u>	<u>(116)</u>	<u>2,002</u>	<u>77</u>	<u>2,944</u>	<u>(535)</u>	<u>2,409</u>	<u>277</u>
Interest income				10				17
Other income				7				-
Profit from operations				<u>94</u>				<u>294</u>

An analysis of the Group's turnover and results for the period by geographical segments is as follows:

	Six months ended 30 September 2001			Six months ended 30 September 2000		
	HK\$ million			HK\$ million		
	Hong Kong	Other regions in the PRC	Total	Hong Kong	Other regions in the PRC	Total
Turnover						
External sales	1,939	63	2,002	2,376	33	2,409
Results						
Segment results	79	(2)	77	275	2	277
Interest income			10			17
Other income			7			-
Profit from operations			<u>94</u>			<u>294</u>

(3) Profit from Operations

	Six months ended 30 September	
	2001	2000
	HK\$ million	HK\$ million
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
Owned assets	30	30
Site establishment expenditure	4	5
	<u>34</u>	<u>35</u>
Less: Amount capitalised to construction jobs	(1)	(1)
	<u>33</u>	<u>34</u>
Unrealised holding gain on investment in listed securities	(7)	-
Interest on bank loans and overdrafts	2	56
Less: Amount capitalised to properties under development for sale	(1)	(55)
	<u>1</u>	<u>1</u>

(4) Taxation

	Six months ended 30 September	
	2001	2000
	HK\$ million	HK\$ million
The charge comprises:		
Company and subsidiaries - Hong Kong profits tax	18	48
Jointly controlled entities - Hong Kong profits tax	-	2
	<u>18</u>	<u>50</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the period.

**(5) Dividends**

The Directors have declared an interim dividend of HK\$0.15 (2000: HK\$0.60) per share to shareholders whose names appear on the Company's register of members on Friday, 21 December 2001. The interim dividend will be paid on Wednesday, 9 January 2002.

	Six months ended 30 September	
	2001	2000
	HK\$ million	HK\$ million
Dividend paid during the period		
Final dividend for 2000/2001 at HK\$1.20 (2000: HK\$1.25) per share (see <i>Remark</i>)	316	327
Additional final dividend for shares issued pursuant to exercise of share options	1	1
	<u>317</u>	<u>328</u>
Proposed interim dividend of HK\$0.15 (2000: HK\$0.60) per share	40	158

Remark:

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 March 2001 and 31 March 2000 amounted to HK\$316 million and HK\$327 million respectively. Under the Group's new accounting policy as described in Note (1)(a), these have been written back against retained profits as at 31 March 2001 and are now charged in the period in which they are proposed.

(6) Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 September	
	2001	2000
	HK\$ million	HK\$ million
Earnings for the purposes of basic and diluted earnings per share	<u>72</u>	<u>254</u>
	Million	Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	264	263
Effect of dilutive potential ordinary shares:		
Share options	<u>-</u>	<u>1</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>264</u>	<u>264</u>

(7) Investments in Securities

	As at 30 September 2001	As at 31 March 2001
	HK\$ million	HK\$ million
Other investments		
- equity securities, listed in Hong Kong	174	167
- equity securities, unlisted	19	19
	<u>193</u>	<u>186</u>

(8) Debtors, Retentions and Prepayments

	As at 30 September 2001 <i>HK\$ million</i>	As at 31 March 2001 <i>HK\$ million</i>
Debtors (net of provisions for bad and doubtful debts) with aging analysis		
Current to 90 days	620	3,043
91 to 180 days	12	13
181 to 360 days	12	8
Over 360 days	1	3
	<hr/> 645	<hr/> 3,067
Retentions receivable	180	170
Prepayments, deposits and other receivables	205	219
	<hr/> 1,030	<hr/> 3,456

The Group has a defined credit policy. The general credit term ranged from 30 days to 90 days.

