瑞安建業有限公司

SHUI ON CONSTRUCTION AND MATERIALS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2005/06

FINANCIAL HIGHLIGHTS

	2005	2004 (restated)
Turnover	**HK$668 million**	HK$1,054 million
Profit attributable to equity holders of the Company	**HK$101 million**	HK$392 million
Basic earnings per share	**HK$0.38**	HK$1.46
Interim dividend per share	**HK$0.12**	HK$0.30

BUSINESS REVIEW AND PROSPECTS

- Strong contribution from Shui On Land helps to consolidate the Group's continued expansion and diversification in the Chinese Mainland market.

- The joint venture partnership between SOCAM and Lafarge marks the successful implementation of the Group's long-standing strategy to become a leading supplier of high-quality cement on the Mainland.

- Our venture capital investments are producing good returns from the increased value of the portfolio.

- Improved results for our construction operations in Hong Kong.

- The Group's participation in a consortium to acquire an unfinished Grade A office building in Dalian at a favourable purchase price represents the start of a potential new business which fully exploits SOCAM's expertise and experience in construction.

RESULTS

The Directors of Shui On Construction and Materials Limited ("the Company" or "SOCAM") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2005 as follows:–

Condensed Consolidated Income Statement – Unaudited

	Notes	Six months ended 30 September **2005** **HK$ million**	 2004 (restated) HK$ million
Turnover			
The Company and its subsidiaries		**668**	1,054
Share of jointly controlled entities		**417**	437
		1,085	1,491
Group turnover	4	**668**	1,054
Other income		**24**	14
Changes in inventories of finished goods, work in progress, contract work in progress, properties held for sale and property under development		**88**	4
Raw materials and consumables used		**(91)**	(211)
Staff costs		**(121)**	(176)
Depreciation and amortisation expenses		**(5)**	(19)
Subcontracting, external labour costs and other expenses		**(531)**	(734)
Loss on disposal of investment property		**–**	(7)
Finance costs		**(29)**	(6)
Gain on disposal of a subsidiary		**–**	274
Share of results of jointly controlled entities		**(4)**	205
Share of results of associates		**108**	(3)
Profit before taxation		**107**	395
Taxation	5	**(5)**	(2)
Profit for the period	6	**102**	393
Attributable to:			
Equity holders of the Company		**101**	392
Minority interests		**1**	1
		102	393
Dividends	7	**33**	81
Earnings per share	8		
Basic		**HK$0.38**	HK$1.46
Diluted		**HK$0.21**	HK$1.44
Interim dividend per share		**HK$0.12**	HK$0.30

Condensed Consolidated Balance Sheet – Unaudited

	Notes	**As at 30 September 2005 HK$ million**	As at 31 March 2005 (restated) HK$ million
Non-Current Assets			
Property, plant and equipment		**15**	26
Prepaid lease payments		**4**	18
Negative goodwill		**–**	(1)
Interests in jointly controlled entities		**1,259**	930
Interests in associates	9	**2,007**	1,714
Investments in securities		**–**	13
Financial assets at fair value through profit or loss	10	**49**	–
Defined benefit assets		**18**	10
		3,352	2,710
Current Assets			
Inventories		**15**	14
Properties held for sale		**56**	56
Debtors, deposits and prepayments	11	**516**	566
Amounts due from customers for contract work		**94**	74
Amounts due from jointly controlled entities		**554**	492
Taxation recoverable		**1**	7
Bank balances, deposits and cash		**66**	58
		1,302	1,267
Non-current assets held for sale	12	**20**	–
		1,322	1,267
Current Liabilities			
Creditors and accrued charges	13	**549**	540
Amounts due to customers for contract work		**128**	195
Amounts due to jointly controlled entities		**28**	24
Amounts due to related companies		**3**	–
Taxation payable		**5**	2
Bank borrowings, due within one year		**494**	254
		1,207	1,015
Net Current Assets		**115**	252
		3,467	2,962
Capital and Reserves			
Share capital	14	**270**	269
Reserves		**1,834**	1,664
Total equity attributable to equity holders of the Company		**2,104**	1,933
Minority interests		**43**	29
		2,147	1,962
Non-Current Liability			
Bank borrowings		**1,320**	1,000
		3,467	2,962

Condensed Consolidated Statement of Changes in Equity – Unaudited

	Attributable to equity holders of the Company													
	Share capital HK$ million	Share premium account HK$ million	Properties revaluation reserve 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	Other reserve HK$ million	Share option reserve HK$ million	Total HK$ million	Minority interests HK$ million	Total equity HK$ million
At 1 April 2004														
– as originally stated	268	557	19	2	197	(3)	1	345	1	–	–	1,387	29	1,416
– effects of changes in accounting policies	–		(19)	–	–	–	–	(1)	–	–	–	(20)	–	(20)
– as restated	268	557	–	2	197	(3)	1	344	1	–	–	1,367	29	1,396
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	(1)	–	–	–	–	–	–	–	(1)	–	(1)
Expense recognised directly in equity	–	–	–	(1)	–	–	–	–	–	–	–	(1)	–	(1)
Profit for the period	–	–	–	–	–	–	–	392	–	–	–	392	1	393
Total recognised income and expense for the period	–	–	–	(1)	–	–	–	392	–	–	–	391	1	392
Premium on issue of shares	–	2	–	–	–	–	–	–	–	–	–	2	–	2
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(7)	(7)
At 30 September 2004	268	559	–	1	197	(3)	1	736	1	–	–	1,760	23	1,783
At 1 April 2005														
– as originally stated	269	566	21	–	197	(3)	1	674	1	231	–	1,957	29	1,986
– effects of changes in accounting policies	–	–	(21)	–	–	–	(1)	132	–	–	1	111	–	111
– as restated	269	566	–	–	197	(3)	–	806	1	231	1	2,068	29	2,097
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	10	–	–	–	–	–	–	–	10	–	10
Income recognised directly in equity	–	–	–	10	–	–	–	–	–	–	–	10	–	10
Profit for the period	–	–	–	–	–	–	–	101	–	–	–	101	1	102
Total recognised income and expense for the period	–	–	–	10	–	–	–	101	–	–	–	111	1	112
Issue of shares	1	–	–	–	–	–	–	–	–	–	–	1	–	1
Premium on issue of shares	–	4	–	–	–	–	–	–	–	–	–	4	–	4
Dividends paid	–	–	–	–	–	–	–	(81)	–	–	–	(81)	–	(81)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	–	–	1	1	–	1
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	13	13
At 30 September 2005	270	570	–	10	197	(3)	–	826	1	231	2	2,104	43	2,147

