

HIGHLIGHTS

- The Group's turnover for the six months ended 30 September 2003 was HK\$1,300 million, an increase of 10% compared with the same period in 2002. Unaudited consolidated profit after taxation and minority interests was HK\$14 million, compared with a loss of HK\$16 million in the same period last year.
- 816 units of Rui Hong Xin Cheng (also known as Rainbow City) put on sale in October 2003 were rapidly taken up. The current phase of seven blocks of residential towers are, barring unforeseen circumstances, expected to be completed in March 2004 and will enable a sizable profit to be realized in the second half of the financial year.
- Expansion in cement operation in Chongqing and Guizhou is ahead of the original plan. The cement production capacities in Chongqing and Guizhou should be increased to beyond 8 million and 4 million tonnes per annum respectively by the year 2005.
- Discussion is being made with the holding company of the Shui On Group to co-invest in a real estate company focusing on high quality integrated development projects in the Mainland. The investment will enable the Company to tap the diversified real estate experience and goodwill established by the private group in the Mainland.
- With the rapid development in the Chinese Mainland, the Directors of the Group are confident that, barring unforeseen circumstances, a substantially improved profit should be achieved in the current year, in which case, dividend payment will be resumed.

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 2003 as follows:—

Condensed Consolidated Income Statement

	Notes	Six months ended 30 September 2003 (Unaudited) HK\$million	Year ended 31 March 2003 HK\$million (Restated)	Six months ended 30 September 2002 (Unaudited) HK\$million (Restated)
Turnover				
The Company and its subsidiaries		1,300	2,311	1,180
Share of jointly controlled entities		325	527	216
		1,625	2,838	1,396
Group turnover	2	1,300	2,311	1,180
Other operating income		12	29	9
Changes in inventories of finished goods, work in progress, contract work				
in progress and properties held for sale		30	30	47
Raw materials and consumables used		(259)	(484)	(189)
Staff costs		(183)	(364)	(181)
Depreciation and amortisation expenses		(21)	(45)	(24)
Subcontracting, external labour costs and other operating expenses		(911)	(1,505)	(838)
Revaluation decrease on investment property		—	(14)	—
Revaluation decrease on land and buildings		—	(2)	—
Profit on disposal of listed securities		35	—	—
Unrealised holding gain (loss) on investment in listed securities		6	(25)	(24)
Profit (Loss) from operations	3	9	(69)	(20)
Finance costs		(5)	(6)	(1)
Share of results of jointly controlled entities		13	31	8
Profit (Loss) before taxation		17	(44)	(13)
Taxation	4	(4)	1	(3)
Profit (Loss) before minority interests		13	(43)	(16)
Minority interests		1	—	—
Profit (Loss) attributable to shareholders		14	(43)	(16)
Dividend	5	—	—	—
Earnings (Loss) per share	6	HK\$0.05	(HK\$0.16)	(HK\$0.06)
Basic		HK\$0.05	(HK\$0.16)	(HK\$0.06)
Diluted		—	—	—
Interim dividend per share		—	—	—

Condensed Consolidated Balance Sheet

	Notes	As at 30 September 2003 (Unaudited) HK\$million	As at 31 March 2003 (Restated) HK\$million
Non-Current Assets			
Investment property		123	123
Property, plant and equipment		187	198
Property under development		891	706
Interests in jointly controlled entities		498	437
Investments in securities	7	33	136
Site establishment expenditure		20	14
Deferred tax assets		5	5
		1,757	1,619
Current Assets			
Inventories		46	39
Properties held for sale		56	56
Debtors, retentions and prepayments	8	589	597
Amounts due from customers for contract work		249	221
Amounts due from associates		1	1
Amounts due from jointly controlled entities		549	621
Tax recoverable		3	5
Bank balances, deposits and cash		283	90
		1,776	1,630
Current Liabilities			
Creditors and accrued charges	9	782	630
Amounts due to customers for contract work		78	81
Amounts due to jointly controlled entities		19	23
Bank borrowings – due within one year		701	69
		1,580	803
Net Current Assets		196	827
Total Assets Less Current Liabilities		1,953	2,446

Condensed Consolidated Balance Sheet (continued)

	Notes	As at 30 September 2003 (Unaudited) HK\$million	As at 31 March 2003 (Restated) HK\$million
Capital and Reserves			
Share capital	10	265	265
Reserves	11	975	950
		1,240	1,215
		25	26
Minority Interests			
Non-Current Liabilities			
Bank borrowings		676	1,195
Deferred tax liabilities		5	5
Defined benefit liabilities		7	5
		688	1,205
		1,953	2,446

