

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Turnover was HK\$1,180 million, down 41%.
- Loss attributable to shareholders was HK\$17 million, compared with profit of HK\$72 million in the same period last year.
- No interim dividend was proposed.

BUSINESS REVIEW

- The most severe and extended downturn in the Hong Kong property and construction sectors continued within the extremely difficult local economic environment. The new housing policy announced by the government in November is expected to have a stabilizing effect on the property market. But the outcome is likely to be a substantial reduction in works for the Group's construction division.
- Selling prices and demand for concrete continued to fall. However, reduction in gross margin has been partially alleviated by deflation and an extensive cost cutting and plant rationalization exercise.
- Acquisition of Qujiang Cement, a major Sichuan producer with annual production capacity of one million tonnes, was completed in November 2002. This has reinforced the leading position of the TH Group which has now a combined cement production capacity of 4.5 million tonnes per annum and over 80% of the high grade cement market in and around Chongqing.
- Existing cement operations in Guizhou have started to provide a reasonable contribution to the Group. Construction of two new kilns with an annual capacity of 400,000 tonnes each was completed. A preliminary agreement for the acquisition of Guiyang Cement, one of the largest producers in the provincial city, was signed in early December 2002, and will bring the combined production capacity in Guizhou to 2.2 million tonnes per annum.
- The property development project in Shanghai is progressing on schedule. Piling works for the first seven blocks of residential units and the commercial area have been completed. Construction cost was substantially reduced through the assistance of Asia Materials and the experienced Hong Kong project management team seconded to Shanghai.
- The materials trading division has helped clients to achieve savings through its sourcing ability for residential and commercial projects in the Chinese Mainland.

PROSPECTS

- The continuing recession and the change in the Government's housing policy will curtail the Group's activities in Hong Kong.
- The strategic transformation of SOCAM through the development of the cement and the property markets in the Chinese Mainland is progressing well and will enable the Group to have opportunities to capture the vast business opportunities in the Chinese Mainland. Barring unforeseen circumstances, SOCAM should return to profitability in the next financial year.

RESULTS

The Board of Directors of Shui On Construction and Materials Limited ("the Company") announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2002 as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September 2002 (Unaudited) HK\$million	2001 HK\$million
Turnover	2	1,180	2,002
Other revenue		9	31
Changes in inventories of finished goods, work in progress, contract work in progress and properties held for sale		47	(111)
Raw materials and consumables used		(189)	(241)
Staff costs		(181)	(255)
Depreciation and amortisation expenses		(24)	(33)
Subcontracting, external labour costs and other operating expenses		(862)	(1,299)
(Loss) Profit from operations	3	(20)	94
Finance costs		(1)	(1)
Share of results of jointly controlled entities		8	(3)
(Loss) Profit from ordinary activities before taxation		(13)	90
Taxation	4	(4)	(18)
Net (loss) profit after taxation		(17)	72
Dividends	5	—	40
(Loss) Earnings per share	6		
Basic		(HK\$0.07)	HK\$0.27
Diluted		(HK\$0.07)	HK\$0.27
Interim dividend per share		—	HK\$0.15

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2002 (Unaudited) HK\$million	As at 31 March 2002 (Restated) HK\$million
Non-Current Assets			
Investment properties		137	137
Property, plant and equipment		213	238
Properties under development		580	367
Interests in jointly controlled entities		346	338
Investments in securities	7	140	179
Club debenture		1	1
Site establishment expenditure		15	17
		1,432	1,277
Current Assets			
Inventories		43	33
Properties held for sale		56	57
Debtors, retentions and prepayments	8	592	692
Amounts due from customers for contract work		323	266
Amounts due from associates		2	—
Amounts due from jointly controlled entities		471	419
Tax recoverable		12	7
Bank balances, deposits and cash		96	75
		1,595	1,549
Current Liabilities			
Creditors and accrued charges	9	780	944
Amounts due to customers for contract work		158	148
Amounts due to jointly controlled entities		6	23
Amounts due to related companies		1	1
Amounts due to associates		2	—
Bank borrowings – due within one year		31	16
		978	1,132
Net Current Assets		617	417
Total Assets Less Current Liabilities		2,049	1,694

