瑞 安 建 業 有 限 公 司

SHUI ON CONSTRUCTION AND MATERIALS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Report

2004/05

FINANCIAL HIGHLIGHTS

	2004	2003
Turnover	**HK$1,054 million**	HK$1,300 million
Profit attributable to shareholders	**HK$392 million**	HK$14 million
Basic earnings per share	**HK$1.46**	HK$0.05
Interim dividend per share	**HK$0.30**	Nil

BUSINESS REVIEW AND PROSPECTS

- With the sizeable investment in Shui On Land Limited and the further expansion of our cement investments, which cover a number of strategic locations in southwest China, your Group is now a predominately Mainland oriented group.

- Shui On Land Limited has secured development rights of more than 6.6 million square metres of gross floor area in prime locations in major Mainland cities. The recent sale of Rui Hong Xin Cheng (Rainbow City) apartments was met with overwhelming market response.

- Your Group's expansion plans in the cement markets in Chongqing and Guizhou were on target and strong market presence was established. Despite temporary set-back due to the austerity measures and drastic rise in coal and electricity prices in the Chinese Mainland, your Group's commitment to expanding cement investment in the southwest region remains firm.

- Your Group's portfolio of investments in the two Yangtze Ventures Funds has produced substantial positive results.

- With the closure of a number of loss making construction materials businesses in the Pearl River Delta as well as the materials trading business, the drag on your Group's results will be eliminated. Resources will be better directed to growth areas and improved profitability in the medium term could be expected.

RESULTS

The Directors of Shui On Construction and Materials Limited ("the Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2004 as follows:–

Condensed Consolidated Income Statement

	Notes	Six months ended 30 September 2004 (Unaudited) HK$ million	2003 HK$ million
Turnover			
The Company and its subsidiaries		**1,054**	1,300
Share of jointly controlled entities/associates		**402**	325
		1,456	1,625
Group turnover	2	**1,054**	1,300
Other operating income		**14**	12
Changes in inventories of finished goods, work in progress, contract work in progress and properties held for sale		**10**	30
Raw materials and consumables used		**(211)**	(259)
Staff costs		**(172)**	(183)
Depreciation and amortisation expenses		**(19)**	(21)
Subcontracting, external labour costs and other operating expenses		**(707)**	(911)
Gain on disposal of a subsidiary		**274**	–
Profit on disposal of listed securities		**–**	35
Unrealised holding gain on investment in listed securities		**–**	6
Discontinuing operations			
– Impairment losses on fixed assets		**(23)**	–
– Impairment losses on current assets		**(14)**	–
Loss on disposal of an investment property		**(7)**	–
Profit from operations	3	**199**	9
Finance costs		**(6)**	(5)
Share of results of jointly controlled entities/associates		**203**	13
Profit before taxation		**396**	17
Taxation	4	**(3)**	(4)
Profit before minority interests		**393**	13
Minority interests		**(1)**	1
Profit attributable to shareholders		**392**	14
Dividends	5	**81**	–
Earnings per share	6		
Basic		**HK$1.46**	HK$0.05
Diluted		**HK$1.44**	HK$0.05
Interim dividend per share		**HK$0.30**	–

Condensed Consolidated Balance Sheet

	Notes	As at 30 September 2004 (Unaudited) HK$ million	As at 31 March 2004 (Audited) HK$ million
Non-Current Assets			
Investment property		**–**	140
Property, plant and equipment		**133**	168
Property under development		**–**	592
Negative goodwill		**(1)**	(1)
Interests in jointly controlled entities		**1,220**	819
Interests in associates	7	**1,294**	–
Investments in securities	8	**12**	13
Site establishment expenditure		**14**	18
Other deferred assets		**5**	1
		2,677	1,750
Current Assets			
Inventories		**36**	44
Properties held for sale		**56**	58
Property under development		**–**	218
Debtors, retentions and prepayments	9	**700**	584
Amounts due from customers for contract work		**129**	99
Amounts due from associates		**129**	–
Amounts due from jointly controlled entities		**135**	340
Tax recoverable		**7**	7
Pledged bank deposit		**–**	528
Bank balances, deposits and cash		**87**	111
		1,279	1,989
Current Liabilities			
Creditors and accrued charges	10	**605**	729
Amounts due to customers for contract work		**113**	100
Amounts due to jointly controlled entities		**33**	19
Tax payable		**2**	46
Bank borrowings, due within one year		**452**	933
		1,205	1,827
Net Current Assets		**74**	162
		2,751	1,912

Condensed Consolidated Balance Sheet (continued)

	Notes	**As at 30 September 2004 (Unaudited) HK$ million**	As at 31 March 2004 (Audited) HK$ million
Capital and Reserves			
Share capital	11	**268**	268
Reserves	12	**1,512**	1,119
		1,780	1,387
Minority Interests		**23**	29
Non-Current Liabilities			
Bank borrowings		**944**	486
Deferred tax liabilities		**4**	6
Other deferred liabilities		**–**	4
		948	496
		2,751	1,912

Condensed Consolidated Statement of Changes in Equity

	Six months ended 30 September 2004 (Unaudited) HK$ million	2003 HK$ million
Balance at 1 April	**1,387**	1,215
Issue of shares upon exercise of share options	**2**	–
Exchange differences arising on translation of overseas operations	**(1)**	11
Profit for the period	**392**	14
Balance at 30 September	**1,780**	1,240

Condensed Consolidated Cash Flow Statement (See Note 18)

	Six months ended 30 September 2004 (Unaudited) HK$ million	2003 HK$ million
Net cash (outflow) inflow from operating activities	**(18)**	161
Net cash outflow from investing activities	**(792)**	(87)
Net cash inflow from financing activities	**258**	113
(Decrease) increase in cash and cash equivalents	**(552)**	187
Cash and cash equivalents at the beginning of the period	**639**	90
Effect of foreign exchange rate changes	**–**	6
Cash and cash equivalents at the end of the period	**87**	283
Analysis of the balance of cash and cash equivalents		
Bank balances, deposits and cash	**87**	283

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(1) Basis of Preparation and Principal Accounting Policies

These unaudited condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

These condensed interim financial statements should be read in conjunction with the 2003/2004 audited financial statements.