Condensed Consolidated Statement of Changes in Equity

	Six months ended 30 September	
	2003	2002
	(Unaudited)	
	HK\$million	HK\$million
Balance at 1 April (restated)	1,215	1,300
Issue of shares upon exercise of share options	-	2
Exchange differences arising on translation of overseas operations	11	7
Profit (Loss) for the period	14	(16)
Equity before dividends paid	1,240	1,293
Dividends	-	(40)
Balance at 30 September	1,240	1,253

Condensed Consolidated Cash Flow Statement

	Six months ended 30 September	
	2003 (Unaudited)	2002
	HK\$million	HK\$million
Net cash inflow (outflow) from operating activities	161	(168)
Net cash outflow from investing activities	(87)	(198)
Net cash inflow from financing activities	113	380
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Increase in cash and cash equivalents	187	14
Cash and cash equivalents at the beginning of the period	90	75
Effect of foreign exchange rate changes	6	7
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Cash and cash equivalents at the end of the period	283	96
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Analysis of the balance of cash and cash equivalents		
Bank balances, deposits and cash	283	96
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Notes on the Unaudited Interim Financial Statements

(1) Basis of Preparation and Principal Accounting Policies

These unaudited 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 interim financial statements should be read in conjunction with the 2002/2003 audited financial statements.

The principal accounting policies and method of computation adopted for preparing these unaudited interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2003 except that the Group has changed its accounting policy on deferred tax following its adoption of the SSAP 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants effective for accounting periods commencing on or after 1 January 2003.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

In order to comply with SSAP 12 (Revised), the Group adopted a new accounting policy for deferred tax. A balance sheet method was used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The effect of adopting the new accounting policy has been applied retrospectively. The shareholders' funds as at 1 April 2003 were restated by an increase of HK\$0.6 million, which comprises an increase in revenue reserves of HK\$4.0 million and a decrease in revaluation reserve of HK\$3.4 million. Shareholders' funds as at 1 April 2002 were restated by a reduction of HK\$5.6 million, comprising an increase in revenue reserves of HK\$0.2 million and a decrease in revaluation reserve of HK\$5.8 million. The adjustments represented the deferred tax liability recognized in respect of temporary differences mainly arising from depreciation and revaluation of fixed assets net of deferred tax assets in respect of tax losses and revaluation deficit of an investment property recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The effect of the change on taxation for the six months ended 30 September 2003 is an increased charge of HK\$0.2 million (30 September 2002: decreased charge of HK\$1.1 million).

(2) Segmental Information

An analysis of the Group's turnover and results by business segments is:

For the six months ended 30 September 2003

	Construction and building maintenance HK\$million	Sales of construction materials HK\$million	Trading of building materials HK\$million	Property development HK\$million	Property investment and others HK\$million	Eliminations HK\$million	Consolidated HK\$million
TURNOVER							
External sales	1,084	142	66	–	8	–	1,300
Inter-segment sales	–	68	7	–	–	(75)	–
Group turnover	1,084	210	73	–	8	(75)	1,300
Share of jointly controlled entities	16	309*	–	–	–	–	325
Total	1,100	519	73	–	8	(75)	1,625

Inter-segment sales are charged at mutually agreed prices.

* This represents mainly the Group's effective share of turnover of jointly controlled entities in respect of the cement operations in Chongqing and Guizhou (HK\$262 million) and Nanjing (HK\$34 million).

RESULTS

Segment results	8	(43)	(4)	(1)	3		(37)
Interest income							5
Profit on disposal of listed securities							35
Unrealised holding gain on investment in listed securities							6
Profit from operations							9
Finance costs							(5)
Share of results of jointly controlled entities							
– Cement operations in							
– Chongqing and Guizhou							18
– Nanjing							(6)
– Others							1
							13
Profit before taxation							17
Taxation							(4)
Profit before minority interests							13

For the six months ended 30 September 2002

	Construction and building maintenance	Sales of construction materials	Trading of building materials	Property development	Property investment and others	Eliminations	Consolidated
	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million
TURNOVER							
External sales	883	271	18	1	7	-	1,180
Inter-segment sales	-	105	1	-	-	(106)	-
Group turnover	883	376	19	1	7	(106)	1,180
Share of jointly controlled entities	13	203*	-	-	-	-	216
Total	896	579	19	1	7	(106)	1,396

Inter-segment sales are charged at mutually agreed prices.

