

Chairman's Statement



"The Hong Kong market was extremely difficult for SOCAM during the past year. However, our planned strategic expansion in the Chinese Mainland made good progress. Our cement and property development businesses targeted at the fast growing markets in the Mainland have started to reap positive results and should enable your Group to restore profitability in the 2003-2004 financial year, barring unforeseen circumstances. A strong foundation for our Mainland businesses has been laid for long-term, sustainable growth."

*Lo Hong Sui, Vincent
Chairman*

Challenges Abound, but Renewed Growth is at Hand

While your Group managed to make significant progress in its strategic developments in the Chinese Mainland, market conditions in Hong Kong remained difficult as the economy faced unprecedented challenges. SOCAM's traditional profit sources in the past years were seriously affected by the severe downturn in the local property and construction sectors and the drastic reduction in public sector building works, causing it to record a loss for the first time since its listing in 1997.

I believe, however, that the most difficult time for SOCAM is over. While the ongoing recession and the most recent changes in housing policy in Hong Kong will likely curb your Group's business in Hong Kong, SOCAM has reached some important milestones in the cement and property businesses in the Chinese Mainland, and is ready to capitalise on the vast business opportunities in those markets. Barring unforeseen circumstances, the Board is confident that your Group will return to profitability in the coming financial year.

During the year, cement operations in Guizhou and Chongqing started to provide a meaningful contribution to your Group. In addition, two newly-built production lines in

Guizhou commenced operation in December 2002. The recent acquisition of Qujiang Cement, a major cement operation in Sichuan Province, and two other medium sized factories in Chongqing further strengthened your Group's leading position in central and western China. With a total annual production capacity of around 7.5 million tonnes under its control, your Group ranks among the top three cement production groups nationwide.

Your Group's construction experience and expertise have been successfully applied to the development of Rui Hong Xin Cheng, a large-scale housing project in Shanghai, bringing about substantial cost savings. With the steady growth of the local property market, the pre-sale later this year of 816 units in the current phase should generate significant turnover and profit contributions to your Group.

Details of SOCAM's performance and development during the year are set out in the "Management Discussion and Analysis" on page 8.



The Xinpu plant, one of the two rotary kiln production lines which commenced operation in December 2002

Results

The Group's turnover amounted to HK\$2,311.3 million, down 38% from the previous financial year. The loss attributable to shareholders was HK\$47.1 million, representing a loss per share of HK\$0.18. The Directors did not recommend the payment of a final dividend.

Commitment to Quality and Excellence

As a key player in the construction industry in Hong Kong, SOCAM continued to take a leadership position and won many industry awards during the year. Occupational safety awards obtained included gold awards in the Safe Working Cycle Awards, Hong Kong Occupational Safety & Health Award Scheme and Construction Industry Safety Award Scheme, and a silver award in the Good Housekeeping Campaign. In environmental management, SOCAM's Lamma Quarry Rehabilitation project won a certificate of merit at the Outstanding Greening Award organised by the Leisure and Cultural Services Department.

Your Group also obtained the Excellent Estate Maintenance Services Bronze Award for District Term Contracts from the Housing Authority. The Ma Hang Village

Phase 3 project, which included the reconstruction of the Victorian-era Murray House, won a certificate of merit at Hong Kong's first Quality Building Awards. SOCAM's Electronic Tendering System was also awarded a certificate of merit at the IT Excellence Awards 2002 under the IT application category.

In addition, two project managers of Shui On Building Contractors Limited were awarded the Building Manager of the Year Bronze Awards by The Chartered Institute of Building (Hong Kong). Your Group believes that people development must be given top priority at all times in order to achieve long-term growth for the Group, and will continue to invest in nurturing talent to lead future development.

Your Group also believes that good corporate governance is essential to its long-term success. I was honoured to have received the Director of the Year - Listed Company Executive Director award from the Hong Kong Institute of Directors in November 2002. Your Board will continue to do its utmost to ensure shareholders' interests are promoted and safeguarded.



Shui On won the first Gold Award for Safety Management System (Construction) and four other awards in the Hong Kong Occupational Safety and Health Award Scheme

Looking Ahead

Market conditions in Hong Kong are expected to remain difficult in the near future and your Group will focus on maintaining competitiveness through further enhancing the cost effectiveness of its operations and maintaining a lean overhead. More importantly, thanks to successful strategic moves in the Chinese Mainland over the past few years, SOCAM is now in a strong position to profit from the exciting business opportunities there.

The award of the 2010 World Expo to Shanghai not only underlines the city's rising importance in the global economy, but will also boost the already buoyant property market, especially in the middle- to high-income segment. As the local economy continues to enjoy double-digit growth, residential property prices are expected to rise in line with growing demand in the foreseeable future. Rui Hong Xin Cheng, already an established name for quality housing in Shanghai, should become a steady and long-term source of revenue and profit for your Group when new phases of the development are progressively put on the market in future.

Modernisation in central and western China will continue to boost local demand for high grade cement. Already the leading producer in Chongqing and Guizhou, your Group is actively studying the feasibility of entering the cement markets in nearby provinces, where rapid development is also underway.

We expect SOCAM's Mainland businesses to start making significant profit contributions in the coming year, and we are confident that SOCAM's strategic transformation into a Mainland-oriented enterprise will allow it to enjoy long-term, sustainable growth.



The current phase of Rui Hong Xin Cheng – more than 800 units will be put on the market in the third quarter of 2003

Acknowledgments

With the dedication and hard work of our employees, SOCAM has achieved rapid expansion in the Chinese Mainland while maintaining competitiveness in Hong Kong. I am particularly grateful to staff members for their resilience in meeting new challenges on a daily basis and their continued support given to the Group's cost-reduction drive. Our people will remain the key determinant of our future success and I extend my heartfelt appreciation to all of them for their strong commitment and contribution to the Group.

Lo Hong Sui, Vincent

Chairman
Hong Kong, July 2003