Condensed Consolidated Cash Flow Statement – Unaudited

	Six months ended 30 September	
	2005	2004
	HK$ million	HK$ million
Net cash from (used in) operating activities	**39**	(18)
Net cash used in investing activities	**(497)**	(792)
Net cash from financing activities	**466**	258
Net increase (decrease) in cash and cash equivalents	**8**	(552)
Cash and cash equivalents at the beginning of the period	**58**	639
Cash and cash equivalents at the end of the period	**66**	87
Analysis of the balance of cash and cash equivalents		
Bank balances, deposits and cash	**66**	87

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal Accounting Policies

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/ jointly controlled entities has been changed. The changes in presentation have been applied retrospectively.

As disclosed in the financial statements for the year ended 31 March 2005, the Group had elected to adopt early HKAS 40 Investment Property and HK(SIC)-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. In the current period, the Group has adopted, where relevant, all remaining new and revised HKFRSs that are currently in issue and effective for the financial year beginning on 1 April 2005.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using either the cost model or the revaluation model. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The financial impact is not significant. Alternatively, where the allocation between the land and buildings element cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Financial Instruments

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

At 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24") Accounting for Investment in Securities. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" were carried at cost less impairment losses (if any) while "other investments" were measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in the profit and loss account and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. The carrying amounts of assets and liabilities at 1 April 2005 has been reclassified to financial assets at fair value through profit or loss. There was no material effect on the Group's retained profits.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. An adjustment to the previous carrying amounts of assets or liabilities of HK$4 million on 1 April 2005 has been made to the Group's retained profits.

Share-based Payment

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see note 3 for the financial impact).

Business Combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 Business Combinations to goodwill acquired in business combinations for which the agreement date was before 1 January 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and goodwill arising on acquisitions after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. Figures for 2004 have not been restated.

In the current period, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rates at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior period adjustment has been made.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in the profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 April 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 April 2005 (of which HK$1 million was previously recorded in reserves and HK$131 million was previously presented as a deduction from assets), with a corresponding increase to retained profits.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. In addition, since the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1 January 2005, comparative figures for 2004 have not been restated.

The Group has not adopted early the following new HKFRSs that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group is in the process of assessing the impact of these amendments, new standards and new interpretations in the period of initial application. The Group is not yet in a position to state whether the adoption of them would have a significant impact on the results of its operations and its financial position.

3. Summary of the Effects of the Changes in the Accounting Policies

(i) The effects of the changes in the accounting policies on the results for the six months ended 30 September 2005 are:

	Effect of adopting		
HK$ million	**HKAS 39**	**HKFRS 2**	**Total**
Increase/(decrease) in profit for the period:			
Other income	7	–	7
Staff costs	–	(1)	(1)
Share of results of jointly controlled entities	(8)	–	(8)
Profit before taxation	(1)	(1)	(2)
Taxation	–	–	–
Profit for the period	(1)	(1)	(2)
Attributable to:			
Equity holders of the Company	(1)	(1)	(2)
Minority interests	–	–	–
	(1)	(1)	(2)

(ii) The effects of the changes in the accounting policies on the results for the six months ended 30 September 2004 are not significant.

(iii) The cumulative effects of the changes in the accounting policies on the condensed consolidated balance sheet as at 31 March 2005 and 1 April 2005 are summarised below:

Consolidated balance sheet items	As at 31 March 2005 (originally stated) HK$ million	HKAS 1 Adjustments HK$ million	HKAS 17 Adjustments HK$ million	HKFRS 2 Adjustments HK$ million	As at 31 March 2005 (restated) HK$ million	HKAS 39 Adjustments HK$ million	HKFRS 3 Adjustments HK$ million	As at 1 April 2005 (restated) HK$ million
Property, plant and equipment	**72**	–	(46)	–	**26**	–	–	**26**
Prepaid lease payments	**–**	–	18	–	**18**	–	–	**18**
Negative goodwill	**(1)**	–	–	–	**(1)**	–	1	**–**
Interests in jointly controlled entities	**930**	–	–	–	**930**	7	89	**1,026**
Interests in associates	**1,714**	–	–	–	**1,714**	(3)	41	**1,752**
Investment in securities	**13**	–	–	–	**13**	(13)	–	**–**
Financial assets at fair value through profit or loss	**–**	–	–	–	**–**	13	–	**13**
Bank borrowings, due within one year	**(56)**	(198)	–	–	**(254)**	–	–	**(254)**
Bank borrowings	**(1,198)**	198	–	–	**(1,000)**	–	–	**(1,000)**
Deferred tax liabilities	**(4)**	–	4	–	–	–	–	–
Total	**1,470**	–	(24)	–	**1,446**	4	131	**1,581**
Properties revaluation reserve	**21**	–	(21)	–	**–**	–	–	**–**
Retained profits	**674**	–	(3)	(1)	**670**	4	132	**806**
Negative goodwill	**1**	–	–	–	**1**	–	(1)	**–**
Share option reserve	**–**	–	–	1	**1**	–	–	**1**
Total	**696**	–	(24)	–	**672**	4	131	**807**

4. Segmental Information

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

For the six months ended 30 September 2005

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Eliminations HK$ million	Consolidated HK$ million
TURNOVER						
External sales	664	3	–	1	–	668
Inter-segment sales	3	–	–	–	(3)	–
Group turnover	667	3	–	1	(3)	668
Share of jointly controlled entities	45	366*	–	6	–	417
Total	712	369	–	7	(3)	1,085

Inter-segment sales are charged at mutually agreed prices.