* This represents mainly the Group's effective share of turnover of jointly controlled entities in respect of the cement operations in Chongqing and Guizhou (HK\$167 million) and Nanjing (HK\$35 million).

RESULTS

Segment results	27	(11)	(16)	(1)	1		-
Interest income							4
Unrealised holding loss on investment in listed securities						(24)	
Loss from operations							(20)
Finance costs							(1)
Share of results of jointly controlled entities							
- Cement operations in							
- Chongqing and Guizhou							13
- Nanjing							(3)
- Others							(2)
							8
Loss before taxation							(13)
Taxation							(3)
Loss before minority interests							(16)

An analysis of the Group's turnover and contribution by geographical markets, irrespective of the origin of the goods/services, is:

	Turnover by geographical markets		Contribution to profit (loss) from operations	
	Six months ended 30 September		Six months ended 30 September	
	2003	2002	2003	2002
	HK\$million	HK\$million	HK\$million	HK\$million
Hong Kong	1,203	1,111	(25)	8
Other regions in the People's Republic of China	97	69	(12)	(8)
	1,300	1,180	(37)	—
Interest income			5	4
Profit on disposal of listed securities			35	—
Unrealised holding gain (loss) on investment in listed securities			6	(24)
Profit (Loss) from operations			9	(20)
Finance costs			(5)	(1)
Share of results of jointly controlled entities			13	8
Profit (Loss) before taxation			17	(13)

(3) Profit (Loss) from Operations

	Six months ended 30 September		Year ended 31 March	Six months ended 30 September
	2003		2003	2002
	HK\$million	HK\$million	HK\$million	HK\$million
Profit (Loss) from operations has been arrived at after charging (crediting):				
Depreciation and amortisation				
Owned assets	19		42	22
Site establishment expenditure	2		3	2
	21		45	24
Interest on bank loans and overdrafts	12		22	6
Less: Amount capitalised to property under development	(7)		(16)	(5)
	5		6	1

(4) Taxation

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the period. Income tax of the other regions in the PRC has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the Group in the Chinese Mainland. Deferred tax is provided on temporary differences under the liability method.

(5) Dividend

Your Board does not recommend the payment of a dividend (2002: Nil) for the six months ended 30 September 2003.

	Six months ended 30 September 2003 HK\$million	Year ended 31 March 2003 HK\$million	Six months ended 30 September 2002 HK\$million
Dividend paid during the period			
Final dividend for 2002/2003: nil			
(2001/2002: HK\$0.15) per share	-	40	40
Additional final dividend for shares issued			
pursuant to exercise of share options	-	-	-
	-	40	40
Proposed interim dividend: nil (2002: nil)	-	-	-
	-	-	-

(6) Earnings (Loss) Per Share

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

	Six months ended 30 September 2003 HK\$million	Year ended 31 March 2003 HK\$million	Six months ended 30 September 2002 HK\$million
Earnings (Loss) for the purposes of basic and diluted earnings (loss) per share	14	(43)	(16)
	Million	Million	Million
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	265	265	265
Effect of dilutive potential ordinary shares	-	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	265	265	265

(7) Investments in Securities

	As at	As at
	30 September	31 March
	2003	2003
	HK\$million	HK\$million
Other investments		
– equity securities, listed in Hong Kong	18	121
– equity securities, unlisted overseas	15	15
	33	136

(8) Debtors, Retentions and Prepayments

	As at	As at
	30 September	31 March
	2003	2003
	HK\$million	HK\$million
Debtors (net of provisions for bad and doubtful debts) with aging analysis		
Current to 90 days	223	235
91 to 180 days	9	19
181 to 360 days	31	18
Over 360 days	7	5
	270	277
Retentions receivable	143	125
Prepayments, deposits and other receivables	176	195
	589	597

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 2003 HK\$million	As at 31 March 2003 HK\$million
Creditors with aging analysis		
Within 30 days	53	93
31 to 90 days	36	38
91 to 180 days	8	7
Over 180 days	6	6
	103	144
Retentions payable		
Accruals and other payables		
	132	137
	547	349
	782	630

(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 2003 and 30 September 2003	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
(Note)									
At 31 March 2003 as previously reported	22	533	–	198	(3)	1	197	1	949
Prior year adjustment (Note 1 to the financial statements)	(3)					4			1
At 31 March 2003 (restated)	19	533	–	198	(3)	1	201	1	950
Exchange adjustment			11						11
Profit for the period						14			14
At 30 September 2003	19	533	11	198	(3)	1	215	1	975

Note: Reserve funds represent mainly statutory reserves set up for enterprises in mainland PRC.