(9) Creditors and Accrued Charges

	As at 30 September 2001 <i>HK\$ million</i>	As at 31 March 2001 <i>HK\$ million</i>
Creditors with aging analysis		
Within 30 days	125	249
31 to 90 days	92	72
91 to 180 days	16	39
Over 180 days	15	8
	<hr/> 248	<hr/> 368
Retentions payable	208	223
Accruals and other payables	679	627
	<hr/> 1,135	<hr/> 1,218

(10) Share Capital

	<i>HK\$ million</i>
(a) Authorised	
400,000,000 ordinary shares of HK\$1 each	<hr/> 400
(b) Issued and fully paid	
Balance at 31 March 2001	263
Share options exercised	<hr/> 1
Balance at 30 September 2001	<hr/> 264



(11) Reserves

□

	Property, plant and equipment revaluation reserve	Share premium account	Translation reserve	Contributed surplus	Goodwill	Retained profits	Reserve funds	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 31 March 2001 as previously reported	36	526	(1)	198	(1)	244	1	1,003
Prior year adjustment for dividends (see Note (5))	-	-	-	-	-	316	-	316
At 31 March 2001 (restated)	36	526	(1)	198	(1)	560	1	1,319
Premium from shares issued	-	6	-	-	-	-	-	6
Exchange adjustment	-	-	(3)	-	-	-	-	(3)
Profit for the period	-	-	-	-	-	72	-	72
Final dividend for 2000/2001	-	-	-	-	-	(317)	-	(317)
At 30 September 2001	36	532	(4)	198	(1)	315	1	1,077

(12) Contingent Liabilities and Pledge of Assets

At the balance sheet date, the Group had contingent liabilities not provided for in these financial statements and assets under pledge as follows:

	As at 30 September 2001 HK\$ million	As at 31 March 2001 HK\$ million
Contingent liabilities		
(a) Performance bonds	185	171
(b) Guarantees in lieu of deposits	1	1
(c) Guarantees to banks in respect of general facilities granted to jointly controlled entities	172	161
Pledge of assets		
Properties under development pledged as securities for a bank loan	-	2,023

(13) Capital Commitment

The Group had no significant capital commitments at the balance sheet date.

(14) Related Party Transactions

- (a) During the period, the Group had the following significant transactions with jointly controlled entities of the Group on terms similar to those applicable to transactions with unrelated parties or as mutually agreed between the parties.

Nature of transactions	Six months ended 30 September	
	2001	2000
	HK\$ million	HK\$ million
Income received:		
Interest income	2	2
Management fee	1	1
Costs and expenses paid:		
Construction/subcontracting work	44	69
Supplies of construction materials	26	89
Interest receivable as at 30 September	2	2

- (b) During the period, the Group had received a contribution from a jointly controlled entity for a rehabilitation project amounting to HK\$4 million. The outstanding balance of this contribution receivable was HK\$4 million as at the balance sheet date.

Reward of Employees

At 30 September 2001, the number of salaried staff of the Group was approximately 1,300 in Hong Kong and 4,100 in subsidiaries and jointly controlled entities in the Chinese Mainland. Staff bonus is distributable based on the performance of the respective companies and the employees concerned. Share options are granted annually by the Board of Directors to senior management staff members as appropriate.

Continuing Disclosure Requirements under Practice Note 19 to the Listing Rules ("PN19")

Disclosure Pursuant to Paragraph 3.3 of PN19 - Financial Assistance and Guarantees to Affiliated Companies

As at 30 September 2001, financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$438 million, representing 27.7% of the Group's restated net assets value of HK\$1,582 million as disclosed in the Company's annual report for the year ended 31 March 2001, details of which were announced pursuant to paragraph 3.3 of PN 19 on 18 October 2001.

Additionally, the Company is required under paragraph 3.10 of PN19 to include in its interim report a proforma combined balance sheet of the affiliated companies which should include significant balance sheet classifications and state the attributable interest of the Company in the affiliated companies. Due to the accounting year end dates of certain affiliated companies being not co-terminous with that of the Company, the Company is of the opinion that it is misleading and not practical to show the proforma combined balance sheet as at 30 September 2001. Pursuant to PN19, the Company has made an application to the Stock Exchange of Hong Kong Limited and obtained a waiver of such disclosure by providing the following statement as an alternative.

As at 30 September 2001, the Group's total exposure on the combined indebtedness reported on by the affiliated companies (including amounts owing to the Group) amounted to approximately HK\$558 million. Such affiliated companies reported no capital commitments and contingent liabilities as at 30 September 2001.



Disclosure Pursuant to Paragraph 3.7.1 of PN19 - Banking Facilities with Covenants Relating to Specific Performance of the Controlling Shareholder

In September 2001, the Company has been granted three 3-year term and revolving loan facilities, each amounting to HK\$200 million and totalling HK\$600 million, which require its ultimate holding company Shui On Company Limited, and the Chairman of the Group Mr. Lo Hong Sui, Vincent and his associates (as defined in the Listing Rules) to retain controlling interests of not less than 50 per cent. in the Company throughout the tenure of the loan agreements. Breach of such obligation will cause default in respect of these loans.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 17 December 2001 to Friday, 21 December 2001, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Friday, 14 December 2001.