* This includes the Group's effective share of turnover of jointly controlled entities in respect of the cement operations in Chongqing and Guizhou (HK$344 million) and Nanjing (HK$4 million).

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Eliminations HK$ million	Consolidated HK$ million
RESULTS						
Segment results	46	(22)	10	(15)		19
Interest income						13
Finance costs						(29)
Share of results of jointly controlled entities						
Cement operations in						
– Guizhou	–	11	–	–		11
– Chongqing	–	(39)	–	–		(39)
– Nanjing	–	(8)	–	–		(8)
Venture capital investments	–	–	–	32		32
						(4)
Share of results of associates						
Property development in the People's Republic of China ("PRC")	–	–	108	–		108
Profit before taxation						107
Taxation						(5)
Profit for the period						102

For the six months ended 30 September 2004

	Construction and building maintenance HK$ million	Sale of construction materials HK$ million	Property development HK$ million	Property investment and others HK$ million	Trading of building materials HK$ million	Eliminations HK$ million	Consolidated HK$ million
TURNOVER							
External sales	833	135	2	7	77	–	1,054
Inter-segment sales	–	41	–	–	–	(41)	–
Group turnover	833	176	2	7	77	(41)	1,054
Share of jointly controlled entities	58	371*	–	8	–	–	437
Total	891	547	2	15	77	(41)	1,491

Inter-segment sales are charged at mutually agreed prices.

* This includes 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).

RESULTS							
Segment results	26	(87)	5	(5)	(11)		(72)
Interest income							4
Finance costs							(6)
Loss on disposal of investment property							(7)
Gain on disposal of a subsidiary							274
Share of results of jointly controlled entities							
Cement operations in							
– Guizhou	–	7	–	–	–		7
– Chongqing	–	(10)	–	–	–		(10)
– Nanjing	–	(18)	–	–	–		(18)
Venture capital investments	–	–	–	229	–		229
Others	–	(3)	–	–	–		(3)
							205
Share of results of associates							
Property development in the PRC	–	–	(3)	–	–		(3)
Profit before taxation							395
Taxation							(2)
Profit for the period							393

Analysis of the Group's turnover and profit 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 before taxation Six months ended 30 September	
	2005	2004	**2005**	2004 (restated)
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**658**	958	**13**	(24)
Other regions in the PRC	**10**	96	**6**	(48)
	668	1,054	**19**	(72)
Interest income			**13**	4
Finance costs			**(29)**	(6)
Loss on disposal of investment property			**–**	(7)
Gain on disposal of a subsidiary			**–**	274
Share of results of jointly controlled entities			**(4)**	205
Share of results of associates			**108**	(3)
			107	395

5. Taxation

	Six months ended 30 September	
	2005	2004 (restated)
	HK$ million	HK$ million
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**5**	4
Deferred taxation	**–**	(2)
	5	2

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the period. Profits tax outside Hong Kong (if any) is calculated at the rates prevailing in the respective jurisdictions.

6. Profit for the Period

	Six months ended 30 September 2005 HK$ million	2004 (restated) HK$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation:		
Property, plant and equipment	**5**	19
Impairment losses on property, plant and equipment	**–**	23
Provision for inventories	**1**	6
Allowance for debtors, deposits and prepayments	**2**	4
Provision for severance payments	**–**	4
Interest on bank loans and overdrafts	**29**	6
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	**1**	1
Share of taxation of associates (included in share of results of associates)	**41**	–
Imputed interest income on amount due from a jointly controlled entity	**(7)**	–

7. Dividends

The Board recommended the payment of an interim dividend of HK$0.12 (2004/05: HK$0.30) per share for the six months ended 30 September 2005.

	Six months ended 30 September 2005 HK$ million	2004 HK$ million
Dividend paid	**81**	–
Proposed interim dividend for 2005/06 at HK$0.12 (2004/05: HK$0.30) per share	**33**	81

Final dividend for 2004/05 at HK$0.30 (2003/04: HK$0.275) per share, totaling HK$81 million was paid on 24 August 2005 (2003/04: HK$74 million was paid on 5 October 2004).

8. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	Six months ended 30 September 2005 HK$ million	2004 (restated) HK$ million
Earnings for the purposes of basic earnings per share	**101**	392
Effect of dilutive potential ordinary shares of an associate:		
Dividend income on convertible redeemable participating junior preference shares	**(10)**	–
Adjustment to the share of results of an associate based on dilution of its earnings per share	**(34)**	–
Earnings for the purposes of diluted earnings per share	**57**	392
	Million	Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**270**	268
Effect of dilutive potential ordinary shares:		
Share options	**7**	4
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**277**	272

9. Interests in Associates

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Share of net assets	**1,617**	1,470
Convertible redeemable participating junior preference shares	**390**	244
	2,007	1,714

10. Financial Assets at Fair Value through Profit or Loss

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Unlisted equity securities overseas	**49**	–

11. Debtors, Deposits and Prepayments

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

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Debtors (net of allowance for bad and doubtful debts) aged analysis:		
Within 90 days	**128**	175
91 days to 180 days	**2**	8
181 days to 360 days	**4**	9
Over 360 days	**9**	11
	143	203
Retentions receivable	**90**	100
Prepayments, deposits and other receivables	**283**	263
	516	566

12. Non-current Assets Held for Sale

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Property, plant and equipment	**6**	–
Prepaid lease payments	**14**	–
	20	–

The proceeds on disposal of the above assets are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised.