The principal accounting policies and method of computation adopted for preparing these unaudited, condensed interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2004.

(2) Segmental Information

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

For the six months ended 30 September 2004

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Trading of building materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Eliminations HK$ million	Consolidation HK$ million
TURNOVER							
External sales	833	135	77	2	7	–	1,054
Inter-segment sales	–	41	–	–	–	(41)	–
Group turnover	833	176	77	2	7	(41)	1,054
Share of jointly controlled entities/associates	19	371*	–	12	–	–	402
Total	852	547	77	14	7	(41)	1,456

Inter-segment sales are charged at mutually agreed price.

* 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$306 million) and Nanjing (HK$38 million)

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Trading of building materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Eliminations HK$ million	Consolidation HK$ million
RESULTS							
Segment results	26	(87)	(11)	5	(5)		(72)
Interest income							4
Loss on disposal of an investment property							(7)
Gain on disposal of a subsidiary							274
Profit from operations							199
Finance costs							(6)
							193
Share of results of jointly controlled entities/associates							
– Cement operations in							
– Chongqing and Guizhou	–	(2)	–	–	–		(2)
– Nanjing	–	–	–	–	–		–
– Venture capital investments	–	–	–	–	229		229
– Impairment loss on fixed assets for cement operations in Nanjing	–	(18)	–	–	–		(18)
– Others	–	(3)	–	(3)	–		(6)
							203
Profit before taxation							396
Taxation							(3)
Profit before minority interests							393

For the six months ended 30 September 2003

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Trading of building materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Eliminations HK$ million	Consolidation 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/associates	16	309*	–	–	–	–	325
Total	1,100	519	73	–	8	(75)	1,625

Inter-segment sales are charged at mutually agreed price.

* 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)

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Trading of building materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Eliminations HK$ million	Consolidation HK$ 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)
							4
Share of results of jointly controlled entities/associates							
– Cement operations in							
– Chongqing and Guizhou	–	18	–	–	–		18
– Nanjing	–	(6)	–	–	–		(6)
– Venture capital investments	–	–	–	–	3		3
– Others	–	(2)	–	–	–		(2)
							13
Profit before taxation							17
Taxation							(4)
Profit before minority interests							13

An analysis of the Group's turnover and profit (loss) before taxation by geographical markets, irrespective of the origin of the goods/services, are as follows:

	Turnover by geographical markets Six months ended 30 September		Profit (loss) before taxation Six months ended 30 September	
	2004 **HK$ million**	2003 HK$ million	**2004** **HK$ million**	2003 HK$ million
Subsidiaries				
Hong Kong	**958**	1,203	**(34)**	13
Other regions in the People's Republic of China ("PRC")	**96**	97	**227#**	(9)
	1,054	1,300	**193**	4
Jointly controlled entities/associates				
Hong Kong	**19**	16	**228**	3
PRC	**383**	309	**(25)**	10
	402	325	**203**	13
	1,456	1,625	**396**	17

\# These comprise gain of HK$274 million on disposal of Rui Hong Xin Cheng (Rainbow City) through a subsidiary and losses of HK$47 million from other operations.

(3) Profit from Operations

	Six months ended 30 September	
	2004 **HK$ million**	2003 HK$ million
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
Owned assets	**17**	19
Site establishment expenditure	**2**	2
	19	21
Interest on bank loans and overdrafts	**6**	12
Less: Amount capitalised to property under development	**–**	(7)
	6	5

(4) Taxation

	Six months ended 30 September 2004 HK$ million	2003 HK$ million
The charge (credit) comprises:		
Current taxation		
Hong Kong Profits Tax	**4**	3
Deferred taxation	**(2)**	–
Taxation attributable to the Company and its subsidiaries	**2**	3
Share of taxation attributable to jointly controlled entities/associates		
Income tax of other regions in the PRC	**1**	1
	3	4

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Deferred tax is provided on temporary differences under the liability method using tax rates applicable to the relevant districts.

(5) Dividends

Your Board recommended the payment of an interim dividend of HK$0.30 per share (2003: Nil) for the six months ended 30 September 2004.

	Six months ended 30 September 2004 HK$ million	2003 HK$ million
Dividend paid during the period	**–**	–
Proposed interim dividend of HK$0.30 (2003: Nil) per share	**81**	–

Final dividend for 2003/2004 at HK$0.275 (2002/2003: Nil) per share, totalling HK$74 million (2002/2003: Nil), was paid on 5 October 2004.

(6) Earnings Per Share

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

	Six months ended 30 September 2004 HK$ million	2003 HK$ million
Earnings for the purposes of basic and diluted earnings per share	**392**	14
	Million	Million
Weighted average number of ordinary shares for the purpose of basic earnings per share	**268**	265
Effect of dilutive potential ordinary shares	**4**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**272**	265

(7) Interests in Associates

Interests in associates represent mainly the Group's interest in Shui On Land Limited as explained in Note 18 below.