Management Discussion and Analysis

Business Review

The Group's turnover for the six months ended 30 September 2001 was HK\$2,002 million, a decrease of 17% compared with the same period in 2000. Unaudited consolidated profit after taxation and minority interests was HK\$72 million, a decrease of 72%.

Construction in Hong Kong

The HKSAR government's recent decision to suspend the sale of Home Ownership Scheme flats for ten months and to cap annual sales of HOS units at 9,000 thereafter till end of March 2006, despite its policy to maintain the production rate for public rental housing units, has immediately and substantially reduced tendering opportunities for your Group in the already difficult construction market. This revised policy has further intensified competition among the major construction companies in Hong Kong and recent tender prices have been in a continuous downward spiral.

The 3,200 units of the Private Sector Participation Scheme project developed by SOCAM in Tseung Kwan O were handed over to purchasers in May 2001. Other projects completed included the public housing contract of Tin Shui Wai Area 106 Phase I with 1,900 units as well as the Architectural Services Department's Castle Peak Hospital Redevelopment Phase II Stage I and the Public Health Laboratory Centre at Nam Cheong Street. Three government maintenance term contracts and a public housing contract for Pak Tin Estate were won in the last six months with total value in excess of HK\$830 million. A number of competitive tenders have been submitted recently and it is anticipated that your Group would be in a good position to be awarded some of these tendered projects. Together with the current 15 on-going jobs, the gross and outstanding workloads of the Construction Division should be maintained at a reasonable level considering the adverse market conditions.

Property Development in the Chinese Mainland

The site of Phase II of Rui Hong Xin Cheng in Shanghai is being cleared. The large-scale residential development recently taken over by your Group consists of a total buildable gross floor area of approximately 1.35 million square metres of residential and commercial premises. Design for Phase II, which comprises a gross area of approximately 237,000 square metres of residential, commercial and car park spaces, is underway while foundation and construction works will commence in early 2002.

Construction Materials in Hong Kong and the Pearl River Delta

Hong Kong experienced one of the wettest summers in its history in 2001. Together with the very depressed public housing sector, private property market and the delay in construction programmes of a number of infrastructural projects, the production, sales and profitability of both the concrete and quarrying operations were adversely affected.

It is likely that concrete consumption in Hong Kong in 2001 will further decline to a level of around 7 million cubic metres, which is the lowest in the last 10 years. Despite adverse market conditions, the order books of both Ken On and the quarrying operations are at reasonable levels and should provide for a stable production for the remainder of the financial year.

The rehabilitation of the Lamma quarry, the site formation contract in Guishan Island and the newly established cement importing and distribution operation taken over from the former Far East Cement are all progressing satisfactorily.

Cement Operations in the Chinese Mainland

TH Cement has successfully acquired 80% of Diwei Cement Group to become the largest cement producer in Chongqing. The combined operation, with an annual production capacity of 2.8 million tonnes, commands more than 70% of the high grade cement market in Chongqing. The completion of the upgrading of two kilns by the Diwei Cement Group in 2002 with an aggregate capacity of around 600,000 tonnes should further consolidate TH Cement's leading position. Management is now focusing on consolidating and streamlining the combined resources, and on strengthening the marketing and distribution networks to ensure that the synergistic benefit of the acquisition can be realised early.

Your Group's strategy to set up a dominant cement operation in Guizhou has gathered momentum in the past nine months. Acquisitions of four cement operations with a total existing capacity of 700,000 tonnes were made in Zunyi, the second largest city in Guizhou, Qiandongnan, the south-eastern autonomous prefecture and Qianxinan in the southern part of the province. Construction works for three new kilns in Zunyi and Qianxinan, each kiln with an annual production capacity of 400,000 tonnes, have commenced. The completion of these kilns as well as additional grinding facilities towards the end of 2002 will bring the total annual capacity of your Group in Guizhou to 1.9 million tonnes and should form an important base for further expansion in other strategic locations in Guizhou Province.



Materials Trading

All the AsiaMaterials Business Centres ("ABCs") in the Chinese Mainland are in full operation, and another ABC will soon be set up in Tokyo.