13. Creditors and Accrued Charges

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Creditors aged analysis:		
Within 30 days	**27**	67
31 days to 90 days	**5**	17
91 days to 180 days	**1**	2
Over 180 days	**5**	2
	38	88
Retentions payable	**106**	111
Accruals and other payables	**405**	341
	549	540

14. Share Capital

	Number of shares		Share capital	
	As at 30 September 2005 million	As at 31 March 2005 million	**As at 30 September 2005 million**	As at 31 March 2005 million
Authorised				
At the beginning and the end of the period/year	**400**	400	**400**	400
Issued and fully paid				
At the beginning of the period/year	**269**	268	**269**	268
Exercise of share options	**1**	1	**1**	1
At the end of the period/year	**270**	269	**270**	269

15. Share Options

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	28,922,000
Granted during the period	1,154,000
Exercised during the period	(804,000)
Cancelled during the period	(7,853,000)
Lapsed during the period	(1,826,000)
Outstanding at the end of the period	19,593,000

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 Share-based Payment to account for its share options. In accordance with HKFRS 2, the fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current period, an amount of share option expense of HK$1 million has been recognised in the current period, with a corresponding adjustment recognised in the Group's share option reserve.

The closing price of the Company's shares immediately before 29 July 2005, the date of grant of the 2005 options, was HK$9.25.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$9.42.

16. Contingent Liabilities

As at 30 September 2005, the Group had contingent liabilities not provided for in these financial statements in respect of:

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Performance bonds	**168**	163
Guarantees to banks in respect of general facilities granted to jointly controlled entities – amount utilised	**309**	317

17. Capital Commitments

(i) As at 30 September 2005, the Group's share of the capital commitments of its jointly controlled entities and associates are as follows:

	As at 30 September 2005 HK$ million	As at 31 March 2005 HK$ million
Authorised but not contracted for	**162**	44
Contracted but not provided for	**967**	1,035

(ii) A wholly-owned subsidiary of the Group entered into a framework agreement on 18 June 2004, a sale and purchase agreement on 11 August 2004 and new agreements on 1 February 2005 and 28 February 2005 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 (about HK$962 million). A deposit of Rmb80 million (about HK$76 million) was paid upon signing of the framework agreement. Following the granting of approval by relevant authorities in the Central Government in relation to the establishment of this joint venture, the Group's further contribution to the capital of this joint venture will amount to Rmb720 million (about HK$692 million), being 80% of the Group's share of capital less the deposit paid of Rmb80 million (about HK$76 million). The deposit is fully refundable within 10 business days if the establishment of the joint venture cannot be achieved. Details of this transaction were set out in a circular of the Company dated 6 April 2005.

An option has been granted to Lafarge S.A. to acquire 50% of the Group's interest in this joint venture, which will expire on 31 December 2005.

(iii) On 11 August 2005, a wholly-owned subsidiary of the Group entered into an agreement with Olympio Corporation ("Olympio") whereby the Group would acquire from Olympio its 50% interest in TH Industrial Management Limited ("THIML"), in which the Group currently holds the other 50% interest, for a cash consideration of Rmb270 million (about HK$260 million) pursuant to the conditions therein. THIML is the holding company for the Group's interest in the cement operations in Chongqing, the PRC, with dry kiln and wet kiln cement plants carrying a total annual production capacity of up to about 6.1 million tonnes, and a ready mixed concrete plant with annual production capacity of up to 0.5 million cubic metres. As at 30 September 2005, Rmb54 million (about HK$52 million) have been paid in accordance with the agreement.

On 11 August 2005, the Company also entered into strategic alliance with Financiere Lafarge, a wholly-owned subsidiary of Lafarge S.A., with the execution of the Contribution Agreement and the Joint Venture Agreement whereby the Company will make a cash contribution of initially Rmb90 million (about HK$87 million) (subject to adjustment), and contribute its interests in several jointly controlled entities (the "Contributed Entities") which are engaged in cement business in the PRC, into a joint venture company to be established by the Company and Financiere Lafarge in return for a 45% stake in the joint venture company. The results of the operations of the Contributed Entities are included under "Sale of construction materials" in the segmental information as set out in note 4 above.

Details of these transactions were set out in a circular of the Company dated 30 September 2005.

18. Pledge of Assets

The Group has not pledged any asset as at 30 September 2005.

19. Related Party Transactions

(i) During the period, key management personnel compensation was as follows:

	Six months ended 30 September	
	2005	2004
	HK$ million	HK$ million
Key management personnel compensation		
Salaries and allowances	**17**	15
Retirement benefits cost	**1**	1
	18	16

(ii) During the period, the Group had the following transactions with jointly controlled entities of the Group:

	Six months ended 30 September	
	2005	2004
	HK$ million	HK$ million
Income received:		
Interest income	**4**	2
Sales of construction materials	**–**	3
Cost and expenses paid:		
Construction/ subcontracting work	**4**	16
Supply of construction materials	**2**	6

(iii) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of Shui On Company Limited ("SOCL"), to use the trademark, trade name "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.

(iv) During the period, the Group received dividend income amounting to HK$111 million (2004: HK$59 million) from certain jointly controlled entities.

(v) During the period, the Group received dividend from convertible redeemable participating junior preference shares amounting to HK$10 million (2004: nil) from an associate.

