



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

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

**Closure of Register of Members**

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

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

**Management Discussion and Analysis**

**Business Review**

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

**Construction in Hong Kong**

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

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

## INTERIM REPORT 2001-2002

### ***Property Development in the Chinese Mainland***

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

### ***Construction Materials in Hong Kong and the Pearl River Delta***

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

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

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

### ***Cement Operations in the Chinese Mainland***

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

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



### ***Materials Trading***

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

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

### ***Awards and Recognition***

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

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

## INTERIM REPORT 2001-2002

### Prospects

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

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

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

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

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

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