AsiaMaterials has been supplying construction materials to both industrial and residential projects, aiming to gradually build up an effective supply chain for selected building materials. In addition to creating "Sierra Green™", a new brand of quality compact and environmentally friendly lighting products, AsiaMaterials has succeeded in acquiring the exclusive agency rights for Tivapan wood products from Belgium, Sanibano sanitary wares from Spain, and Kettal S.A. outdoor furniture from Barcelona, just to name a few. More exclusive distributorships and agency rights for other quality brands are under negotiation. At the same time, key customers have started to employ the service of AsiaMaterials for exporting products from the Chinese Mainland to the rest of the world.

Awards and Recognition

The Construction Division continued to win many industry awards in safety and health from the Occupational Safety and Health Council. These included four gold awards and 19 silver, bronze and merit awards at the Safe Working Cycle Forum, as well as the Safety Management System (Construction) Gold Award at the Occupational Safety and Health Enhancement Forum 2001. The Architectural Services Department also presented the Green Contractor Gold Award to three of your Group's projects.

The Group was also awarded the "Best Practice Award 2001 for Value Added Training" by the Best Practice Management Group.

Prospects

With the on-going restructuring of the economy, Hong Kong will still be facing tremendous pressure in the foreseeable future in terms of investor and consumer confidence, competitiveness and availability of new business opportunities. Local market conditions will remain difficult as Hong Kong repositions itself while weathering the deflationary environment of the second recession since 1997. In addition, the government's abrupt housing policy changes and the resultant drastic slowdown in public housing construction have put unprecedented strain on your Group's order book and traditional sources of profitability, following its commendable performance since listing in 1997.

Your Group has however planned well in advance a number of developments and cost saving measures and is confident that the successful implementation of such strategies will bridge the profit gap in the not too distant future. The Construction Division has, for example, increased its effort in enhancing cost competitiveness through vigorous cost reduction exercises at site level, the continual employment of innovative construction techniques and the adoption of on-line procurement and project management through our SOCAM.com system. The Division has also actively put in tenders for new scope of works such as maintenance, and has had some success in widening the source of contracts. These tenders include works of the very substantial programme of the Architectural Services Department to modernize and build a large number of schools, the government's maintenance contracts as well as jobs from the private sector.

Your Group is also one of the first companies from Hong Kong to invest in the central and western provinces of the Chinese Mainland, benefitting from supporting the Central Government's policy to develop this region. The cement business will continue its expansion in Chongqing and Guizhou. Guizhou, in particular, with its substantial investments in infrastructural and energy-related projects, has enjoyed the highest growth rate in fixed asset investment among all provinces in the Chinese Mainland in the first three quarters of 2001. With the anticipated annual capacity of 1.9 million tonnes of high grade cement in Guizhou, the 3.4 million tonnes in the Chongqing area as well as expansion in suitable strategic locations, your Group expects to become one of the leading cement producers in the Chinese Mainland within two years. The cement business should be able to make a significant contribution to SOCAM's profit in the near medium term.

The development of the second phase of Rui Hong Xin Cheng is on schedule and the expected sale of units in early 2003, targetting the growing middle class in Shanghai, should be well received by the rapidly developing Shanghai residential market. This project should be a substantial profit contributor to your Group in the foreseeable future.

Negotiations with financial institutions on project loans for both the cement investment and Rui Hong Xin Cheng are making good progress and are well received by financial institutions. Together with the substantial banking facilities on hand, your Group has ample funds available for its substantial new investments.

The next two years will be very challenging for SOCAM and for many Hong Kong companies. Nonetheless, the repositioning of your Group's businesses is making satisfactory progress and should enable it to take advantage of the various opportunities in the Chinese Mainland to help the transformation of SOCAM's businesses.



Gearing Ratio and Treasury Policies

The Group's gearing ratio, calculated on the basis of net bank borrowings (i.e. total bank borrowings less bank balances, deposits and cash) over shareholders' equity, dropped from 109% at 31 March 2001 to 6% at 30 September 2001, following the repayment of the project loan for the Private Sector Participation Scheme project at Tseung Kwan O Town Lot No. 62 in May 2001.

The Group's treasury policies are to arrange the assets and liabilities so as to reduce appropriately its exposure in exchange and interest rates. At 30 September 2001, the Group's borrowing, revenue and cash balances were mainly in Hong Kong Dollars. The Group did not have any significant commitments and exposure in foreign currencies.