20. Events After the Balance Sheet Date

(i) By a resolution passed at the special general meeting held on 1 November 2005, the Company's authorised share capital was increased from HK$400,000,000 to HK$1,000,000,000 by the creation of an additional 600,000,000 new unissued shares of HK$1 each, ranking pari passu with the existing shares of the Company.

(ii) The acquisition of 50% interest in THIML by the Group from Olympio for a cash consideration of Rmb270 million (about HK$260 million), and the contribution of the Group's interests in the Contributed Entities together with a cash amount of HK$117 million to a joint venture company established with Financiere Lafarge, as set out in note 17(iii), were completed on 4 November 2005 and 9 November 2005 respectively.

(iii) The acquisition of 45% interest in Dalian Xiwang Building Co., Ltd. by the Group from Hyundai Corporation, Hyundai Merchant Marine Co., Ltd. and Hyundai Engineering & Construction Co., Ltd. for a cash consideration of US$6.75 million (about HK$53 million) was completed on 25 November 2005.

REWARD OF EMPLOYEES

At 30 September 2005, the number of employees of the Group was approximately 780 in Hong Kong and 10,540 in subsidiaries and jointly controlled entities in the Chinese Mainland. Employees are rewarded on a performance-related basis.

DISCLOSURE UNDER RULES 13.21 AND 13.22 OF THE LISTING RULES

(i) Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK$1,724 million as at 30 September 2005, details of which are as follows:

		Balance as at 30 September 2005				
		Unsecured loans				
Affiliated companies	**Effective percentage of interest**	**Interest free with no fixed repayment terms HK$ million**	**Interest bearing with no fixed repayment terms HK$ million** (Note a)	**Guarantees given HK$ million** (Note b)	**Convertible redeemable participating junior preference shares HK$ million**	**Total HK$ million**
Brisfull Limited	50%	–	39	–	–	39
Guangzhou On Track Construction Precast Products Company Ltd.	40%	2	–	–	–	2
Guizhou Bijie Shui On Cement Co. Ltd.	79%	5	24	–	–	29
Guizhou Dingxiao Shui On Cement Co. Ltd.	89%	3	56	–	–	59
Guizhou Kaili Ken On Concrete Co. Ltd.	74%	3	2	–	–	5
Guizhou Kaili Shui On Cement Co. Ltd.	89%	20	20	–	–	40
Guizhou Xinpu Shui On Cement Co. Ltd.	79%	17	43	–	–	60
Guizhou Xishui Shui On Cement Co. Ltd.	89%	28	–	–	–	28
Guizhou Zunyi Ken On Concrete Co. Ltd.	74%	2	3	–	–	5
Guizhou Zunyi Shui On Cement Co. Ltd.	79%	17	25	–	–	42
Lamma Yue Jie Company Limited	60%	17	–	–	–	17
Nanjing Jiangnan Cement Company Ltd.	60%	115	–	–	–	115
Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited	50%	1	–	–	–	1
Sichuan Hejiang Shui On Cement Co. Ltd.	89%	1	16	–	–	17
Super Race Limited	50%	–	–	5	–	5
TH Industrial Management Limited	50%	251	224	300	–	775
The Yangtze Ventures II Limited	75%	75	–	–	–	75
Shui On Land Limited	30%	–	–	–	390	390
Shanghai Shui On Construction Co. Ltd.	50%	20	–	–	–	20
		577	452	305	390	1,724

The proforma combined balance sheet of the above affiliated companies as at 30 September 2005 is as follows:

	HK$ million
Non-current assets	12,750
Current assets	7,676
Current liabilities	(4,639)
Net current assets	3,037
Non-current liabilities	(8,078)
	7,709
Equity attributable to equity holders of the company	8,637
Minority interests	(928)
	7,709

a. Loans made by the Group to the following affiliated companies are charged at various interest rates.

Affiliated companies	Interest rate per annum
Brisfull Limited	Hong Kong prime rate
Guizhou Bijie Shui On Cement Co. Ltd.	Hong Kong interbank offered rate plus 2%
Guizhou Dingxiao Shui On Cement Co. Ltd.	Hong Kong interbank offered rate plus 2%
Guizhou Kaili Shui On Cement Co. Ltd.	Hong Kong interbank offered rate plus 2%
Guizhou Xinpu Shui On Cement Co. Ltd.	London interbank offered rate plus 2%
Guizhou Kaili Ken On Concrete Co. Ltd.	Hong Kong interbank offered rate plus 2%
Guizhou Zunyi Ken On Concrete Co. Ltd.	Hong Kong interbank offered rate plus 2%
Guizhou Zunyi Shui On Cement Co. Ltd.	Hong Kong interbank offered rate plus 2%
Sichuan Hejiang Shui On Cement Co. Ltd.	Hong Kong interbank offered rate plus 2%
TH Industrial Management Ltd.	4.5%

b. The guarantees given by the Group to Super Race Limited and TH Industrial Management Limited were in favour of certain financial institutions for granting credit and loan facilities to these companies.

c. All affiliated companies are accounted for as jointly controlled entities or associates of the Group.

Loans to the aforesaid affiliated companies, funded by internal resources and bank borrowings, were made for the purposes of investment and/or working capital. As at 30 September 2005, the total exposure on capital commitments reported on by the affiliated companies amounted to approximately HK$967 million. Such affiliated companies reported no contingent liabilities as at 30 September 2005.

(ii) Banking facilities with covenants relating to specific performance of the controlling shareholders

In April 2004 and October 2004, the Company was granted two 3-year bank loans of HK$150 million and HK$200 million respectively. These loans require SOCL and/or Mr. Lo Hong Sui, Vincent, who is a discretionary beneficiary of a discretionary trust which holds the entire share capital of SOCL, to retain an equity interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreements. Breach of such obligation will cause a default in respect of these loans.