(12) Contingent Liabilities

As at 30 September 2003, the Group had contingent liabilities not provided for in these financial statements:

	As at 30 September 2003 HK\$million	As at 31 March 2003 HK\$million
Contingent liabilities		
(a) Performance bonds	144	143
(b) Guarantees to banks in respect of general facilities granted to jointly controlled entities	315	165

In addition to HK\$315 million stated above, 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 the 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 2003, no amount has been drawn down under this arrangement.

(13) Capital Commitment

As at 30 September 2003

(a) 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\$861 million (As at 31 March 2003: HK\$622 million).

(b) the Group's share of capital commitments of its jointly controlled entities are as follows:

	As at	As at
	30 September	31 March
	2003	2003
	HK\$million	HK\$million
Contracted but not provided for	60	61
Authorised but not contracted for	2	117

(14) Pledge of Assets

Certain syndicated bank loan facilities granted to a subsidiary of the Company are secured by the Group's interest in the property under development, which has a carrying value of HK\$891 million as at 30 September 2003.

(15) 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	
	2003	2002
	HK\$million	HK\$million
Income received:		
Interest income	3	1
Management fee	–	1
Sales of construction materials	1	–
Proceeds from disposal of fixed assets	1	–
Costs and expenses paid:		
Construction/subcontracting work	29	87
Supplies of construction materials	12	6

(16) Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

REWARD OF EMPLOYEES

At 30 September 2003, the number of employees of the Group was approximately 1,250 in Hong Kong and 9,000 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 2003, financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$868 million, details of which are as follows:

Effective percentage of interest	Balance as at 30 September 2003				
	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			
Allied Well Investment Ltd.	50%	4	–	–	4
Brisfull Ltd.	50%	–	26	–	26
Guizhou Kaili Shui On Cement Co. Ltd.	89%	1	20	–	21
Guizhou Xinpu Shui On Cement Co. Ltd.	79%	2	68	–	70
Guizhou Dingxiao Shui On Cement Co. Ltd.	89%	1	36	–	37
Guizhou Kaili Ken On Concrete Co. Ltd.	94%	1	–	–	1
Guangzhou On Track Construction Precast Products Co. Ltd.	40%	2	–	–	2
Lamma Yue Jie Co. Ltd.	60%	6	–	–	6
Nanjing Jiangnan Cement Co. Ltd.	60%	84	–	–	84
Shenzhen Lamma Yue Jie Concrete Products Co. Ltd.	60%	–	–	10	10
Sichuan Hejiang T.H. Cement Co. Ltd.	89%	–	11	–	11
Super Race Ltd.	50%	–	–	5	5
TH Industrial Management Ltd.	50%	254	–	300	554
Yangtze Ventures II Ltd.	74%	37	–	–	37
	392	161	315	868	

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 2003. 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 2003, the Group's total exposure on the combined indebtedness reported by the affiliated companies (including amounts owing to the Group) amounted to approximately HK\$1,626 million. Such affiliated companies reported capital commitments of HK\$60 million and no contingent liabilities as at 30 September 2003.

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 per cent. 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

The Group's turnover for the six months ended 30 September 2003 was HK\$1,300 million, an increase of 10% compared with the same period in 2002. Unaudited, consolidated profit after taxation and minority interests was HK\$14 million, compared with a loss of HK\$16 million in the same period last year.

Construction in Hong Kong

The suspension of the Home Ownership Scheme and dwindling public rental housing contracts due to an excess of units built in prior years severely affected the workload for the construction division. Tendering prices continued to be very competitive and bids submitted at levels below costs were not uncommon. With the shrinking public housing market, works from the Architectural Services Department (ASD) accounted for as much as 48% of the division's turnover of HK\$1,084 million. Although your Group did not win any new contract from the ASD in the period under review, the four projects totalling HK\$1.2 billion secured in the last financial year provided a steady turnover for the division.

The construction project for four schools in Tung Chung was completed and handed over during the six-month period.

