

PROSPECTS

Although there are signs of a moderate economic recovery for the second half of 2002, Hong Kong is still suffering from high unemployment, deflation and a lack of investor and consumer confidence. Your Group's Hong Kong operations will remain under pressure, exacerbated by the scaled-down Home Ownership Scheme and public housing programme of the Housing Authority.

However, the entry of your Group into cement businesses in the central and western provinces of the Mainland and property development in Shanghai provides potential for substantial growth. Increasing contributions should be derived in two years' time to bridge the profit gap.

Although the overall economic sentiment is expected to remain pessimistic in Hong Kong over the next two years, your Board is confident that the transformation of its operations to one which is much more oriented to the Mainland should enable your Group to capture the vast opportunities there. In the not-too-distant future, your Group should emerge as a transformed Mainland oriented enterprise, with substantial and strong positions in the cement and property development sectors in the Mainland.

FINANCIAL REVIEW

Liquidity and Financing

As at 31 March, 2002, your Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK\$301.5 million (2001: HK\$1,734.3 million).

Your Group's gearing ratio, which is expressed as a percentage of bank borrowings, net of bank balances,

deposits and cash, over total assets, decreased to 11% (2001: 34%) at 31 March, 2002, following the repayment of the project loan in May 2001 for the Private Sector Participation Scheme project at Tseung Kwan O Town Lot No. 62. Your Group has secured sufficient banking facilities to meet the funding needs for its working capital, commitments and investment opportunities in the coming year.

Treasury Policies

Your Group continues to adopt a conservative approach in financial risk management. Banking facilities have been arranged on both medium and short term bases which are geared to the funding needs. Hong Kong dollar bank borrowings were arranged on floating rate basis. Appropriate hedging products will be utilized, if necessary, to minimize interest rate exposure. Capital commitments in the Chinese Mainland are partly financed by borrowings from Hong Kong. Given that the exchange rate of Hong Kong dollar against Renminbi 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 pose a substantial negative effect on the business performance and the financial status of the Group. Therefore no hedging against Renminbi exchange risk has been made.

Contingent Liabilities and Pledge of Assets

At the balance sheet date, the Group had contingent liabilities not provided for in these financial statements, including performance bonds established and guarantees in lieu of utility deposits amounting to HK\$156.2 million and HK\$0.3 million (2001: HK\$171.1 million and HK\$0.8 million) respectively.

The reconstructed Murray House reflects SOCAM's expertise in restating historical buildings



At 31 March, 2002, the Company has given guarantees to banks in respect to general facilities granted to its subsidiaries and jointly controlled entities amounting to HK\$1,205.7 million and HK\$125.3 million (2001: HK\$3,729.4 million and HK\$161.1 million) respectively.

Employees

At 31 March, 2002, the number of salaried staff of the Group was approximately 1,200 in Hong Kong and 7,400 in subsidiaries and jointly controlled entities in the Chinese Mainland. As the Group recognizes human resources to be one of the major driving forces of profitability and business growth, employees' remuneration packages are maintained at competitive levels. Employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. Other staff benefits include provident fund schemes, medical insurance, in-house training and subsidies for job related seminars, and

programmes organized by professional bodies and educational institutes. Share options are granted annually by the Board of Directors to senior management staff members as appropriate. Likewise in the Chinese Mainland, staff benefits are commensurate with market levels, with an emphasis on provision of training and development programmes and resources.

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Managing Director

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