(8) Investments in Securities

	As at 30 September 2004 HK$ million	As at 31 March 2004 HK$ million
Other investments – equity securities, listed in Hong Kong	**12**	13

(9) Debtors, Retentions and Prepayments

	As at 30 September 2004 HK$ million	As at 31 March 2004 HK$ million
Debtors (net of provisions for bad and doubtful debts) with aging analysis		
Current to 90 days	**195**	300
91 to 180 days	**13**	16
181 to 360 days	**12**	13
Over 360 days	**17**	20
	237	349
Retentions receivable	**99**	99
Prepayments, deposits and other receivables	**364**	136
	700	584

The Group has a defined credit policy. The general credit term ranges from 30 days to 90 days.

(10) Creditors and Accrued Charges

	As at 30 September 2004 HK$ million	As at 31 March 2004 HK$ million
Creditors with aging analysis		
Within 30 days	**54**	97
31 to 90 days	**16**	23
91 to 180 days	**9**	8
Over 180 days	**7**	11
	86	139
Retentions payable	**125**	124
Accruals and other payables	**394**	466
	605	729

(11) 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 2004 and 30 September 2004	268

(12) 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
At 31 March 2004	19	557	2	197	(3)	1	345	1	1,119
Exchange adjustment	–	–	(1)	–	–	–	–	–	(1)
Premium on issue of shares	–	2	–	–	–	–	–	–	2
Profit for the period	–	–	–	–	–	–	392	–	392
At 30 September 2004	19	559	1	197	(3)	1	737	1	1,512

(13) Contingent Liabilities

As at 30 September 2004, the Group had contingent liabilities not provided for in these financial statements:

	As at 30 September 2004 HK$ million	As at 31 March 2004 HK$ million
Contingent liabilities		
(a) Performance bonds	**163**	164
(b) Guarantees to banks in respect of general facilities granted to jointly controlled entities		
– amount utilized	**308**	308
– amount unutilized	**7**	7
	315	315
(c) Guarantees to banks in respect of mortgage facilities granted to buyers of residential properties of Shanghai Rui Hong Xin Cheng Co. Ltd.	**–**	299

(14) Capital Commitments

As at 30 September 2004:

(a) the Group's commitments in respect of the development costs of property under development:

(i) contracted but not provided for in the accounts: Nil (As at 31 March 2004: HK$577 million); and

(ii) authorized but not contracted for: Nil (As at 31 March 2004: HK$85 million).

(b) as disclosed in the announcements made by the Group on 25 June 2004 and 11 August 2004, a subsidiary of the Group entered into a framework agreement on 18 June 2004 and a sale and purchase agreement on 11 August 2004 to invest in a sino-foreign joint venture which will be formed to acquire equity interests in a number of cement plants in Yunnan Province, the PRC. The Group will hold 80% share of this joint venture which will have a registered capital of Rmb1,000 million. A deposit of Rmb80 million was paid upon signing of the framework agreement. Application is being made to relevant authorities in the Central Government in relation to the establishment of this joint venture. Upon approval being granted, your Group's further contribution to capital of this joint venture will amount to Rmb720 million, being 80% of your Group's share of capital less the deposit paid of Rmb80 million.

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

	As at 30 September 2004 HK$ million	As at 31 March 2004 HK$ million
Contracted but not provided for	**615**	52
Anthorised but not contracted for	**708**	8

(15) Pledge of Assets

The Group has not pledged any asset as at 30 September 2004.

(16) Related Party Transactions

During the period, the Group had the following 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**	
	2004 HK$ million	2003 HK$ million
Income received:		
Interest income	**2**	3
Sales of construction materials	**3**	1
Proceeds from disposal of fixed assets	**–**	1
Costs and expenses paid:		
Construction/subcontracting work	**16**	29
Supplies of construction materials	**6**	12

(17) Post Balance Sheet Events and Discontinuing Operations

As part of the strategic transformation process, the Group has disposed of or is in the process of terminating the following non-core businesses:

(a) The Group entered into a sale and purchase agreement on 15 October 2004 with an independent third party to dispose of the concrete operations in the Guangdong province of the Chinese Mainland at a consideration of approximately HK$4.5 million. The operation was handed over to the purchaser in November 2004. Loss on closing down of the operation which has been fully provided for in the current accounting period amounted to approximately HK$16 million.

The licence for the quarry at Xinhui in the Chinese Mainland expired in June 2004 and management has decided not to continue with the operation of the quarry. Steps have been taken to close the quarry since July 2004 and the procedure is expected to be completed in December 2004. Loss of approximately HK$17 million resulted from the winding up of this operation has been fully provided for in the current accounting period.

Both the results of the concrete and quarry operations were included under "Sale of construction materials" in the segmental information set out in Note 2 above. The combined results of these two operations for the six months ended 30 September 2004 and the carrying amounts of the assets and liabilities of the operations as at 30 September 2004, which have been included in the consolidated financial statements, are as follows:

	Six months ended 30 September	
	2004	2003
	HK$ million	HK$ million
Turnover	**28**	34
Other revenue	**–**	1
Impairment loss on fixed assets	**(21)**	–
Impairment loss on current assets	**(12)**	–
Operating costs	**(39)**	(44)
Loss before taxation	**(44)**	(9)
Taxation	**–**	–
Loss after taxation attributable to the Group	**(44)**	(9)
Increased (decreased) cashflows in respect of		
– Operating activities	**(4)**	
– Investing activities	**–**	
– Financing activities	**2**	

	As at 30 September 2004
Total assets	**71**
Total liabilities	**(132)**
Net liabilities attributable to the Group	**(61)**

(b) On 15 September 2004, Kotemax Limited, an indirect-wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to dispose of the property known as "On King Building" in Kwun Tong, Kowloon at a consideration of HK$135 million. The transaction was completed in November 2004. A loss of approximately HK$7 million was accounted for in the financial statements for the six months ended 30 September 2004. Details of the transaction were set out in a circular dated 24 September 2004. The result of the operation was included under "Property investment and others" in the segmental information as set out in Note 2 above.