From April to November 2003, one contract of HK\$370 million was granted by the Hong Kong Housing Authority (HKHA). The Group is also expecting another HKHA contract of around HK\$370 million. Maintenance contracts and other works secured amounted to HK\$290 million.

At 30 November 2003, the gross and outstanding value of contracts on hand amounted to approximately HK\$5.4 billion and HK\$3.2 billion respectively (30 November 2002: HK\$4.8 billion and HK\$3.7 billion respectively).

Quality Housing Development in Shanghai – Rui Hong Xin Cheng (RHXC)

In July, the topping out of the seven blocks of new residential towers in RHXC was followed by an encouraging market reception when the 816 units concerned were put on sale in October. Average price achieved was over Rmb7,900 per square metre. The practical completion certificate for the residential units is expected to be issued in March 2004, which will enable a sizeable profit to be realized in the second half of the financial year. Another 660 units of the current phase are scheduled to be on sale in the middle of 2004, which, together with development of future phases, will continue to provide a steady source of income for your Group. (RHXC is also referred to as "Rainbow City" in other published information of the Group.)

Cement Operations in the Chinese Mainland

The expansion of your Group's cement operation in Chongqing and Guizhou continued amid the Central Government's substantial investments in infrastructural and power generating projects.

Under the "Go West" policy, Chongqing will become the leading commercial and industrial centre in southwestern China, while Guizhou will become one of the leading provinces in the supply of electric power and coal. Demand for cement in these locations has increased rapidly although the Group's emphasis on building up market share in the last six months has meant that some of the plants have yet to record a substantial profit contribution. However, the strengthening of our production capacity and our significant market presence in the two locations should bear fruit in the next financial year and a markedly higher profit contribution is expected.

Our Chongqing operation accounted for 70% of the high grade cement market in the municipality. A modernization programme has been implemented in the Group's three cement plants in Diwei, Hechuan and Qujiang. Two modern dry kilns, each with a capacity of around one million tonnes per annum (t.p.a.), are under construction and trial production is expected in early 2005. Sales reach will be extended through the addition of five grinding mills, which should cover an area with a population in excess of 60 million in the central and northern parts of Sichuan province.

In Guizhou, the acquisition of Bijie Cement has brought the number of plants to six and the total capacity to two million t.p.a., which includes the two new dry kilns, each of 400,000 t.p.a., in Zunyi and Qianxinan. The need to open up new markets for the added capacity has temporarily suppressed the profit margins but improvement is expected shortly. Negotiations for two more important plants are likely to be concluded in the first half of 2004. Their acquisition should enable the Group to have a more dominant role in additional and strategic markets in Guizhou.

The above plans should bring your Group's capacities in Chongqing and Guizhou to approximately 8 million t.p.a. and 4 million t.p.a. respectively by 2005. Concurrently, sources for additives, like fly ash and steel slag, will be actively acquired as their usage will significantly lower the cost of production. Attention has been given to securing steady, long term coal supply in view of anticipated shortages arising from the rapid economic growth of the Mainland.

The tight electricity supply in the recent months has disrupted cement production along the coast and this trend is likely to continue in the short term. The sudden upsurge in cement prices along coastal regions has seen the Nanjing operation turning profitable recently.

Construction Materials in Hong Kong and the Pearl River Delta

Confidence and sales volume in the residential property market in Hong Kong have improved since August but construction activities have yet to see any substantial revival. Concrete consumption amounted to approximately six million cubic metres in the past 12 months, the lowest level in the past 10 years. Although the concrete price war of the past two years has now subsided and the average price for concrete has recovered recently to a more reasonable level of about HK\$350 to HK\$400 per cubic metre, contracts signed earlier at prices below HK\$300 per cubic metre significantly eroded the gross margin for the half year. Coupled with the very depressed public housing market and the delay in a number of infrastructure projects, the production, sales and gross margins of Ken On continued to fall. Vigorous cost cutting implemented in anticipation of the substantial downturn in the concrete market partly alleviated the impact of the difficult trading conditions. Such measures included, inter alia, the reduction of the number of batching plants to three. The largest plant, which is in Tsing Yi, has comprehensive cement and aggregate handling facilities and covers the sales for the substantial part of Kowloon and Hong Kong Island. Improvement in Ken On's result should be seen in 12 months' time when the effect of recently increased prices should then be reflected.