Directors' Interests in Shares

As at 30 September 2001, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register maintained under section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Director	Number of ordinary shares	
	Personal interests	Other interests
Lo Hong Sui, Vincent	-	169,846,000
Wong Ying Wai, Wilfred	-	-
Wong Yuet Leung, Frankie	191,000	-
Choi Yuk Keung, Lawrence	679,000	-
Wong Hak Wood, Louis	520,000	-
Wong Fook Lam, Raymond	-	-
Lowe Hoh Wai Wan, Vivien	176,000	-

Save as disclosed above, as at 30 September 2001, there was no other interest recorded in the register required to be kept under section 29 of the SDI Ordinance.

Note: The 169,846,000 shares are held as to 166,148,000 shares and 3,698,000 shares by the ultimate holding company, Shui On Company Limited ("SOCL") and Shui On Finance Company Limited respectively, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust. The units of the Bosrich Unit Trust are the property of a discretionary trust of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary. Accordingly, Mr. Lo Hong Sui, Vincent is deemed to be interested in such shares.

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As at 30 September 2001, the Directors had personal interests in share options granted under the Company's employee share option scheme as follows:

Name of Director	Number of shares to be subscribed under share options	Date granted	Period during which share options are exercisable	Subscription price per share (HK\$)
Wong Yuet Leung, Frankie	24,000	15 July 1998	15 July 2002 - 14 July 2003	4.14
	200,000	7 July 1999	7 January 2000 - 6 July 2004	11.21
	200,000	4 July 2000	4 January 2001 - 3 July 2005	9.56
	200,000	17 July 2001	17 January 2002 - 16 July 2006	9.30
Choi Yuk Keung, Lawrence	44,000	15 July 1998	15 July 2002 - 14 July 2003	4.14
	280,000	7 July 1999	7 January 2000 - 6 July 2004	11.21
	350,000	4 July 2000	4 January 2001 - 3 July 2005	9.56
	350,000	17 July 2001	17 January 2002 - 16 July 2006	9.30
Wong Hak Wood, Louis	30,000	15 July 1998	15 July 2002 - 14 July 2003	4.14
	250,000	7 July 1999	7 January 2000 - 6 July 2004	11.21
	280,000	4 July 2000	4 January 2001 - 3 July 2005	9.56
	280,000	17 July 2001	17 January 2002 - 16 July 2006	9.30
Wong Fook Lam, Raymond	24,000	15 July 1998	15 July 2002 - 14 July 2003	4.14
	150,000	7 July 1999	7 January 2000 - 6 July 2004	11.21
	160,000	4 July 2000	4 January 2001 - 3 July 2005	9.56
	160,000	17 July 2001	17 January 2002 - 16 July 2006	9.30
Lowe Hoh Wai Wan, Vivien	24,000	15 July 1998	15 July 2002 - 14 July 2003	4.14
	150,000	7 July 1999	7 January 2000 - 6 July 2004	11.21
	160,000	4 July 2000	4 January 2001 - 3 July 2005	9.56
	160,000	17 July 2001	17 January 2002 - 16 July 2006	9.30

Consideration paid for each grant was HK\$1.00.

During the six months ended 30 September 2001, the following Directors had exercised share options to subscribe for shares of the Company.

Name of Director	Number of shares subscribed under share options	Subscription price per share (HK\$)
Wong Yuet Leung, Frankie	80,000	7.50
	24,000	4.14
Choi Yuk Keung, Lawrence	80,000	7.50
	44,000	4.14
Wong Hak Wood, Louis	112,000	7.50
	30,000	4.14
Wong Fook Lam, Raymond	56,000	7.50
	24,000	4.14
Lowe Hoh Wai Wan, Vivien	56,000	7.50
	24,000	4.14

Apart from the above, during the six months ended 30 September 2001, none of the Directors or the chief executive of the Company or their spouses or children under the age of 18 were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations.



Substantial Shareholders

Other than the interests disclosed under the section headed "Directors' Interests in Shares", the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed that there is no person having an interest in ten per cent. or more of the issued share capital of the Company as at 30 September 2001.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2001.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group in the course of review of the interim financial statements, which have not been audited, and discussed auditing, internal control and financial reporting matters.

Code of Best Practice

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 September 2001, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Bye-laws.

Lo Hong Sui, Vincent

Chairman

Hong Kong, November 2001