for steady shipments of high quality cement from Japan, it had also been recognized as a reputable cement trader in the Hong Kong market. In place of Far East Cement, Shui On Cement Co. Ltd. was formed in April 2001 by the Group to continue handling the import of cement from Sumitomo Osaka Cement and our Nanjing cement plant, the latter supplying 84,000 tonnes of cement to the Hong Kong market last year.

Cement Operations in the Chinese Mainland

The Group's investment in cement operations in the Chinese Mainland now enters its sixth year. Our experience in acquisitions and reforming state-owned plants, marketing and technological know-how as well as our established reputation in the industry enable us to plan our expansion to coincide with the Central Government's modernization of the Central and Western provinces. The injection of resources into numerous substantial infrastructural projects resulted in the rapid increase in high grade cement consumption in these areas. The official upgrading of cement specifications nationwide as well as the closure of small and polluted cement plants are conducive to our target of becoming one of the top producers in the Chinese Mainland with a total capacity of six to seven million tonnes within the next three years.

Chongqing Operation

80 percent of the TH Cement Group in Chongqing is now equally owned by the Group and its Hong Kong partner. The addition of the second new kiln has brought the capacity of the existing plant to one million tonnes per annum and actual sales in 2000 reached 820,000 tonnes, albeit profit, achieved consecutively for five years, was reduced due to an aggressive strategy to expand market share. As the first producer of the environmentally friendly fly ash cement in the Chinese Mainland, the operation continued to enjoy tax concessions. The clinker grinding mill with a capacity of 400,000 tonnes in the city area has greatly extended the radius of sales and TH Cement has firmly established itself as one of the three largest producers in Chongqing. The Group is also negotiating to set up a clinker grinding mill adjacent to the largest Chongqing steel factory to capture the market of steel-slag cement, another popular and environmentally friendly product in developed countries.

TH Cement is the first producer of the environmentally friendly fly ash cement in the Chinese Mainland.

SOCAM is building a sizeable cement business in Guizhou.

On 30 June 2001, TH Cement signed the acquisition agreement for 80 percent of Diwei Cement, the largest of the three high grade cement producers in Chongqing with a capacity of around 1.8 million tonnes per annum. This important acquisition now places TH Cement as the leader in Chongqing and eliminates a hitherto strong competitor. The new joint venture is expected to commence in October and the resultant savings in human resources and other operating areas should enhance the profitability of the expanded TH Cement Group. The joint venture for the acquisition of the 300,000 tonne Fuling cement plant, signed in June 2000, was delayed pending restructuring of existing bank financing.

Guizhou Operation

Guizhou province, though among the poorest of the Chinese provinces, abounds with valuable natural resources, including coal and limestone, the latter being the main ingredient for cement production. In Guizhou, massive plans have been formed for the construction of electric power plants, dams, roads and other substantial infrastructure works, one of the purposes of which is to transfer some of the energy produced to the affluent eastern and coastal regions. With TH Cement now concentrating on the Chongqing market, our Group will effectively be the sole foreign investor and will play a leading role in building up a sizeable cement entity in Guizhou to complement the TH Cement Group. A small plant in Zunyi city of Guizhou was acquired in November 2000. This 300,000-tonne production plant generated an encouraging profit of Rmb 5 million in the first six months under our management which justifies the construction of a new kiln with a 400,000-tonne capacity nearby. This approach to expansion follows the successful formula established in Chongqing to ensure excess human resources in an acquired plant can be well utilized in appropriate market conditions. The joint venture contract for this extension, together with a letter of intent for the acquisition of a small plant and the addition of another 400,000-tonne kiln in the adjacent city of Xishui, were signed at the end of May 2001 in Beijing under the auspices of senior government officials from the Mainland and Hong Kong. In June 2001 a formal contract was signed for the Xishui project. Further acquisitions and expansion should enable the Group to develop a production capacity of around three million tonnes per annum within three years in Guizhou alone.

