



瑞安建業有限公司 *
Shui On Construction and Materials Limited
(Incorporated in Bermuda with limited liability)

1998/1999 INTERIM REPORT

HIGHLIGHTS

- Turnover was HK\$2,042 million, down 16.8%.
- Profit attributable to shareholders was HK\$182.6 million, up 25.4%.
- Earnings per share were HK\$0.70, up 25.4%.
- Interim dividend per share was HK\$0.40, up 166.7%.
- The Construction Division achieved strong profit growth with improved profit margin from contracts and effective cost control. Turnover decreased as a number of new construction projects were at initial stages of works which normally would not generate a high volume of works.
- The Construction Division was, in July 1998, awarded the contract for the development of a home ownership project under the Private Sector Participation Scheme in Tseung Kwan O.
- The gross and outstanding values of construction contracts on hand at 30 September 1998 maintained at high levels of approximately HK\$12.0 billion and HK\$8.6 billion respectively.
- Demand for concrete, aggregates and cement of the Construction Materials Division remained steady.
- Continued profit growth is anticipated for the second half of the year.

RESULTS

The Directors of Shui On Construction and Materials Limited are pleased to announce that the Group's unaudited consolidated net profit after taxation and minority interest for the six months ended 30 September 1998 amounted to HK\$182.6 million, representing an increase of 25.4% compared with the same period of 1997. Earnings per share were HK\$0.70, an increase of 25.4% over the corresponding period last year.

The Group's unaudited consolidated results for the six months ended 30 September 1998 with comparative figures for the corresponding period in 1997 are as follows:-

	Six months ended 30 September	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>2,041,931</u>	<u>2,454,574</u>
Operating profit	198,889	160,138
Share of results of associated companies	<u>22,744</u>	<u>12,596</u>
Profit before taxation	221,633	172,734
Taxation - Hong Kong (<i>Note 1</i>)		
Group	(32,794)	(25,004)
Associated companies	<u>(3,390)</u>	<u>(2,077)</u>
Profit after taxation	185,449	145,653
Minority interest	<u>(2,820)</u>	<u>(72)</u>
Profit attributable to shareholders	182,629	145,581
Interim dividend	<u>(104,000)</u>	<u>(39,000)</u>
Profit for the period retained	<u>78,629</u>	<u>106,581</u>
Earnings per share (<i>Note 2</i>)		
Basic/Diluted (HK\$)	0.70	0.56
Interim dividend per share (HK\$)	0.40	0.15

Notes:

1. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1997: 16.5%) on the estimated assessable profits for the period.

2. Earnings per share

(a) Basic

The calculation of basic earnings per share is based on net profit for the period attributable to shareholders of HK\$182,629,328 (1997: HK\$145,580,536) and on 260,000,000 shares (1997: 260,000,000 shares) in issue during the period.

(b) Diluted

The calculation of diluted earnings per share is based on net profit for the period attributable to shareholders of HK\$182,629,328 (1997: HK\$145,580,536) and on 260,239,864 shares (1997: 260,064,739 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all dilutive potential shares.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK\$0.40 (1997: HK\$0.15) per share to shareholders whose names appear on the Company's register of members on Monday, 7 December 1998. The interim dividend will be paid on Friday, 11 December 1998.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 2 December 1998 to Monday, 7 December 1998, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited, 5/F Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Tuesday, 1 December 1998.

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 1998 was HK\$2,042 million, a decrease of 16.8% compared with the same period in 1997. Unaudited consolidated profit after taxation and minority interest was HK\$182.6 million, an increase of 25.4%.

Construction Division

Following the completion of nine contracts in the previous financial year, a comparatively larger number of the twenty one projects currently in progress were at initial stages of works resulting in a smaller amount of contract values certified during the period. This largely accounts for the lower turnover of the Division of HK\$1,644 million compared with HK\$2,035 million for the same period last year. However, the improved margins of existing projects and effective cost control continued to enhance the overall profitability of this Division.