The results of Kotemax Limited for the six months ended 30 September 2004 and the carrying amounts of the assets and liabilities of the operations as at 30 September 2004, which have been included in the consolidated financial statements, are as follows:

	Six months ended 30 September	
	2004	2003
	HK$ million	HK$ million
Turnover	**6**	6
Other revenue	**–**	–
Loss on disposal of an investment property	**(7)**	–
Operating costs	**(3)**	(1)
(Loss) profit before taxation	**(4)**	5
Taxation	**–**	(1)
(Loss) profit after taxation attributable to the Group	**(4)**	4
Increased (decreased) cashflows in respect of		
– Operating activities	**3**	
– Investing activities	**13**	
– Financing activities	**(16)**	

	As at 30 September 2004
Total assets	**122**
Total liabilities	**(114)**
Net assets attributable to the Group	**8**

(c) The Board decided on 16 December 2004 to terminate the operation of Asia Materials Limited. Proceedings for the closure would be expected to complete in the first half of 2005. Loss resulted from the closure is estimated to be about HK$4 million. The result of the operation was included under "Trading of building materials" in the segmental information as set out in Note 2 above.

The results of Asia Materials Limited for the six months ended 30 September 2004 and the carrying amounts of the assets and liabilities of the operations as at 30 September 2004, which have been included in the consolidated financial statements, are as follows:

	Six months ended 30 September	
	2004	2003
	HK$ million	HK$ million
Turnover	**77**	73
Other revenue	**1**	2
Impairment loss on fixed assets	**(2)**	–
Impairment loss on current assets	**(2)**	–
Operating costs	**(85)**	(79)
Loss before taxation	**(11)**	(4)
Taxation	**–**	–
Loss after taxation attributable to the Group	**(11)**	(4)
Increased (decreased) cashflows in respect of		
– Operating activities	**(14)**	
– Investing activities	**–**	
– Financing activities	**9**	

	As at 30 September 2004
Total assets	**52**
Total liabilities	**(155)**
Net liabilities attributable to the Group	**(103)**

(18) Notes to the Condensed Consolidated Cash Flow Statement

On 18 February 2004, the Group entered into the Rainbow Sale and Purchase Agreement and the Subscription and Shareholders' Agreement (the "Agreements") for co-investment in Shui On Land Limited ("SOL") with the parent company, Shui On Company Limited. The Agreements involved the injection of Rui Hong Xin Cheng (also known as Rainbow City), held by Shanghai Rui Hong Xin Cheng Company Limited, a 99% subsidiary of the Group, in return for US$130 million equity interest in SOL. The completion of this transaction took effect on 31 May 2004 ("Completion Date"). In addition, there is provision in the Agreements that on injection of an amount of US$50 million by New Rainbow Investments Limited, a wholly owned subsidiary of the Group, 50 million junior preference shares in SOL will be allotted. On the Completion Date, US$25 million of cash was injected for this purpose. Details of these transactions were set out in a circular dated 23 March 2004.

The disposal of Rui Hong Xin Cheng (Rainbow City) on the Completion Date and the investment in SOL are analysed as follows:

	HK$ million
Net assets disposed of (excluding cash and cash equivalents)	292
Gain on the disposal of Rui Hong Xin Cheng (Rainbow City)	274
	566
Satisfied by:	
Non-cash consideration	
– Ordinary shares of SOL allotted	1,102
Sale of cash and cash equivalents	(536)
	566

As aforementioned, on Completion Date, US$25 million (HK$195 million) of cash was injected to SOL to subscribe for junior preference shares of the same amount, thereby increasing the total value of investment of the Group in SOL to HK$1,297 million.

REWARD OF EMPLOYEES

At 30 September 2004, the number of salaried staff of the Group was approximately 1,060 in Hong Kong and 12,200 in subsidiaries and jointly controlled entities in the Chinese Mainland. Employees are rewarded on a performance-related basis.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.22 AND RULE 13.21 OF THE LISTING RULES

Disclosure pursuant to Rule 13.22 – Financial Assistance and Guarantees to Affiliated Companies

As at 30 September 2004, financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK$1,258 million, details of which are as follows:

		Balance as at 30 September 2004				
		Unsecured loan				
	Effective percentage of interest	Interest free with no fixed repayment terms HK$ million	Interest bearing with no fixed repayment terms HK $million	Guarantee given HK$ million	Convertible redeemable participating preference shares HK$ million	Total HK$ million
Allied Well Investment Ltd.	50%	8	–	–	–	8
Brisfull Ltd.	50%	–	42	–	–	42
Guizhou Kaili Shui On Cement Co. Ltd.	89%	8	20	–	–	28
Guizhou Xinpu Shui On Cement Co. Ltd.	79%	3	43	–	–	46
Guizhou Dingxiao Shui On Cement Co. Ltd.	89%	1	37	–	–	38
Guizhou Bijie Shui On Cement Co. Ltd.	79%	18	–	–	–	18
Guizhou Zunyi Shui On Cement Co. Ltd.	79%	16	10	–	–	26
Guizhou Kaili Ken On Concrete Co. Ltd.	74%	4	2	–	–	6
Guizhou Zunyi Ken On Concrete Co. Ltd.	74%	2	–	–	–	2
Guangzhou On Track Construction Precast Products Co. Ltd.	40%	3	–	–	–	3
Lamma Yue Jie Company Ltd.	60%	12	–	–	–	12
Nanjing Jiangnan Cement Co. Ltd.	60%	89	–	–	–	89
Shenzhen Lamma Yue Jie Concrete Products Co. Ltd.	60%	–	–	10	–	10
Sichuan Hejiang T.H. Cement Co. Ltd.	89%	1	10	–	–	11
Super Race Ltd.	50%	–	–	5	–	5
Shui On Land Limited	30%	129	–	–	195*	324
TH Industrial Management Ltd.	50%	252	–	300	–	552
The Yangtze Ventures II Ltd.	75%	38	–	–	–	38
		584	164	315	195	1,258