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Notes	As at 30 September 2002 (Unaudited) HK\$million	As at 31 March 2002 (Restated) HK\$million
Capital and Reserves			
Share capital	10	265	264
Reserves	11	992	1,041
		<u>1,257</u>	<u>1,305</u>
Minority Interests		<u>31</u>	<u>27</u>
Non-Current Liabilities			
Bank borrowings		760	360
Deferred taxation		1	2
		<u>761</u>	<u>362</u>
		<u>2,049</u>	<u>1,694</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 September	
	2002 (Unaudited)	2001
	HK\$million	HK\$million
Balance at 1 April (restated)	1,305	1,582
Issue of shares upon exercise of share options	2	7
Exchange differences arising on translation of overseas operations	7	(3)
(Loss) Profit for the period	(17)	72
Equity before dividends paid	1,297	1,658
Dividends	(40)	(317)
Balance at 30 September	<u>1,257</u>	<u>1,341</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2002	2001
	(Unaudited)	
	HK\$million	HK\$million
Net cash (outflow) inflow from operating activities	(168)	2,096
Net cash outflow from investing activities	(198)	(124)
Net cash inflow (outflow) from financing	420	(1,697)
Dividends paid	(40)	(317)
	14	(42)
Increase (Decrease) in cash and cash equivalents	75	293
Cash and cash equivalents at the beginning of the period	7	(3)
Effect of foreign exchange rate changes		
	96	248
Cash and cash equivalents at the end of the period		
Analysis of the balance of cash and cash equivalents	96	248
Bank balances, deposits and cash	96	248

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 2001/2002 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 2002 except that the Group has changed certain of its accounting policies following its adoption of the following new and revised SSAPs issued by the Hong Kong Society of Accountants, which are effective for accounting periods commencing on or after 1 January 2002:

- SSAP 34, Employee benefits
- SSAP 1 (revised), Presentation of financial statements
- SSAP 15 (revised), Cash flow statements
- SSAP 11 (revised), Foreign currency translation

a) *SSAP 34, Employee benefits*

As a result of the first time adoption of SSAP 34 and the transitional provisions prescribed in the Standard, the Group has made the following adjustments to its financial statements for the six months ended 30 September 2002 which are relevant to the Group:

i) Short-term employee benefits – accrued liabilities on unused annual leave

Prior to the issuance of SSAP 34, the Group did not provide for the liabilities in respect of vested annual leave of its staff. SSAP 34 requires that obligations in respect of these entitlements should be accrued as soon as services are rendered. In accordance with this change in accounting policy and pursuant to SSAP 2 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current or prior periods presented), the Group has retrospectively restated the opening balance of the retained profits as at 1 April 2002.

ii) Post-employment benefits – defined benefit plan

The Group is participating in the Shui On Provident and Retirement Scheme ("the Scheme") which is principally a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance ("ORSO").

The latest statutory actuarial valuation to review the funding position of the Scheme was carried out as at 31 August 2000 by an independent firm of actuaries and consultants. This funding valuation conducted under the provisions of ORSO leads to a recommendation of minimum cash contribution required to be made by the Group to the Scheme.

Effective 1 April 2002, the Group also complied with the newly issued SSAP 34 which prescribes the accounting treatments of the costs of the defined benefit schemes in the Group's financial statements. SSAP 34 requires actuarial valuations using prescribed valuation methodology and assumptions. Therefore, a SSAP 34 actuarial valuation as of 1 April 2002 was conducted and the results showed a transitional liability of HK\$9 million as at 1 April 2002.

(1) Basis of Preparation and Principal Accounting Policies (continued)

a) SSAP 34, *Employee benefits* (continued)

ii) Post-employment benefits – defined benefit plan (continued)

The Group has chosen to recognize this transitional liability as a prior year adjustment pursuant to SSAP 2 that governs the treatment for changes in accounting policies. Therefore, the opening balance of the retained profits as at 1 April 2002 was restated by a decrease of HK\$9 million. This transitional liability has been carried in the balance sheet of the Group as net liability in respect of the Scheme.

The actuaries have conducted the SSAP 34 actuarial valuation of the Scheme based on the following principal assumptions as at 1 April 2002 (expressed as an weighted average):

Discount rate	6.25% p.a.
Expected rate of return on the Scheme assets	7.0% p.a.
Future increment of Scheme Salary	1.5% p.a.