Two existing bank loans of HK$200 million each which require SOCL and/or Mr. Lo Hong Sui, Vincent to retain an equity interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreements 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.

In February 2005, two other existing bank loans of HK$200 million each were renewed with the final maturity date extended to February 2008 and January 2007 respectively. The loans require SOCL and/or Mr. Lo Hong Sui, Vincent to retain an equity interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreements. 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, 16 January 2006 to Friday, 20 January 2006, 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, 13 January 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30 September 2005 was HK$668 million, a decrease of 36% compared with the same period in 2004. Consolidated unaudited profit attributable to equity holders of the Company was HK$101 million, compared with a profit of HK$392 million in the same period last year. The decrease in profit was mainly due to comparison with last financial year, which saw HK$274 million gain on disposal of Rui Hong Xin Cheng and the HK$178 million share of profit from Yangtze Ventures Fund's investment in Solomon Systech in the first half.

During this period, the Group has consolidated its continued expansion and diversification in the Chinese Mainland market.

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

Property operations on the Mainland continued to do well with SOL making a good contribution through key developments and investment properties in Shanghai.

Rui Hong Xin Cheng (Rainbow City), Shanghai

Sales was strong at Phase II of the Rainbow City. Blocks 9, 10, 11 and 12 of Phase II were formally completed in April 2005 and allowed profit to be booked. The sale of 395 units at blocks 9 and 12 commenced in June and 45% of these had been sold by the end of September at an average selling price of Rmb15,000 per square metre, more than 30% higher than the price achieved in October 2004 for blocks 10 and 11.

Rainbow City Phase II Commercial Centre reached 99% occupancy by September 2005, with leasing having commenced in December 2004.

Taipingqiao Project, Shanghai

This City Core Development Project comprises 1.1 million square metres of commercial and residential developments in the heart of Shanghai. The Shanghai Xintiandi entertainment area recorded average occupancy of 97% for the North Block and 86% for the South Block. Phase 1 (comprising Towers I and II) of the Grade A office component known as Corporate Avenue reported 97% occupancy. Sales at Phase 2 of the Lakeville luxury residential development, comprising 645 units will commence in early 2006.

Knowledge and Innovation Community, Shanghai

This development in Shanghai's Yangpu district – also known as Chuangzhi Tiandi – comprises a Hub area with office buildings, educational facilities and retail amenities, as well as a Live/Work area combining offices, residential and retail. There is also an area devoted to R&D. Chuangzhi Tiandi continues to make good progress with leasing of the Hub Phase 1 area totaling 54,000 square metres commenced in the first half of 2005 and met with good market response, and sales of offices in the Live/Work area will also commence in early 2006.

Xihu Tiandi, Hangzhou

This leisure and lifestyle development will have a total gross floor area of 53,000 square metres when completed. Phase 1, consisting of 10 buildings with a gross floor area of 5,300 square metres in a 30,000-square-metre park, reached 100% occupancy in the first half. Construction work on Phase II continued to be delayed due to relocation issues.

Chongqing Tiandi, Chongqing

The official groundbreaking took place on 25 October 2005. Located in Chongqing's central district and covering an area of approximately 1.3 million square metres, the whole project will provide a total gross floor area of about 2.6 million square metres upon completion. Chongqing Tiandi is one of the largest urban redevelopment projects in Chongqing. Its first lot under construction is a predominantly residential development with gross floor area amounting to 130,000 square metres, and is scheduled for completion in 2007.

Wuhan Project, Wuhan

SOL acquired this 61-hectare site with a total gross floor area of 1.5 million square metres in April 2005 and construction will commence on part of the site in the first quarter of 2006.

Property Development on the Chinese Mainland – SOCAM

In September 2005, SOCAM and JP Morgan announced they were leading a consortium to acquire 100% of Xiwang Building, an unfinished prime Grade A office plaza in the centre of Dalian. SOCAM holds a 45% interest in this investment, which was purchased at a favourable price. At 38 storeys and with a gross floor area of 91,519 square metres, Xiwang Building requires M&E and fitting-out works for completion with a total development cost to the consortium estimated at US$75 million. This project is expected to be completed within the next 12 months.

Cement Operations on the Chinese Mainland

The Group had a difficult first half in Chongqing due to continuing overcapacity in the market and the higher cost of energy, although the price of coal has recently decreased slightly. However, demand is expected to strengthen over the long term and this will benefit the operations of TH Cement.

Our Guizhou operations sold a larger volume of cement as the provincial government moved ahead with infrastructure projects. By mid 2005, strong demand for high grade cement in many parts of Guizhou led to firmer cement prices. The Group's new acquisition in Shuicheng has started making a positive contribution. SOCAM now commands a 50% market share of the high grade cement market in Guizhou.

In August 2005, SOCAM and Lafarge, the largest cement producer in the world, announced the formation of a joint venture partnership to merge their cement operations in China. This move marked the successful implementation of the Group's strategy to build a strong position as a supplier of high-quality cement on the Mainland. The joint venture has been named Lafarge Shui On Cement with Lafarge owning 55% and SOCAM owning 45%.

Lafarge Shui On Cement will combine Lafarge's Mainland cement operations – in Sichuan, Chongqing and Beijing – with SOCAM's cement operations in Chongqing and Sichuan, three larger plants in Guizhou, as well as several important plants in Yunnan, which the joint venture will acquire having received formal approval from the Central Government at the end of October in this regard and after other conditions precedent have been fulfilled in the next few months. The joint venture's total capacity including Yunnan will be 17.4 million tonnes per annum by the end of 2005. The joint venture transaction was unanimously approved by shareholders at the Company's Special General Meeting on 1 November 2005 and Lafarge Shui On Cement was formally established on 9 November 2005.