Since April 1998, work on seven new projects with values totalling approximately HK\$4.7 billion has commenced, including the foundation work of a home ownership project under the Private Sector Participation Scheme ("PSPS") in Tseung Kwan O awarded to the Group in July 1998. The development of this PSPS project is expected to be completed in the first quarter of 2001 and should provide the Group with a steady profit stream in the next few financial years.

The Group, in July 1998, successfully arranged a HK\$2,265 million secured term loan facility due in year 2001 to finance the development of this PSPS project.

The gross and outstanding values of contracts on hand at 30 September 1998 were approximately HK\$12.0 billion and HK\$8.6 billion respectively, compared to HK\$10.1 billion and HK\$6.7 billion a year ago.

Shui On Building Contractors has started to actively tender for the Housing Authority's contracts. Shui On Construction, engaged in other government and institutional buildings, is participating in the tenders for a number of design-and-build contracts of the Architectural Services Department. It has been pre-qualified for tender on several projects of the Airport Authority and MTRC's Junk Bay extension and is also applying for pre-qualification for the KCRC's West Rail projects.

Construction Materials Division

Despite the slowdown of building activities in the private sector under the current economic downturn, the increased number of Housing Authority projects has kept the production of Ken On Concrete at a high level. The volume of ready mixed concrete produced for the period was slightly higher than that of the corresponding period last year. However, the previously firm selling prices have recently come under some downward pressure although effect on gross margins is expected to be immaterial. The order book of Ken On Concrete stays at a healthy level of around one million cubic metres which will also ensure the continued good performance of Far East Cement.

Although the aggregates production of Lamma Rock Products for the period was 10.6% higher than that of the corresponding period last year, demand for marine rocks has dropped drastically following the completion of the new airport and related infrastructure works, affecting turnover adversely. The effect of low marine rock sales on net results was insignificant due to the relatively low margin on this type of rock product.

The full operation of the new 300,000-tonne rotary kiln assisted the cement joint venture in Chongqing to

continue achieving satisfactory growth in both turnover and profit. The production and sales of the Nanjing cement joint venture, which was taken over in March 1998, are now at normal level, despite the highly competitive trading environment of the coastal cities due to the regional over-supply situation.

PROSPECTS

In his policy address in October 1998, the Chief Executive of the Hong Kong Special Administrative Region, the Hon. Tung Chee Hwa, stated that it was desirable for property prices to stabilise, as their recent fall had damaged public confidence and put pressure on the banking system. He announced the suspension of the Housing Society's new sandwich-class housing projects and the study of the scale of the Home Ownership Scheme component of the public housing programme. The SAR government has reiterated that the long term public housing programme is to provide on average 50,000 units annually for the five years from 1997.

With the high volume of outstanding work on hand and a large number of projects available for tender in the coming months from the Housing Authority, the Architectural Services Department, the KCRC's West Rail and MTRC's Junk Bay extension, the Construction Division is in a good position to achieve higher turnover and profit in the next few years.

This level of construction activity should also ensure a steady demand for the concrete, cement and quarry products of the Construction Materials Division.

The acceleration in massive infrastructure projects as well as rebuilding works following the flooding in the Mainland are expected to raise demand for high grade cement which will benefit the Group's cement operations in Chongqing and Nanjing.

Barring unforeseen circumstances, the Group should achieve continued profit growth in the second half of the current financial year.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 1998, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:-

Name of Director	Number of ordinary shares	
	Personal interests	Other interests
Lo Hong Sui, Vincent	-	192,148,000 (<i>Note</i>)
Wong Yuet Leung, Frankie	975,000	-
Choi Yuk Keung, Lawrence	1,389,000	-
Wong Hak Wood, Louis	488,000	-

Note: The 192,148,000 shares in the capital of the Company are held by Shui On Company Limited which is owned by The Bosrich Unit Trust. The units of the 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.