If the above SSAP 34 assumptions were applied in the funding actuarial valuation of the Scheme as of 31 August 2002, the Scheme would have a funding deficit of HK\$36 million.

b) *Adoption of SSAP 1 (revised), Presentation of financial statements*

In order to comply with the revised requirements of SSAP 1 (revised), the Group adopts the new statement “Consolidated statement of changes in equity” which replaces the “Consolidated statement of recognised gains and losses” included in previous accounts. The new statement reconciles the movement of key components of shareholders’ funds, including share capital, reserves and retained earnings, from the beginning to the end of a period.

c) *Adoption of SSAP 15 (revised), Cash flow statements*

The format of the consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised).

d) *Adoption of SSAP 11 (revised), Foreign currency translation*

On adoption of SSAP 11 (revised), the profit and loss accounts of subsidiaries and jointly controlled entities denominated in foreign currencies are translated at weighted average exchange rates during the year. In previous years, these were translated at exchange rates ruling at the balance sheet date. The financial effect of such change is immaterial.

(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 2002 HK\$million				Six months ended 30 September 2001 HK\$million			
	Turnover			Segment results	Turnover			Segment results
	Total revenue	Inter-segment sales	External sales		Total revenue	Inter-segment sales	External sales	
Construction and building maintenance								
Sale of construction materials	883	—	883	27	1,533	—	1,533	66
Trading of building materials	376	(105)	271	(11)	436	(116)	320	24
Property development	19	(1)	18	(16)	8	—	8	(18)
Property investment	1	—	1	(1)	134	—	134	1
Total	1,286	(106)	1,180	—	2,118	(116)	2,002	77
Interest income				4				10
Unrealised holding (loss) gain on investments in listed securities				(24)				7
(Loss) Profit from operations				(20)				94

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

	Six months ended 30 September 2002 HK\$million				Six months ended 30 September 2001 HK\$million			
	Other regions in the PRC			Total	Other regions in the PRC			Total
	Hong Kong	Other regions in the PRC	Total		Hong Kong	Other regions in the PRC	Total	
Turnover								
External sales	1,111	69	1,180	1,180	1,939	63	2,002	
Results								
Segment results	8	(8)	—	—	79	(2)	77	
Interest income			4					10
Unrealised holding (loss) gain on investments in listed securities			(24)					7
(Loss) Profit from operations			(20)	(20)				94

(3) (Loss) Profit from Operations

	Six months ended 30 September	
	2002	2001
	HK\$million	HK\$million
(Loss) Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
Owned assets	22	30
Site establishment expenditure	2	4
	24	34
Less: Amount capitalised to construction jobs	—	(1)
	24	33
Unrealised holding loss (gain) on investments in listed securities	24	(7)
Interest on bank loans and overdrafts	6	2
Less: Amount capitalised to properties under development	(5)	(1)
	1	1

(4) Taxation

The tax charge comprises Hong Kong profits tax on the Company and its subsidiaries. Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the period.

(5) Dividends

In view of the net loss for the period, your Board do not recommend the payment of an interim dividend (2001: HK\$0.15 per share) for the six months ended 30 September 2002.

	Six months ended 30 September	
	2002	2001
	HK\$million	HK\$million
Dividend paid during the period		
Final dividend for 2001/2002 at HK\$0.15 (2001: HK\$1.20) per share	40	316
Additional final dividend for shares issued pursuant to exercise of share options	—	1
	40	317
Proposed interim dividend of HK\$Nil (2001: HK\$0.15) per share	—	40

(6) (Loss) Earnings Per Share

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

	Six months ended 30 September	
	2002	2001
	HK\$million	HK\$million
(Loss) Earnings for the purposes of basic and diluted (loss) earnings per share	<u>(17)</u>	<u>72</u>
	Million	Million
Weighted average number of ordinary shares for		
the purposes of basic (loss) earnings per share	265	264
Effect of dilutive potential ordinary shares	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for		
the purposes of diluted (loss) earnings per share	<u>265</u>	<u>264</u>

(7) Investments in Securities

	As at	As at
	30 September	31 March
	2002	2002
	HK\$million	HK\$million
Other investments		
– equity securities, listed in Hong Kong	121	160
– equity securities, unlisted	<u>19</u>	<u>19</u>
	<u>140</u>	<u>179</u>