* Pursuant to the Subscription and Shareholders' Agreement related to Shui On Land Limited (the "Agreement") entered into by the Company on 18 February 2004, cash contribution of US$25 million (equivalent to HK$195 million) was made by the Company in return for 25 million junior convertible redeemable participating preference shares. Such shares carry a fixed cumulative preferential cash dividend at the rate of 7% per annum and were accounted for as amount due from an associate in the consolidated financial statements of the Group. Details of the Agreement were disclosed in the circular dated 23 March 2004.

The Company is required under Rule 13.22 to state in its interim report proforma combined balance sheets of the affiliated companies which should include significant balance sheet classifications and to 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 2004. Pursuant to Rule 13.22, 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 2004, the total exposure reported by the affiliated companies on combined indebtedness (including amounts owing to the Group) amounted to approximately HK$6,887 million of which HK$4,658 million is related to SOL. Such affiliated companies reported capital commitments of HK$615 million and no contingent liabilities as at 30 September 2004.

Disclosure pursuant to Rule 13.21 – Banking facilities with covenants relating to specific performance of the controlling shareholders

In April 2004, the Company was granted a 3-year revolving loan facility of HK$150 million, which requires its ultimate holding company, Shui On Company Limited, to retain an interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreement. Breach of such obligation will cause a default in respect of the loan.

In October 2004, the Company was granted a 3-year revolving loan facility of HK$200 million by a bank in Hong Kong, which requires its existing controlling shareholders, Shui On Company Limited and Mr. Lo Hong Sui, Vincent, to retain an interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreement. Breach of such obligation will cause a default in respect of the loan.

Two existing term loans of HK$200 million each granted by two banks in Hong Kong requiring the Company's existing controlling shareholders, Shui On Company Limited and Mr. Lo Hong Sui, Vincent, to retain an interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreements as announced by the Company on 18 October 2001 were renewed in October 2004 with the final maturity date extended for a further period of one and three years respectively. Breach of such obligation will cause a default in respect of these loans.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 January 2005 to Friday, 21 January 2005, 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, 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not later than 4:00 p.m. on Friday, 14 January 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Your Group's turnover for the six months ended 30 September 2004 was HK$1.1 billion, a decrease of 19% compared with the same period in 2003. Consolidated unaudited profit after taxation and minority interests was HK$392 million, compared with a profit of HK$14 million in the same period last year.

Property Development Interests in the Chinese Mainland – Shui On Land ("SOL")

After receiving unanimous approval from independent shareholders in April 2004, your Group injected Rui Hong Xin Cheng (Rainbow City) into SOL, which was formally established in June 2004. Your Group received a US$130 million equity interest, which was equivalent to a holding of 30.2% in SOL. Together with certain bonus shares distributable based upon performance, and the subscription and conversion of 50 million preference shares ascribed to SOCAM, out of a total of 400 million such shares, a final 21.8% stake in SOL will be held by SOCAM. The disposal of Rui Hong Xin Cheng generated a gain of HK$274 million.

Backed by prestigious international real estate and private equity investors, SOL is the flagship property company of Shui On Group, consolidating its interests as developer, owner and operator in premier real estate in the Chinese Mainland. SOL is expected to provide SOCAM with development profits and rental income stream.

SOL focuses on two key business segments: City Core Development Projects, which are large-scale, mixed-use redevelopments consisting of office, residential, retail, entertainment, cultural and recreational facilities; and Integrated Residential Development Projects, which are master planned high quality residential developments offering full amenities. SOCAM now owns a substantial holding in SOL, and a detailed description of SOL's current portfolio is given below.

Rui Hong Xin Cheng (Rainbow City), Shanghai

Rainbow City is an Integrated Residential Development Project targeting the fast growing young, professional and upwardly mobile segment of the Shanghai market. The sale of a batch of 270 residential units in September 2004 was met with overwhelming market response, with more than 8,500 prospective buyers paying a deposit of Rmb30,000 each. All units were sold by ballot within days at an average price of about Rmb11,500 per square metre.

Taipingqiao Project, Shanghai

Taipingqiao is a City Core Development Project encompassing 1.3 million square metres of commercial and residential developments in the heart of Shanghai and features the internationally acclaimed Shanghai Xintiandi, Corporate Avenue (Grade A office buildings and a commercial and entertainment complex) and Lakeville (luxury residential developments).

Xihu Tiandi, Hangzhou

Scheduled for completion in 2006, Xihu Tiandi is a leisure and lifestyle development that preserves Hangzhou's rich natural and historical legacy. Set amidst a lush parkland in the southern edge of Hangzhou's scenic West Lake, the development will offer a fine selection of cafes, restaurants, retail shops and entertainment facilities in a relaxing garden atmosphere. The project has a total gross floor area of 58,000 square metres. The first phase, consisting of ten buildings with a gross floor area of 4,600 square metres in a 30,000-square-metre park, was launched in May 2003.