In Guangzhou, the market was still competitive but the newly established plant in Panyu has a busy workload. Production in the quarrying division, which was mainly for export to Hong Kong, was also badly affected by the large drop in concrete sales and reached only around half the output achieved in the same period in 2002. The delay in various reclamation contracts brought an abrupt slowdown in the extraction of large rocks in the Chik Wan quarry, which was temporarily closed for five months to save costs.

Materials Trading

During the period under review, Asia Materials continued to benefit from the increasing demand for materials sourcing services for property development projects in the Mainland and recorded a sizeable increase in turnover. It has also acted as the procurement consultant for the Las Vegas Sands casino project in Macau, sourcing a wide range of furniture, fixtures and equipment. Asia Materials has been supplying wood products to manufacturers in the Mainland and the United States with a view to developing an effective supply chain on their behalf.

Prospects

The battered economy of Hong Kong has received a much needed boost in the last few months through various supportive measures initiated by the Central Government. The Closer Economic Partnership Arrangement signed between Hong Kong and the Mainland looks certain to strengthen trade and investment co-operation. Other positive developments, including closer ties under discussion with major cities in the Pearl River Delta and the relaxation of restrictions for Mainland individuals to travel to Hong Kong, have added to the already improved local business environment and market sentiment. Together with the robust and consistent growth in the Mainland and the improved global economy, Hong Kong should gather momentum for a steady recovery.

However, with the suspension of the Home Ownership Scheme by the HKHA and the absence of a full recovery of the property market, the construction sector is unlikely to benefit much in the next two years. Nonetheless, with the vigorous cost cutting exercise in the past two years and the resultant lean, competitive organization, the building division is in a good position to get through the trough and be ready to quickly pick up workload should a recovery occur.

Meanwhile, the strategic repositioning of the Group as a property developer in Shanghai and a major cement producer in the central and western parts of the Mainland has been progressing well.

In the past six months, management has ensured that the cement production capacity recently added could be quickly absorbed by the market. Your Group will now leverage on past experience and accelerate our expansion to other provinces, maintaining our position as one of the top producers in the Mainland with an aggregate capacity in excess of 12 million t.p.a. by 2005.

The response to the sale of Rui Hong Xin Cheng in October was overwhelming, and is evident of the quality and popular design of this development. The expertise of the construction and sales teams will continue to be well utilised in future phases. As stated in the announcement dated 18 November 2003 (which is reproduced under the following heading of Post Balance Sheet Announcement), the Company is in discussion with the holding company of the Shui On Group to co-invest not less than 20% in a dynamic and premier real estate company which will focus on city core developments and high quality integrated residential projects in the Mainland. If the independent shareholders approve this investment, the Company will be in a position to benefit from the diversified China real estate portfolio and the strong reputation of the private group to exploit the vast opportunities available in the fastest growing economy in the world.

With the rapid development in the Chinese Mainland, the Directors of the Group are confident that, barring unforeseen circumstances, a substantially improved profit should be achieved in the current year, in which case, dividend payment will be resumed.

Gearing Ratio and Treasury Policies

Liquidity and Financing

As at 30 September 2003, your Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK\$1,094 million (31 March 2003: HK\$1,174 million).

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, reduced from 36% at 31 March 2003 to 31% at 30 September 2003.

Up to 17 December 2003, Rmb562 million were received from the sale of the residential apartments of the property development project in Shanghai. The amount would be used for repayment of the outstanding construction loan and future construction costs.

Treasury Policies

Bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating rate basis. Capital commitments in the Chinese Mainland are partly financed by borrowings in Hong Kong dollars. Given that the exchange rate of Hong Kong dollars has been and will likely remain stable, and that income from operations in the Chinese Mainland are denominated in Renminbi, your Group expects that fluctuation in the Renminbi exchange rate will not have a substantial effect on 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 2003, Directors of the Company had the following interests, all being long position, in the ordinary shares of the Company:

Name of Director	Number of ordinary shares	
	Personal interests	Other interests
Lo Hong Sui, Vincent	—	182,989,000
Wong Ying Wai, Wilfred	—	—
Wong Yuet Leung, Frankie	—	—
Choi Yuk Keung, Lawrence	—	—
Wong Hak Wood, Louis	550,000	—
Wong Fook Lam, Raymond	—	—
Lowe Hoh Wai Wan, Vivien	—	—

Note: The 182,989,000 shares are held as to 166,148,000 shares and 16,841,000 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 continue to be valid and exercisable.