(8) Debtors, Retentions and Prepayments

	As at 30 September 2002 HK\$million	As at 31 March 2002 HK\$million
Debtors (net of provisions for bad and doubtful debts) with aging analysis		
Current to 90 days	187	324
91 to 180 days	26	13
181 to 360 days	16	10
Over 360 days	3	4
	<hr/> 232	<hr/> 351
Retentions receivable	155	149
Prepayments, deposits and other receivables	205	192
	<hr/> 592	<hr/> 692

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

(9) Creditors and Accrued Charges

	As at 30 September 2002 HK\$million	As at 31 March 2002 HK\$million
Creditors with aging analysis		
Within 30 days	92	169
31 to 90 days	49	45
91 to 180 days	7	10
Over 180 days	5	9
	<hr/> 153	<hr/> 233
Retentions payable	177	195
Accruals and other payables	450	516
	<hr/> 780	<hr/> 944

(10) Share Capital

HK\$million

(a) Authorised

400,000,000 ordinary shares of HK\$1 each 400

(b) Issued and fully paid

Balance at 31 March 2002 264Share options exercised 1Balance at 30 September 2002 265

(11) Reserves

	Property revaluation reserve HK\$million	Share premium account HK\$million	Translation reserve HK\$million	Contributed surplus HK\$million	Goodwill HK\$million	Negative Goodwill HK\$million	Retained profits HK\$million	Reserve funds HK\$million	Total HK\$million
At 31 March 2002 as previously reported	37	532	(7)	198	(3)	1	307	1	1,066
Prior year adjustments for:									
– unused annual leave									
entitlements									
(see Note 1(a)(i))	–	–	–	–	–	–	(16)	–	(16)
– defined benefit plan									
(see Note 1(a)(ii))	–	–	–	–	–	–	(9)	–	(9)
At 31 March 2002 (restated)	37	532	(7)	198	(3)	1	282	1	1,041
Premium from shares issued	–	1	–	–	–	–	–	–	1
Exchange adjustment	–	–	7	–	–	–	–	–	7
Loss for the period	–	–	–	–	–	–	(17)	–	(17)
Final dividend for 2001/2002	–	–	–	–	–	–	(40)	–	(40)
At 30 September 2002	37	533	–	198	(3)	1	225	1	992

(12) Contingent Liabilities

As at 30 September 2002, the Group had contingent liabilities not provided for in these financial statements:

	As at 30 September 2002 HK\$million	As at 31 March 2002 HK\$million
Contingent liabilities		
(a) Performance bonds	161	156
(b) Guarantees to banks in respect of general facilities granted to jointly controlled entities	155	125

Pursuant to an agreement entered into with the Government ("the Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than Rmb 324 million will be granted by the Group to support bank borrowings arranged in name of a company nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 30 September 2002, no amount has been drawn down under this arrangement.

(13) Capital Commitment

- (a) As at 30 September 2002, the Group had commitments in respect of the development costs of property under development contracted but not provided for in the accounts amounting to approximately HK\$69 million (As at 31 March 2002: HK\$225 million).
- (b) As at 30 September 2002, the Group had commitments to fund its jointly controlled entities contracted but not provided for in the accounts amounting to approximately HK\$89 million (As at 31 March 2002: HK\$89 million).
- (c) As at 30 September 2002, the Group's share of capital commitments of its jointly controlled entities are as follows:

	As at 30 September 2002 HK\$million	As at 31 March 2002 HK\$million
Contracted but not provided for	93	137
Authorised but not contracted for	14	116

(14) Related Party Transactions

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	
	2002 HK\$million	2001 HK\$million
Income received:		
Interest income	1	2
Management fee	1	1
Costs and expenses paid:		
Construction/subcontracting work	87	44
Supplies of construction materials	6	26
Interest receivable as at 30 September	—	2

REWARD OF EMPLOYEES

At 30 September 2002, the number of salaried staff of the Group was approximately 1,100 in Hong Kong and 7,700 in subsidiaries and jointly controlled entities in the Chinese Mainland. Employees are rewarded on a performance-related basis.