As at 30 September 1998, the Directors had personal interests in share options granted under the Company's employee share option scheme as follows:-

Name of Director	Number of shares to be subscribed under share options	Date granted*	Period during which share options are exercisable	Subscription price per share (HK\$)
Wong Yuet Leung	400,000	25 July 1997	25 January 1998 - 24 July 2002	7.50
Frankie	120,000	15 July 1998	15 January 1999 - 14 July 2003	4.14
Choi Yuk Keung	400,000	25 July 1997	25 January 1998 - 24 July 2002	7.50
Lawrence	220,000	15 July 1998	15 January 1999 - 14 July 2003	4.14
Wong Fook Lam	280,000	25 July 1997	25 January 1998 - 24 July 2002	7.50
Raymond	120,000	15 July 1998	15 January 1999 - 14 July 2003	4.14
Wong Hak Wood	280,000	25 July 1997	25 January 1998 - 24 July 2002	7.50
Louis	150,000	15 July 1998	15 January 1999 - 14 July 2003	4.14
Lowe Hoh Wai	200,000	25 July 1997	25 January 1998 - 24 July 2002	7.50
Wan, Vivien	120,000	15 July 1998	15 January 1999 - 14 July 2003	4.14

* Consideration paid for each option was HK\$1.00.

During the six months ended 30 September 1998, none of the Directors has exercised any share options to subscribe for shares of the Company.

Apart from the above, as at 30 September 1998, there was no other interest recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the section headed "Directors' Interests in Shares", the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed that there is no person having an interest in ten per cent. or more of the issued share capital of the Company as at 30 September 1998.

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 1998.

YEAR 2000 COMPLIANCE

The Group has adopted the definition of Year 2000 compliance as promulgated by the British Standards Institute which, in simple terms, means neither performance nor functionality of computer and other systems and equipment that rely on embedded electronic chip technology is affected by dates prior to, during and after the year 2000.

In 1997, the Group began to conduct a detailed risk assessment of the Year 2000 issue. A comprehensive action plan and a timetable have been put in place. A special task force, led by an executive director of the Company and supported by in-house IT personnel, was set up to undertake the compliance work.

The Year 2000 compliance project of the Group includes the upgrade or replacement of all purchased computer hardware and system software products and the modification of all in-house developed computer application software, which are not Year 2000 compliant. Suppliers and service providers are being asked to confirm if their products and services are Year 2000 compliant.

Work on this compliance project is progressing satisfactorily on schedule. The Group targets to achieve full compliance by the second quarter of 1999. The Group anticipates that the Year 2000 issue will not cause any significant operational problems.

The total cost of this compliance project is estimated to be approximately HK\$3 million, mainly for replacement of computer hardware and system software with upgraded versions. Costs incurred up to 30 September 1998 amounted to approximately HK\$0.5 million, most of which have been capitalised in the accounts. As at 30 September 1998, the amount contracted but not provided for in the accounts was HK\$0.7 million and a further amount of HK\$1.8 million has been authorised but not contracted for in respect of this project.

AUDIT COMMITTEE

The Company's audit committee was established in July 1998 and has held its first meeting in early November.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 September 1998, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except that non-executive directors are not appointed for a specific term but are subject to retirement by rotation in annual general meetings in accordance with the Company's Bye-laws.

PRACTICE NOTE 19 TO THE LISTING RULES

An indirect wholly-owned subsidiary of the Company has entered into a loan agreement for the financing of the development of the aforementioned PSPS project which requires Mr Lo Hong Sui, Vincent and his associates (as defined in the Listing Rules) to retain beneficially in aggregate an attributable interest in more than 50% of the issued share capital of the Company as well as that of the relevant subsidiary throughout the tenure of the loan agreement. The total amount of this project loan is HK\$2,265,000,000 and the repayment date is the earliest of 31 August 2001 and the date falling six months after the date of issue of the certificate of compliance by the Director of Lands for the PSPS development.

Lo Hong Sui, Vincent
Chairman

Hong Kong, November 1998

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