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

At 30 September, 2003, options to subscribe for 35,800,000 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 30.9.2003 are exercisable	Price of company's shares at exercise date of options HK\$ (Note b)	
			Granted during the period 1.4.2003 (Note a)	Exercised during the period	Cancelled during the period	Lapsed during the period	At 30.9.2003			
			At 1.4.2003	At 17.7.2001	At 27.8.2002	At 27.8.2003	At 30.9.2003			
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	7.7.1999 4.7.2000 17.7.2001 27.8.2002 27.8.2002	11.21 9.56 9.30 6.00 6.00	200,000 200,000 200,000 160,000 2,000,000	- - - - -	- - - - -	- - - - -	5,000,000* 200,000 200,000 160,000 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 27.8.2003 to 26.8.2007		
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	4.9
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	4.8
Sub-total			22,532,000	-	(54,000)	-	(68,000)	22,410,000		
Other employees										
(in aggregate)	15.7.1998	4.14	310,000	-	(106,000)	(6,000)	(198,000)	-	15.1.1999 to 14.7.2003	
	7.7.1999	11.21	2,090,000	-	-	(50,000)	-	2,040,000	7.1.2000 to 6.7.2004	
	4.7.2000	9.56	2,302,000	-	-	(80,000)	-	2,222,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	2,410,000	-	-	(100,000)	-	2,310,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	2,150,000	-	(12,000)	(100,000)	-	2,038,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	4,000,000	-	-	-	-	4,000,000*	27.8.2005 to 26.8.2010	
	4.8.2003	5.80	-	780,000	-	-	-	780,000	4.2.2004 to 3.8.2008	
Sub-total			13,262,000	780,000	(118,000)	(336,000)	(198,000)	13,390,000		
			35,794,000	780,000	(172,000)	(336,000)	(266,000)	35,800,000		

* 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.

Note:

- a. The closing price of the Company's shares preceding the date on which the options were granted was HK\$5.70.
- 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.

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.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests, both long and short positions, held as at 30 September 2003 by any of the Directors or Chief Executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), and
- (ii) there existed during the financial period no rights to subscribe for shares, underlying shares and debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 30 September 2003 as recorded in the register kept by the Company under section 336 of the SFO:

Names	No. of Ordinary Shares
Lo Hong Sui, Vincent	182,989,000
Cheah Cheng Hye	14,504,000

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 2003.

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 to the Board of Directors 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 the Chairman of the Company, Mr. Lo Hong Sui, Vincent and the two independent non-executive directors, Mr. Anthony Griffiths (Chairman) and Professor Michael J. Enright. The Committee met once during the period to review share option grants recommendations for executives and management staff.

CODE OF BEST PRACTICE

No Director 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 2003, 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.

POST BALANCE SHEET ANNOUNCEMENT

An announcement was made on 18 November 2003 on possible notifiable transactions in connection with a co-investment with the holding company of the Group which will involve RHXC (which is described as "Rainbow City" below). This announcement is reproduced below.

"This announcement is made voluntarily by the Company pursuant to paragraph 2 of the Listing Agreement made between The Stock Exchange of Hong Kong Limited and the Company.

The Transactions

The directors of the Company wish to announce that the Company is in discussion with SO Holdings, a wholly owned subsidiary of Shui On Company Limited, the controlling shareholder (about 68.50%) of the Company, on a co-investment with SO Holdings in SOL, a new company to be established in the British Virgin Islands under the name of Shui On Land Limited whereby (I) the Company will inject Rainbow City, and (II) SO Holdings will inject its privately-held Taipingqiao Area into SOL, in both cases for an equity interest in SOL. The Company is also in discussion with SO Holdings for the Cash Investment, namely, an investment of about US\$50 million (approximately HK\$390 million) in cash by the Company for an equity interest in SOL through internal funding, which includes internal resources and unutilised banking facilities of the Company. No definitive agreement has been entered into by the Company.