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 2002, financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$615 million, details of which are as follows:

Effective percentage of interest	Balance as at 30 September 2002				
	Unsecured loan		Guarantee given HK\$million	Total HK\$million	
	Interest free with no fixed repayment terms HK\$million	Interest bearing with no fixed repayment terms HK \$million			
Shui On (Panyu) Stainless Steel & Aluminium Products Company Ltd.	50%	1	–	–	1
Super Race Ltd.	50%	–	–	5	5
Brisfull Ltd.	50%	–	24	–	24
Lamma Yue Jie Company Ltd.	60%	4	–	–	4
Nanjing Jiangnan Cement Co Ltd.	60%	83	–	–	83
Guizhou Zunyi T.H. Cement Co. Ltd.	79%	–	73	–	73
Guizhou Kaili T.H. Cement Co. Ltd.	89%	–	20	–	20
Guizhou Dingxiao T.H. Cement Co. Ltd.	89%	–	48	–	48
Guizhou Xishui T.H. Cement Co. Ltd.	89%	8	–	–	8
TH Industrial Management Ltd.	50%	199	–	150	349
	295	165	155	615	

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 2002. 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 2002, 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\$1,248 million. Such affiliated companies reported capital commitments of HK\$93 million and no contingent liabilities as at 30 September 2002.

DISCLOSURE PURSUANT TO PARAGRAPH 3.7.1 OF PN19 – BANKING FACILITIES WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

The Company has been granted three 3-year term and revolving loan facilities, each amounting to HK\$200 million and totalling HK\$600 million in September 2001 and a 3-year term loan facility of HK\$200 million in January 2002, 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% in the Company throughout the tenure of the loan agreements. Breach of such obligation will cause default in respect of these loans.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Turnover for the Group for the six months ended 30 September 2002 was HK\$1,180 million, a decrease of 41% compared with the same period in 2001. Unaudited consolidated loss after taxation was HK\$17 million.

Construction Division

The most severe and extended downturn in the Hong Kong property and construction sectors continued within the extremely difficult local economic environment. The new housing policy announced by the government in November is expected to have a stabilizing effect on the property market. However, certain provisions of the new policy included the suspension of the Home Ownership Scheme, which had hitherto been a major source of jobs for SOCAM. The outcome is likely to be a substantial reduction in works for the Group's construction division.

In the past six months, the drastic reduction of available public and private sector works has further intensified the already very severe competition, and tender prices at negative margins were not uncommon. Against the background of these difficult market conditions, SOCAM has done well to secure only a small number of projects from the Housing Authority ("HA"), with an aggregate contract value of HK\$190 million. Greater success was experienced with projects from the Architectural Services Department ("ASD") and SOCAM was awarded two new contracts totalling HK\$740 million, including Buildings 7 and 8 of the Science Park in Tai Po. We expect more projects will become available from ASD in the near future, and we are actively preparing for a number of design-and-build tenders.

During the period, three contracts aggregating to HK\$4.9 billion in value and 3,200 units were completed for HA, namely the Po Lam Road Housing Development Phase 5 and Yau Tong Estate Phases 3 and 5. The Departmental Quarters at Hong Ning Road with a value of HK\$690 million were handed over to ASD on schedule.

At 30 November 2002, the gross and outstanding values of construction contracts on hand were HK\$4.8 billion and HK\$3.7 billion respectively, significantly lower than last year (November 2001: HK\$8.1 billion and HK\$4.5 billion respectively).

Construction Materials in Hong Kong and the Pearl River Delta

For the second year running, the demand for ready mixed concrete continued to decline in 2002 with the total annual volume falling below 6.5 million cubic metres in Hong Kong, compared with the peak of more than 11 million cubic metres in 1997. New entrants as well as attempts from a few smaller producers to expand their market share further aggravated the competition, and prices for standard-mix concrete declined sharply to below HK\$300 per cubic metre, a level only seen during the price war in the early 1990s. However, the substantial erosion in gross margin has been partially alleviated by the deflationary trend in Hong Kong and an extensive cost cutting exercise in Ken On, including, *inter alia*, closing down some plants and sharing facilities with other producers. The newly acquired Tsing Yi site, with ample cement and aggregate handling facilities, will allow a further consolidation of various production locations throughout Hong Kong. In Guangzhou, there was an unexpected slow-down in production due to delays in certain projects, but a third plant near Panyu will soon be established to cater for the fast growing market in the southern region of Guangzhou.