In mid November, Lafarge Shui On Cement announced the acquisition of Shuangma Investment Group in Sichuan for around US$38 million. This transaction will increase the cement production capacity of the joint venture in China to 21 million tonnes, bolstering its position as the leader in southwest China.

Venture Capital

The Group saw steady progress in its portfolio of investments in the two Yangtze Ventures Funds, in which it is a 65.5% and 75.4% shareholder respectively, and in the On Capital China Tech Fund, in which it is a 75.8% shareholder.

Yangtze Ventures Funds

Solomon Systech

This business is engaged in semiconductor and high voltage integrated circuit development. The Yangtze Ventures Funds booked a further gain of HK$16 million on the higher share price of this company compared to the year end position.

China Infrastructure Group (CIG)

CIG invests in the development and management of port projects along the Yangtze River. It made a one-time gain of HK$16 million following the IPO of CIG Yangtze Ports (which holds a port in Wuhan) on Hong Kong's GEM Board in September 2005. CIG holds 18.99% of CIG Yangtze Ports following the listing.

Further rounds of fund raising with a possible IPO of other investments in the second half are expected to make strong contributions.

On Capital China Tech Fund

On Capital China Tech Fund continues to seek investments in wireless technology, computer security, online games, software developed using Linux, software outsourcing and telecom infrastructure technologies. The performance of the portfolio of investments has met management's expectations.

Construction in Hong Kong, Macau and Chinese Mainland

Our operations performed satisfactorily during the first half. Our stronger focus on handling final accounts of completed contracts is paying off and contributed to the improved mid-year result.

The division's total turnover for the first half was HK$664 million, while contracts totaling HK$477 million were won.

As of 30 September 2005, the gross and outstanding value of contracts on hand was approximately HK$3.4 billion and HK$2.4 billion respectively (30 September 2004: HK$4.5 billion and HK$2.8 billion).

Shui On Building Contractors (SOBC)
In the public housing sector, SOBC was unable to secure any Hong Kong Housing Authority tenders due to the extremely competitive market environment. SOBC serviced a steady volume of maintenance works during the period and secured a building works contract with a value of HK$260 million from CLP Power Hong Kong.

Shui On Construction (SOC)
SOC won a tender for Marymount School with a contract value of HK$92 million. Demand for public sector works from the Architectural Services Department (ASD) remained low during the first half. The outcome of two design-and-build tenders submitted by SOC to the ASD will be known in the second half. Looking ahead, SOC will tender for the Government Headquarters at Tamar, the largest of several suspended ASD projects, with an estimated contract value of HK$4 billion.

SOC was awarded a project management contract for a 71,000-square-metre commercial property development in Guangzhou in Mainland China. The property is owned by the Shui On Group (SOCAM's privately held parent company) and the project involves construction and refurbishment.

Pat Davie
Major renovation and fitting out projects completed or in progress during the first half included the Union Bank of Switzerland extension, Serenity Place, miscellaneous projects at Hong Kong Disneyland as well as projects for the Hong Kong Housing Society, Nan Fung Developments and Hongkong Bank. Works valued at HK$101 million were secured in the first half.

In Macau, the Group's operations showed positive profit margins. Pat Davie (Macau) secured further projects for the Wynn Resort Project and Venetian Cotai. Projects in progress at the end of the first half included Wynn Casino.

In Dalian, a team from Pat Davie started working with the local partner Yida Group at Xiwang Building on identification of consultants and project preparation.

Construction Materials in the Pearl River Delta
The Chik Wan quarry in Zhuhai continues to operate and is expected to make a steady contribution. Plans to dispose of the site formation contract at Guishan in Zhuhai were delayed due to a change in local government policy and the Group is in discussion with relevant parties to progress the disposal.

PROSPECTS

Although property prices in some major Mainland cities have declined, there is still strong demand in the overall market for quality residential units. This bodes well for SOL's operations. The sales of units in the second phase of Lakeville Regency and the Live/Work area of Chuangzhi Tiandi, both in Shanghai, are expected to contribute to the Group's profits in the next twelve months.

The Group's participation in a consortium purchasing a distress asset in Dalian is an opportunity to build a new income stream. The Group believes there are good prospects for identifying similar opportunities on the Mainland going forward.

In our cement operations, our joint venture with Lafarge is a major milestone offering significant growth potential. The Group is confident the joint venture will become a leading cement manufacturer on the Chinese Mainland capable of generating attractive long-term returns.

The planned listings of several investments, as well as other fund raising initiatives, in our venture capital business, offer the prospects of satisfactory returns.

In our construction division, we continue to benefit from a much lower level of overheads and are well positioned to expand whenever market conditions allow. Pat Davie will continue to focus on the hospitality sectors in Macau where higher contract values provide opportunities for positive contributions.

GEARING RATIO AND TREASURY POLICIES

Liquidity and Financing

As at 30 September 2005, your Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK$1,748 million (31 March 2005: HK$1,196 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 61% as at 31 March 2005 to 83% as at 30 September 2005.