Hualongqiao Project, Chongqing

Hualongqiao is located in the Yuzhong District in Chongqing with a riverfront spanning two kilometres. With an area of 1.2 million square metres, it is the largest site available for master planned development in the urban area with a prospective gross floor area of about 2.8 million square metres. In line with the local government's vision to modernize the municipality, the project will be positioned as the future "manufacturing service and support centre" of Chongqing. On completion, the project will include exhibition centres, merchandise marts, luxury hotels, intelligent office buildings as well as residential clusters and dining, shopping and entertainment amenities.

Chuangzhi Tiandi, Shanghai

Adjacent to numerous major universities and colleges in the Yangpu district of Shanghai, this project aims at generating innovation, entrepreneurship and economic development similar to that of Silicon Valley in the United States through providing "live-work" accommodation and technology hub facilities. With a site area of 84 hectares and a total gross floor area of over one million square metres, the project puts strong emphasis on the promotion of technology, research, business incubation, learning and culture, which are prominent features of a knowledge community.

Cement Operations in the Chinese Mainland

While your Group's expansion plans in Chongqing and Guizhou were on target and a strong market presence was well established, our operations there were increasingly affected by the austerity measures imposed by the Central Government in the second quarter of 2004. Investments in the cement industry, along with a few other sectors, were put under stringent control. Major infrastructure works and investments in property projects were also significantly curtailed. On the operation side, the drastic rise in coal and electricity prices as well as increased transportation costs could not be immediately and fully passed on to customers due to sluggish demand. Production and sales were adversely affected, resulting in contributions in both Chongqing and Guizhou being lower than expected.

There are however encouraging signs recently that, amidst the continuous effort of the Central Government to slow down growth in the coastal regions, the interior provinces should be less seriously affected due to the long term Go West policy. In particular, given the severe shortage of coal and electricity in the Chinese Mainland, hydroelectric power in high-altitude areas like Chongqing and Guizhou will receive special attention as one of the most abundant but sparingly explored energy sources. Development of the vast local coal reserves will also speed up, which in turn requires extensive transportation infrastructure to be built. All these will continue to bolster the demand for high grade cement, and your Group's commitment to expanding cement investment in the region remained firm despite the temporary set-back.

Moreover, the much more stringent restrictions imposed by the Central Government to control inefficient and outmoded cement plants, which cause severe environmental pollution and huge energy wastage, if implemented, will limit competition from these players in the medium term. This will offer good opportunities for well-established and resourceful enterprises like your Group to further penetrate the market in preparation of the upturn in due course.

Chongqing operations

The construction of the dry kiln in Diwei with a capacity of 800,000 tonnes per annum ("tpa") was completed and commissioning started in November 2004. The cable suspended bridge linking the Diwei factory to the limestone quarry at the opposite shore of Yangtze River was also completed in October resulting in significant reduction in transportation costs. Construction of the larger kiln of 1.2 million tpa in Hechuan was however slowed down pending the recovery of the market in northern and central Sichuan.

To further reduce costs, the construction of a grinding mill for processing the 800,000 tonnes of steel slag per annum supplied by Chongqing Steel Factory, the only source of this blending material in Chongqing, is underway and should upon completion greatly enhance the competitiveness of the Diwei plant.

The above projects, when completed, will consolidate the market leadership position of the TH Group in Chongqing with a total capacity of more than 8 million tpa.

Operations in Hechuan, Guangan and Fuling were adversely affected by stiff competition from smaller operators and the wet summer. The resumption of large scale infrastructure works in Chongqing will hopefully alleviate the difficult trading conditions.

Guizhou operations

In Guizhou, the overall strategy is to become a significant player in major markets.

The operations in the southwestern autonomous prefecture Qianxinan and the southeastern Qiandongnan were satisfactory, with demand often exceeding production. The four plants in Zunyi, the second largest city in Guizhou, however, faced severe competition as numerous infrastructure projects were delayed amidst the austerity measures and the heavy rainy season. The escalation in energy and transportation costs further affected the profit margins, which were much below expectation.

The newly acquired plant in Bijie started to perform satisfactorily after initial inevitable problems of tuning in of equipment. The other newly acquired plant in Changda operated profitably and within expectation.

Yunnan acquisition

In June 2004, a framework agreement was signed with the Yunnan government to acquire 80% of certain cement companies in Kunming, the provincial city, and Kaiyuan. The two main companies have an existing production capacity of 2.2 million tpa, with a 1.5 million tpa dry kiln under construction in Kunming and another 800,000 tpa dry kiln just completed in Kaiyuan. The combined capacity of 4.5 million tpa represents the largest cement plant acquisition so far in the Chinese Mainland. The sale and purchase agreement was signed in August. An option was granted to Lafarge (the largest cement producer in the world) until 17 March 2005 to acquire 50% of SOCAM's share in this Yunnan deal, in return for Lafarge's free technical assistance to assess the plants acquired. Details of this transaction will be available in a circular to be dispatched to shareholders soon. It is the intention of your Group to explore wider cooperation with Lafarge in the Chinese Mainland.

The addition of Yunnan, which borders Guizhou, Chongqing and Sichuan, to SOCAM's cement investment portfolio will extend your Group's sales reach to cover a population in excess of 120 million. The Central Government's policy to foster much closer ties with Asean countries, three of which directly adjoin Yunnan, will significantly boost the economy of the province. Plans are also underway to develop Yunnan as the prime entrepot of oil projects through cooperation with oil-rich Asean countries like Vietnam. Substantial infrastructure is now being built to facilitate traffic with these countries, including an inter-state highway of approximately 1,500 km between Kunming and Bangkok.