The site formation contract in Guishan Island and the other two quarries as well as the cement import and distribution business all operated smoothly. The supply of large rocks for the Lamma Power Station and Hong Kong Disneyland projects helped compensate for the decrease in volume resulting from the lower demand for aggregates from Ken On's much reduced concrete production.

Cement Operations in the Chinese Mainland

The acquisition of all 100% of the share holding in Qujiang Cement, one of the four major cement producers in Sichuan Province, was completed in early November 2002. The one million tonne annual production capacity thus added will provide an important foothold for Chongqing TH Cement to penetrate into the market in central and northern Sichuan. Together with the two existing plants in central and northern Chongqing, Chongqing TH Cement now has a combined annual production capacity of 4.5 million tonnes and accounts for more than 80% of the high grade cement market in and around Chongqing. The process of centralising the marketing and procurement functions will soon be completed, and Chongqing TH Cement is now constructing a number of clinker-grinding mills to enlarge its distribution network and market reach. With Chongqing designated as the leading city in the Central and Western region, and the expected colossal inflow of investments, Chongqing TH is well positioned to capitalise on the vast expansion being planned for the years to come.

TH Cement (Guizhou) Group was renamed Shui On Cement (Guizhou) Group in November. The overall sentiment of the cement market in Guizhou remained buoyant over the past six months. Guizhou continues to rank among provinces with the highest year-on-year increases in central government funding under the “Go West” policy.

Existing operations in Zunyi, the second largest city in Guizhou, and Qiandongnan, the south-eastern autonomous prefecture, have started to provide healthy profit contributions despite the very wet summer. With the large number of infrastructure projects in these areas, production has at times been unable to keep up with demand. The construction of two new dry rotary kilns, each with an annual capacity of 400,000 tonnes, in Zunyi and Qianxinan, the south-western autonomous prefecture, was completed on schedule. Trial runs were satisfactory and normal production is expected to commence in early 2003. Sales prospects for the additional tonnage currently appear promising. In early December 2002, a preliminary agreement for the acquisition of Guiyang Cement, one of the largest producers in the provincial city, was signed which will bring the combined production capacity in Guizhou to 2.2 million tonnes per annum.

Quality Housing Development in the Chinese Mainland

Design submission for the current phase of Rui Hong Xin Cheng, SOCAM's middle-income housing development in Hongkou District in Shanghai, was approved in April. Piling works for Blocks 1 to 7 and the commercial area commenced in May and have been completed. Substantial savings in construction costs have been achieved, partly through the sourcing ability of Asia Materials and partly due to the relevant experience and expertise of the Hong Kong project management team seconded to this project in Shanghai. A syndicated loan of Rmb 780 million for this phase of the development is in place, and construction of the superstructure, with a total gross floor area of more than 90,000 square metres, should be completed by early 2004 as planned.

Materials Trading

Working with selected design houses, Asia Materials is developing innovative home furniture products under its brand “HELIOS”. Strong interest from distributors in the US, Europe and Japan has been registered. Launch of this product line is scheduled for January 2003.

Asia Materials has acted as a materials sourcing agent for residential and commercial projects in the Chinese Mainland, bringing about cost savings to its clients. Its project sales capability will be further expanded to cope with the increasing demand in this market segment. It has also been supplying materials to manufacturers, aiming to build an effective supply chain with key customers.

PROSPECTS

Hong Kong is endeavouring to emerge with a restructured economy from the current recession. However, there has been no sign of abatement in the economic downturn, deflation, unemployment and the lack of investor and consumer confidence. In the short term, the structural budget deficit and the relatively inactive property construction market are unlikely to be reversed. Together with the revamping of the housing policy and the subsequent significant reduction in public housing expenditure, SOCAM's activities in Hong Kong will be substantially curtailed for the foreseeable future with much reduced margins. Vigorous efforts will, however, continue to be made to enlarge our participation in ASD projects and in other construction sectors.

In contrast to the grim outlook in Hong Kong, SOCAM's decision to invest heavily in the cement industry in the central and western provinces of the Chinese Mainland as well as the property market in Shanghai has, as expected, opened up real opportunities for a strategic transformation of the Group that is already in progress. Our total annual production capacity of approximately six million tonnes has now placed SOCAM firmly among the top three cement production groups in the Mainland. The strong foothold now established in Chongqing and Guizhou will pave the way for accelerated acquisitions in the coming two years. SOCAM is also actively examining the feasibility of entering the cement markets in nearby provinces with a view to capitalising on the rapid development of the region.