AsiaMaterials.com was officially launched in March to tap the global materials trading market.

Nanjing Operation

The Jiangnan Cement plant continued to operate under the severe market conditions which have been prevailing among the coastal cities since the Asian financial crisis. In order to optimize operational capacity, all markets have been investigated and developed with 200,000 tonnes being supplied to Australia, Hong Kong and Guangzhou, in the latter two cases to Ken On's batching plants in Hong Kong and Guangzhou. Annual throughput to Hong Kong in 2001 will amount to approximately 200,000 tonnes. The Jiangnan Cement plant is still operating at a loss due to the highly competitive prices applicable locally, but efforts are being made to improve further the efficiency of operations and to secure concessions from various suppliers and partners.

E-COMMERCE

AsiaMaterials.com

AsiaMaterials.com, launched in March 2001 to tap the vast building materials trading market worldwide, offers its services to customers via a robust business-to-business electronic platform that facilitates online trading of building materials as well as a global network of AsiaMaterials Business Centres. Six business centres in Beijing, Shanghai, Tianjin, Guangzhou, Hangzhou and Wuhan, as well as a technology centre in Shenzhen, have been opened in the first quarter of 2001. Three more business centres will be set up in the USA, Europe and Asia Pacific by the end of this year.

AsiaMaterials.com has also partnered with a number of major construction materials groups as well as global technology and service providers. Plans are now being formulated to secure exclusive agency rights for selected products and to build a product range bearing brand names owned by AsiaMaterials.

FINANCIAL REVIEW

Liquidity and Financing

As at 31 March 2001, the Group's outstanding bank borrowings amounted to HK$2,023 million, consisting entirely of the drawn-down portion of the project loan arranged to finance the PSPS project at Tseung Kwan O Town Lot No. 62. This project loan was fully repaid on 2 May 2001.

At the year end date, the gearing ratio of the Group, calculated on the basis of bank borrowings over shareholders' equity, was 1.60 (2000: 0.97). Following the repayment of the PSPS project loan on 2 May 2001 as aforementioned, the Group will practically be debt-free, other than amounts due under normal trade payables. The Group's borrowings were on floating rate basis.

With cash on hand, marketable securities and available banking facilities at the year end date, the Group's liquidity position remained strong and should provide sufficient financial resources to satisfy its commitments and working capital requirements.

Treasury Policies

The objective of the Group's treasury policies is to arrange the assets and liabilities so as to reduce appropriately its exposure to fluctuations in exchange and interest rates. Treasury transactions unrelated to underlying financial exposure are not undertaken.

At 31 March 2001, the Group's borrowings, revenue and cash balances were mainly in Hong Kong Dollars. The Group did not have any significant commitments and exposure in foreign currencies.

Contingent Liabilities and Pledge Of Assets

At the balance sheet date, the Group had contingent liabilities not provided for in these financial statements as follows: (a) performance bonds established amounting to approximately HK$171.1 million (2000: HK$159.4 million); (b) guarantees in lieu of utility deposits amounting to approximately HK$0.8 million (2000: HK$1.7 million).

At 31 March 2001, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries (including a PSPS project loan of HK$2,265.0 million) and jointly controlled entities amounting to approximately HK$3,729.4 million and HK$161.1 million (2000: HK$3,793.0 million and HK$nil) respectively.

Properties held for resale and sales proceeds from the PSPS project have been pledged as securities for the drawn-down portion of the PSPS project loan of HK$2,022.6 million at 31 March, 2001 (2000: HK$1,194.3 million), which was fully repaid on 2 May 2001. The related guarantees to banks were subsequently released.

Employees

At 31 March 2001, the number of salaried staff of the Group was approximately 1,300 in Hong Kong and 3,200 in subsidiaries and jointly controlled entities in the Chinese Mainland. The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. Share options are granted annually by the Board of Directors to senior management staff members as appropriate.

Choi Yuk Keung, Lawrence

Managing Director

Hong Kong, July 2001