Yangtze Ventures Funds

Your Group's portfolio of investments in the two Yangtze Ventures Funds (YVF) has produced substantial positive results.

Solomon Systech

This highly successful company is engaged in semiconductor and high voltage integrated circuit development. A sale of approximately two-thirds of the shareholding and the revaluation of the remaining stake in this company resulted in a profit attributable to your Group of HK$178 million.

China Infrastructure Group ("CIG")

CIG invested in the development and management of port projects along the Yangtze River in the Chinese Mainland. Successful negotiation with the Mainland joint venture partner of the Zhapu port project resulted in an agreement to liquidate our investment and a profit of HK$29 million, attributable to your Group, was generated. Due to unfavourable market conditions, the previously planned listing in Hong Kong of CIG's second investment in a Wuhan port has been put on hold until more favourable conditions exist.

Other investments

Following the successful closing of further fund raising, the YVF have revalued two more investments, namely, those on Walcom Group and Apexone Microelectronics, at a total gain attributable to your Group of approximately HK$22 million, based on values as ascribed by new investors. Two other investee companies are also preparing for second round fund raising and further appreciation of value on the YVF's investments is expected.

Construction in Hong Kong

With the Housing Authority's abolition of the Home Ownership Scheme and the government still plagued by fiscal deficits, tenders on public housing and other public sector works continued to be at a fraction of the previous peak. Consequently, turnover of the division amounted to only around HK$833 million for the half year. However, with efficient contract administration and a reduced cost structure, contributions from projects completed during the period were better than expected. Although margins on tenders submitted by some competitors are still unrealistically low in our opinion, the increased amount of works available from the government for tender indicate a slow recovery in the medium term.

During the period, your Group won contracts totalling HK$1.3 billion, including a design-and-build project for the new Independent Commission Against Corruption Headquarters Building at a sum of around HK$685 million. Contracts completed during the period included Pak Tin Estate Phases 3 and 6, the Redevelopment of Lam Tin Estate Phase 6 and Buildings 7 & 8 of the Hong Kong Science Park, totalling HK$1.9 billion.

At 30 November 2004, the gross and outstanding value of contracts on hand amounted to approximately HK$4.5 billion and HK$2.5 billion respectively (30 November 2003: HK$5.4 billion and HK$3.2 billion respectively).

Construction Materials in Hong Kong

Market conditions remained extremely tough as in the previous two years. Although prices of ready-mixed concrete have recovered from below HK$300 per cubic metre to over HK$450 per cubic metre, the low prices attached to forward orders fixed at the ebb a year ago meant that substantial losses were again sustained in the six-month period.

The demand for concrete in Hong Kong has in the past several years drastically contracted from a peak of more than 11 million cubic metres per annum in 1997 to about 4 million cubic metres per annum presently. This was aggravated by a price war and hastened a much overdue consolidation in the industry, which saw the merging of the two biggest players in 2003.

Construction Materials Business in the Pearl River Delta

The adverse trading environment in the past few years has not improved and will likely continue deteriorating in the foreseeable future. Many sizeable Hong Kong operators have withdrawn from the market, and your Group also decided to terminate most operations, including the concrete and pre-cast businesses as well as the two quarries in Xinhui and Chikwan. Impairment losses and assets written off amounted to HK$32 million.

Materials Trading – Asia Materials

Subsequent to the successful completion of the casino project for the Venetian Group in Macau, the company did not manage to secure further and substantial contracts for the coming year and it was considered no longer viable to continue operating. Closure of this business is being implemented.

Prospects

With the sizeable investment in SOL and the further expansion of our cement investments, which cover Chongqing, Sichuan, Guizhou and Yunnan in southwest China, SOCAM is now a predominately Mainland oriented group.

The fast expanding market share of our cement business in southwest China will further enhance our dominance and competitiveness in the region and is expected to bring in increasing economy of scale and rising profitability in the medium term.

With the development rights of more than 6.6 million square metres of gross floor area in central districts in major Mainland cities, SOL is in a strong position to capture the business opportunities accompanying the continued growth of the Mainland economy. The overwhelming response to the recent sale of Rainbow City apartments, the success of Corporate Avenue in attracting multinational groups as tenants as well as the huge popularity of the world-renowned Xintiandi in Shanghai are all testimony to SOL's strong branding with its distinct market niches. These successful projects, together with new developments in Shanghai and other major cities, will ensure a steady and strong income stream for your Group in the coming years.

Meanwhile, with the termination of the loss-making construction materials business in the Pearl River Delta as well as the material trading business, the drag on your Group's results will be eliminated and resources will be better directed to growth areas, resulting in improved profitability in the medium term.

Gearing Ratio and Treasury Policies

Liquidity and Financing

As at 30 September 2004, your Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK$1,309 million (31 March 2004: HK$780 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 shareholders' equity, increased from 56% as at 31 March 2004 to 74% as at 30 September 2004.

Treasury Policies

Bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating rate basis. Investments in the Chinese Mainland are partly financed by borrowings in Hong Kong dollars. Given that income from operations in the Chinese Mainland is denominated in Renminbi, your Group expects that fluctuation in the Renminbi exchange rate will not have 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.