The useful application of the Group's construction experience and expertise in the development of Rui Hong Xin Cheng in Shanghai has created positive results. The upcoming pre-sale in mid 2003 should be the beginning of a cycle of steady turnover and profit contribution by the Rui Hong Xin Cheng project to the Group. Meanwhile, a preliminary feasibility study is being conducted on the mass housing market in the Chinese Mainland to determine if the strong experience and expertise built up over the years by SOCAM in Hong Kong can be utilised. A sizable potential market could result if the study is positive.

With the encouraging developments in the Chinese Mainland, the Directors of the Group are confident of returning the Group to profitability in the next financial year, barring unforeseen circumstances.

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 total assets, increased from 11% at 31 March 2002 to 23% at 30 September 2002, due to loans drawn down to finance the property development project in Shanghai and the cement investments in the Chinese Mainland.

The Group's treasury policies are to arrange the assets and liabilities so as to reduce appropriately its exposure to fluctuating exchange and interest rates. Bank borrowings have been mainly arranged on a floating rate basis. At 30 September 2002, the Group's borrowing, revenue and cash balances were principally in Hong Kong dollars. Capital commitments in the Chinese Mainland are partly financed by

borrowings from Hong Kong. Given that the exchange rate of the Hong Kong dollar against the Renminbi has been and will likely remain stable, and that income from operations in the Chinese Mainland is denominated in Renminbi, your Group expects that fluctuation in the Renminbi exchange rate will not pose a substantial negative effect to the business performance and the financial status of the Group. Therefore, no hedging against Renminbi exchange risk has been made.

DIRECTORS' INTERESTS IN SHARES

(a) ORDINARY SHARES OF THE COMPANY

As at 30 September 2002, the interests of the Directors and their associates in the share capital of the Company 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	—	170,780,000
Wong Ying Wai, Wilfred	—	—
Wong Yuet Leung, Frankie	—	—
Choi Yuk Keung, Lawrence	679,000	—
Wong Hak Wood, Louis	520,000	—
Wong Fook Lam, Raymond	—	—
Lowe Hoh Wai Wan, Vivien	60,000	—

Save as disclosed above, as at 30 September 2002, there was no other interest recorded in the register required to be kept under section 29 of the SDI Ordinance.

Note: The 170,780,000 shares are held as to 166,148,000 shares and 4,632,000 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.

(b) SHARE OPTIONS OF THE COMPANY

Following the amendments of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange on 1 September 2001, the Employee Share Option Scheme adopted on 20 January 1997 (the "Old Scheme") has been terminated and replaced by a new share option scheme on 27 August 2002 (the "New Scheme"). Since then, no further option can be granted under the Old Scheme. But all options granted prior to such termination shall continue to be valid and exercisable.

Principal terms of the New Scheme are summarised in a Circular dated 30 July 2002.

At 30 September 2002, options to subscribe for 35,898,000 shares within the following exercisable periods were outstanding:

Name or category of Eligible Participants	Date of grant	Subscription price per share HK\$	Number of options					Period during which options outstanding at 30.9.2002 are exercisable	Share price when options were exercised HK\$ (Note b)
			At 1.4.2002	Granted during the period (Note a)	Exercised during the period	Cancelled during the period	Lapsed during the period		
Directors									
Mr. Wong Ying Wai, Wilfred	27.8.2002	6.00	—	200,000	—	—	—	200,000	27.2.2003 to 26.8.2007
Mr. Wong Yuet Leung, Frankie	15.7.1998 7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	4.14 11.21 9.56 9.30 6.00 6.00	24,000 — 200,000 — 160,000 —	— (24,000) — — — 2,000,000*	— — — — — —	— — — — — —	— — — — — —	5,000,000 — 200,000 — 160,000 2,000,000	27.8.2005 to 26.8.2010 — 7.1.2000 to 6.7.2004 4.1.2001 to 3.7.2005 17.1.2002 to 16.7.2006 27.2.2003 to 26.8.2007 27.8.2005 to 26.8.2010
Mr. Choi Yuk Keung, Lawrence	15.7.1998 7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	4.14 11.21 9.56 9.30 6.00 6.00	44,000 280,000 350,000 350,000 280,000 5,000,000*	— — — — — —	— — — — — —	— — — — — —	— — — — — —	44,000 280,000 350,000 350,000 280,000 5,000,000	15.1.1999 to 14.7.2003 7.1.2000 to 6.7.2004 4.1.2001 to 3.7.2005 17.1.2002 to 16.7.2006 27.2.2003 to 26.8.2007 27.8.2005 to 26.8.2010
Mr. Wong Hak Wood, Louis	15.7.1998 7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	4.14 11.21 9.56 9.30 6.00 6.00	30,000 250,000 280,000 280,000 220,000 2,000,000*	— — — — — —	— — — — — —	— — — — — —	— — — — — —	30,000 250,000 280,000 280,000 220,000 2,000,000	15.1.1999 to 14.7.2003 7.1.2000 to 6.7.2004 4.1.2001 to 3.7.2005 17.1.2002 to 16.7.2006 27.2.2003 to 26.8.2007 27.8.2005 to 26.8.2010
Mr. Wong Fook Lam, Raymond	15.7.1998 7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	4.14 11.21 9.56 9.30 6.00 6.00	24,000 150,000 160,000 160,000 110,000 2,000,000*	— — — — — —	— — — — — —	— — — — — —	— — — — — —	24,000 150,000 160,000 160,000 110,000 2,000,000	15.1.1999 to 14.7.2003 7.1.2000 to 6.7.2004 4.1.2001 to 3.7.2005 17.1.2002 to 16.7.2006 27.2.2003 to 26.8.2007 27.8.2005 to 26.8.2010
Mrs. Lowe Hoh Wai Wan, Vivien	15.7.1998 7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	4.14 11.21 9.56 9.30 6.00 6.00	24,000 150,000 160,000 160,000 110,000 2,000,000*	— — — — — —	— — — — — —	— — — — — —	— — — — — —	24,000 150,000 160,000 160,000 110,000 2,000,000	15.1.1999 to 14.7.2003 7.1.2000 to 6.7.2004 4.1.2001 to 3.7.2005 17.1.2002 to 16.7.2006 27.2.2003 to 26.8.2007 27.8.2005 to 26.8.2010
Sub-total			3,476,000	19,080,000	(24,000)	—	—	22,532,000	
Other employees (in aggregate)	25.7.1997 15.7.1998 7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	7.50 4.14 11.21 9.56 9.30 6.00 6.00	158,000 520,000 2,160,000 2,392,000 2,520,000 2,160,000 4,000,000*	— (188,000) — — — — —	— (8,000) (60,000) (60,000) (70,000) — —	— — — — — — —	(158,000) — — — — — —	— 324,000 2,100,000 2,332,000 2,450,000 2,160,000 4,000,000	25.1.1998 to 24.7.2002 15.1.1999 to 14.7.2003 7.1.2000 to 6.7.2004 4.1.2001 to 3.7.2005 17.1.2002 to 16.7.2006 27.2.2003 to 26.8.2007 27.8.2005 to 26.8.2010
Sub-total			7,750,000	6,160,000	(188,000)	(198,000)	(158,000)	13,366,000	
			11,226,000	25,240,000	(212,000)	(198,000)	(158,000)	35,898,000	

Note:

- a. The closing price of the Company's shares preceding the date on which the options were granted was HK\$6.00.
- b. The price of the Company's shares as disclosed is the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year for each category of Eligible Participants.
- c. These options were granted under the mega grant as stipulated in the Circular dated 30 July 2002. Certain financial and performance targets must be achieved before the options granted will vest and be exercisable.

The share options granted are not recognized in the financial statements until they are exercised. The Directors consider that it is not appropriate to disclose the value of options granted during the year, since any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.

Apart from the aforesaid, during the year, 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 10% or more of the issued share capital of the Company as at 30 September 2002.

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 2002.

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

In April 2002, the Company set up a Remuneration Committee of the Board of Directors, which comprises Mr. Vincent Lo Hong Sui and two independent non-executive directors, Mr. Anthony Griffiths (Chairman) and Professor Michael Enright. The Committee meets at least twice every year and is responsible for reviewing the remuneration of each executive director of the Group.

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 2002, 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, December 2002

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