Reasons for the Transactions

It is the intention of SO Holdings and the Company that SOL will be the flagship property company of the group companies of Shui On Company Limited in mainland PRC, and will grow into a premier real estate developer, owner and operator in mainland PRC, focusing on city core development projects (i.e. large scale, urban, mixed-use development for office, residential, retail, entertainment, cultural and recreational uses) and integrated residential development projects (i.e. high-quality, integrated, residential projects targeting the urban upper-middle class) in mainland PRC. SOL, when formed, will inherit from SO Holdings and the Company their existing development rights and opportunities in Rainbow City and Taipingqiao Area in mainland PRC and will have access to a pipeline of development opportunities in mainland PRC available to SO Holdings, which include Xihu Tiandi project in Hangzhou and Hualongqiao project in Chongqing, PRC. However, no timing for these possible future investments in Hangzhou and Chongqing has been fixed. With these development rights and opportunities, the directors of the Company believe that SOL will be well positioned to grow and to seek for a listing of its shares as and when the conditions are suitable. There is currently no plan as to where the shares of SOL may be listed.

Although the Company will not have direct control over the Rainbow City after completion of the Transactions, the Company will have a significant stake in SOL and will, together with SO Holdings, hold the majority control of SOL. The Company will, in turn, be an investor in a larger entity with access to a larger land bank and investment and development opportunities in PRC.

The Placement

The Company has been informed by SO Holdings that, based on the above proposed Assets Injections, SO Holdings has also received non-binding indicative commitments from a number of investors, including reputable institutional real estate investors and private equity investors, independent of and not connected with the directors, chief executive or substantial shareholders of the Company, its subsidiaries and their respective associates (as defined in the Listing Rules) on a proposed cash investment by these investors (not including the Company) of a total amount of about US\$350 million (approximately HK\$2,730 million) into SOL (i.e. the Placement). Those indicative commitments in respect of the Placement are non-binding and are subject to due diligence by the investors and the signing of the definitive agreement for the Placement which in turn is subject to further negotiations between these investors and SO Holdings.

Other Information

The net book value of Rainbow City as included in the last audited consolidated accounts of the Company for the year ended 31 March 2003 was about HK\$652 million, representing about 53.75% of the net tangible asset value of the Company and its subsidiaries (together the "Group"). Rainbow City is expected to be valued at a premium to such book value for the purpose of the Transactions and the Placement at an amount of about US\$130 million to US\$140 million (approximately HK\$1,014 million to HK\$1,092 million). The major source of revenue from Rainbow City is expected to be from the sale of residential properties. For the year ended 31 March 2003, Rainbow City had made no contribution to the turnover of the Group. The value of the Taipingqiao Area to be contributed by SO Holdings is expected to be valued at an amount of about US\$270 million to US\$370 million (approximately HK\$2,106 million to HK\$2,886 million). The total value of SOL (comprising the property assets and development rights to be contributed by both the Company and SO Holdings into SOL) prior to the Cash Investment and the Placement will be around US\$400 million to US\$500 million (approximately HK\$3,120 million to HK\$3,900 million). The valuation of both Rainbow City and Taipingqiao Area is based on their respective projected cash flow discounted at the rate of return agreed among the relevant parties.

Following the completion of the Placement and the Transactions, it is intended that the Company will own at least 20 per cent. interest in and will, together with SO Holdings, hold the majority control of SOL. It is intended that the Company will have a right to appoint such number of directors to the board of SOL in proportion to its shareholding interest in SOL.

The Company has also been informed by SO Holdings that it is their intention for the due diligence and the negotiation in relation to the Placement to be completed in the first quarter of 2004. It is also the intention of the Company to finalise its discussions with SO Holdings in relation to the Transactions in the first quarter of 2004.

The Transactions, if and when materialized, will constitute notifiable transactions of the Company under the Listing Rules and will be subject to the approval of the Company's independent shareholders. Independent financial advisors and valuers (in respect of Rainbow City and Taipingqiao Area) and a committee of independent non-executive directors will be appointed to advise the independent shareholders.

The Group is engaged in housing development and cement operations in PRC, and in construction and construction materials businesses in Hong Kong and in the Pearl River Delta Region in PRC.

The discussions relating to the Transactions and the Placement are still at a preliminary stage and are still on-going. The terms of the Transactions and the Placement may or may not be changed. The definitive agreements in relation to the Transactions and the Placement may or may not be signed and these transactions may or may not proceed. Shareholders are strongly advised to exercise caution when dealing in the shares of the Company. Further details of the Transactions and the Placement will be announced in accordance with the Listing Rules.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of HK\$7.80 = US\$1.00 has been used for currency translation. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or US\$ have been, or could have been or may be converted, at these or any other rates."

Lo Hong Sui, Vincent
Chairman

Hong Kong, December 2003

Web Site: www.shuion.com