DIRECTORS' INTERESTS IN SHARES

(a) Ordinary Shares of the Company

As at 30 September 2004, Directors of the Company had the following interests, all being long position, in the ordinary shares of the Company:

	Number of ordinary shares	
Name of Director	**Personal interests**	**Other interests**
Lo Hong Sui, Vincent	–	185,183,000
Wong Ying Wai, Wilfred	120,000	–
Choi Yuk Keung, Lawrence	602,000	–
Wong Yuet Leung, Frankie	–	–
Wong Fook Lam, Raymond	–	–
Lowe Hoh Wai Wan, Vivien	–	–
Enright, Michael John	–	–
Wong Hak Wood, Louis	184,000	–
Griffiths, Anthony	–	–
Cheung Kin Tung, Marvin	–	–
Cheng Mo Chi, Moses	–	–

Note: The 185,183,000 shares are held as to 166,148,000 shares and 19,035,000 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. 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 2004, options to subscribe for 30,028,000 shares within the following exercisable periods were outstanding:

			Number of options							
Name or category of eligible participants	Date of grant	Subscription price per share HK$	At 1.4.2004	Granted during the period (Note a)	Exercised during the period	Cancelled during the period	Lapsed during the period	At 30.9.2004	Period during which options outstanding at 30.9.2004 are exercisable	Price of Company's share at exercise date of options HK$ (Note b)
Directors										
Mr. Wong Ying Wai,	27.8.2002	6.00	200,000	–	(120,000)	–	–	80,000	27.2.2003 to 26.8.2007	7.35
Wilfred	27.8.2002	6.00	5,000,000	–	–	–	–	5,000,000*	27.8.2005 to 26.8.2010	
Mr. Choi Yuk Keung,	7.7.1999	11.21	280,000	–	–	–	(280,000)	–	7.1.2000 to 6.7.2004	
Lawrence	4.7.2000	9.56	70,000	–	–	–	–	70,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	140,000	–	–	–	–	140,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	168,000	–	–	–	–	168,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	5,000,000	–	–	–	–	5,000,000*	27.8.2005 to 26.8.2010	
Mr. Wong Yuet Leung,	7.7.1999	11.21	200,000	–	–	–	(200,000)	–	7.1.2000 to 6.7.2004	
Frankie	4.7.2000	9.56	200,000	–	–	–	–	200,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	200,000	–	–	–	–	200,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	160,000	–	–	–	–	160,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	2,000,000	–	–	–	–	2,000,000*	27.8.2005 to 26.8.2010	
Mr. Wong Fook Lam,	7.7.1999	11.21	150,000	–	–	–	(150,000)	–	7.1.2000 to 6.7.2004	
Raymond	4.7.2000	9.56	160,000	–	–	–	–	160,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	160,000	–	–	–	–	160,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	110,000	–	–	–	–	110,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	2,000,000	–	–	–	–	2,000,000*	27.8.2005 to 26.8.2010	
Mrs. Lowe Hoh Wai Wan,	7.7.1999	11.21	150,000	–	–	–	(150,000)	–	7.1.2000 to 6.7.2004	
Vivien	4.7.2000	9.56	160,000	–	–	–	–	160,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	160,000	–	–	–	–	160,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	66,000	–	–	–	–	66,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	2,000,000	–	–	–	–	2,000,000*	27.8.2005 to 26.8.2010	
Mr. Wong Hak Wood,	7.7.1999	11.21	250,000	–	–	–	(250,000)	–	7.1.2000 to 6.7.2004	
Louis	4.7.2000	9.56	280,000	–	–	–	–	280,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	280,000	–	–	–	–	280,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	132,000	–	–	–	–	132,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	2,000,000	–	–	–	–	2,000,000*	27.8.2005 to 26.8.2010	
Sub-total			21,676,000	–	(120,000)	–	(1,030,000)	20,526,000		
Other employees	7.7.1999	11.21	2,040,000	–	–	(100,000)	(1,940,000)	–	7.1.2000 to 6.7.2004	
(in aggregate)	4.7.2000	9.56	1,394,000	–	–	(66,000)	–	1,328,000	4.1.2001 to 3.7.2005	
	17.7.2001	9.30	1,472,000	–	–	(84,000)	–	1,388,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	1,356,000	–	(142,000)	(76,000)	–	1,138,000	27.2.2003 to 26.8.2007	7.53
	27.8.2002	6.00	4,000,000	–	–	–	–	4,000,000*	27.8.2005 to 26.8.2010	
	4.8.2003	5.80	714,000	–	(90,000)	(6,000)	–	618,000	4.2.2004 to 3.8.2008	7.38
	26.7.2004	7.25	–	1,030,000	–	–	–	1,030,000	26.1.2005 to 25.7.2009	
Sub-total			10,976,000	1,030,000	(232,000)	(332,000)	(1,940,000)	9,502,000		
			32,652,000	1,030,000	(352,000)	(332,000)	(2,970,000)	30,028,000		

Note:

a. The closing price of the Company's shares preceding the date on which the options were granted was HK$7.30.

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.

c. * 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.

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 2004 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

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at 30 September 2004, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	No. of ordinary shares in the Company	Percentage of shareholding in the Company
Cheah Cheng Hye	16,666,000	6.22%

Of the 16,666,000 shares, 16,204,000 shares are held by Value Partners Limited, which is an associate of Mr. Cheah Cheng Hye.

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 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group in the course of its examination 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

The Remuneration Committee has reviewed during the period the annual bonus and share option grants recommendations for executives and management staff, arranged an executive compensation benchmarking survey, evaluated the remuneration packages of executive directors and assessed the performance of grantees of the mega grant of options made in August 2002.

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period, except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company.

Lo Hong Sui, Vincent
Chairman

Hong Kong, December 2004

Web Site: www.shuion.com