Treasury Policies

Bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating rate basis. Investments on the Chinese Mainland are partly financed by borrowings in Hong Kong dollars. Given that income from operations on the Chinese Mainland is denominated in Renminbi, the Group expects that fluctuation in the Renminbi exchange rate will have very little 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 2005, Directors of the Company had the following interests, all being long position, in the ordinary shares of the Company:

Name of Director	Number of ordinary shares in the Company Personal interests	 Other interests
Lo Hong Sui, Vincent	–	185,183,000
Wong Ying Wai, Wilfred	120,000	–
Choi Yuk Keung, Lawrence	492,000	–
Wong Yuet Leung, Frankie	–	–
Wong Fook Lam, Raymond	–	–
Lowe Hoh Wai Wan, Vivien	234,000	–
Enright, Michael John		–
Wong Hak Wood, Louis	228,000	–
Griffiths, Anthony	–	–
Cheng Mo Chi, Moses	–	–
Chan, K. C.	–	–

Note:

The 185,183,000 shares are held as to 166,148,000 shares and 19,035,000 shares respectively by the ultimate holding company, SOCL and Shui On Finance Company Limited, 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 of the Company dated 30 July 2002.

At 30 September 2005, options to subscribe for 19,593,000 shares within the following exercisable periods were outstanding:

Name or category of eligible participants	Date of grant	Subscription price per share HK$	Number of options: At 1.4.2005	Granted during the period (Note a)	Exercised during the period	Cancelled during the period/ vesting conditions not fulfilled	Lapsed during the period	At 30.9.2005	Period during which options outstanding at 30.9.2005 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	80,000	–	–	–	–	80,000	27.2.2003 to 26.8.2007	
Wilfred	27.8.2002	6.00	5,000,000	–	–	(1,500,000)	–	3,500,000*	27.8.2005 to 26.8.2010	
Mr. Choi Yuk Keung,	4.7.2000	9.56	70,000	–	–	–	(70,000)	–	4.1.2001 to 3.7.2005	
Lawrence	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	–	–	(1,625,000)	–	3,375,000*	27.8.2005 to 26.8.2010	
Mr. Wong Yuet Leung,	4.7.2000	9.56	200,000	–	–	–	(200,000)	–	4.1.2001 to 3.7.2005	
Frankie	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	–	–	(400,000)	–	1,600,000*	27.8.2005 to 26.8.2010	
Mr. Wong Fook Lam,	4.7.2000	9.56	160,000	–	–	–	(160,000)	–	4.1.2001 to 3.7.2005	
Raymond	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	–	–	(700,000)	–	1,300,000*	27.8.2005 to 26.8.2010	
Mrs. Lowe Hoh Wai Wan,	4.7.2000	9.56	160,000	–	–	–	(160,000)	–	4.1.2001 to 3.7.2005	
Vivien	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	–	(300,000)	(800,000)	–	900,000*	27.8.2005 to 26.8.2010	9.45
Mr. Wong Hak Wood,	4.7.2000	9.56	280,000	–	–	–	(280,000)	–	4.1.2001 to 3.7.2005	
Louis	17.7.2001	9.30	280,000	–	–	–	–	280,000	17.1.2002 to 16.7.2006	
	27.8.2002	6.00	88,000	–	–	–	–	88,000	27.2.2003 to 26.8.2007	
	27.8.2002	6.00	2,000,000	–	–	(1,000,000)	–	1,000,000*	27.8.2005 to 26.8.2010	
Sub-total			20,482,000	–	(300,000)	(6,025,000)	(870,000)	13,287,000		
Other employees	4.7.2000	9.56	988,000	–	(6,000)	(26,000)	(956,000)	–	4.1.2001 to 3.7.2005	9.25
(in aggregate)	17.7.2001	9.30	1,124,000	–	(6,000)	(40,000)	–	1,078,000	17.1.2002 to 16.7.2006	9.25
	27.8.2002	6.00	858,000	–	(110,000)	(38,000)	–	710,000	27.2.2003 to 26.8.2007	9.45
	27.8.2002	6.00	4,000,000	–	(200,000)	(1,700,000)	–	2,100,000*	27.8.2005 to 26.8.2010	9.45
	4.8.2003	5.80	484,000	–	(78,000)	(16,000)	–	390,000	4.2.2004 to 3.8.2008	9.40
	26.7.2004	7.25	986,000	–	(104,000)	(8,000)	–	874,000	26.1.2005 to 25.7.2009	9.28
	29.7.2005	9.30	–	1,154,000	–	–	–	1,154,000	29.1.2006 to 28.7.2010	
Sub-total			8,440,000	1,154,000	(504,000)	(1,828,,000)	(956,000)	6,306,000		
			28,922,000	1,154,000	(804,000)	(7,853,000)	(1,826,000)	19,593,000		

* These options were granted under the mega grant as stipulated in the circular dated 30 July 2002. Certain financial and performance targets had to be achieved before the options granted could vest and be exercisable. Achievement of the vesting conditions was determined during the period. Options not vested were treated as cancelled in the above table.

Note:

a. The closing price of the Company's shares preceding the date on which the options were granted was HK$9.25.

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.

Fair value of the share options granted during the period determined using the Binomial Model was HK$2.6 million. Share options granted were recognised in the financial statements in accordance with HKFRS 2 Share-based Payment.

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 2005 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 2005, 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	16,144,000	5.98%

The above shares are held through 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 2005.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules ("Appendix 14") throughout the period.

The non-executive directors of the Company are not appointed for a specific term, as required under code provision A.4.1 of Appendix 14, but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company (the "Bye-laws"). Under code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Directors of the Company retire not strictly under code provision A.4.2, but in accordance with the Bye-laws which stipulates that one-third of the directors of the Company, except the Chairman and the Chief Executive Officer, shall retire from office by rotation at each annual general meeting.

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 and has also reported to the Board of Directors selected auditing, internal control and financial reporting matters.

REMUNERATION COMMITTEE

The Committee has reviewed during the period the annual bonus and share option grant recommendations for executives and management staff and evaluated the remuneration packages of executive directors. Options granted under the mega grant in August 2002 vested during the period. The Committee discussed the degree of achievement of the vesting conditions and proposed the vesting percentages for approval by the Board.

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.