"With the rapid business development in the Chinese Mainland, the Directors are confident that, barring unforeseen circumstances, significant profit growth should be achieved in the coming year."

Choi Yuk Keung, Lawrence
VICE - CHAIRMAN

CEMENT OPERATIONS IN THE CHINESE MAINLAND

We have seen significant growth in the central and western regions during the year. Development funds injected by the Central Government to the inland provinces have seen no signs of abatement despite the recent introduction of macroeconomic policy measures to curb excessive investment. Infrastructure and power generating projects under the "Go West" policy are largely shielded from these measures as they are pertinent not only to the laid down policy of improving the economy and living standards of the inland provinces but also to the alleviation of the drastic shortage of power and other resources in the coastal regions.

Measures against excessive investment in the cement industry should benefit established cement producers like your Group as overbuilding by speculative investors as well as weaker competitors without sufficient financial resources will be halted, thus reducing unhealthy competition.

As a result of the tighter control on the industry, our acquisition of strategic cement operations in Chongqing and Guizhou is expected to continue at a faster pace in the coming year. With construction of new kilns, the capacities in Chongqing and Guizhou should reach 9 million tonnes per annum ("t.p.a.") and 2.5 million t.p.a. respectively by 31 March 2005, exceeding our original targets.

Our expanded capacity enabled us to maintain the same level of profit despite rising production costs during the year. Demand for high grade cement is expected to grow substantially in Western China. In the medium to long term, even moderate growth in the Mainland will ensure the continued expansion of your Group's cement business.

Chongqing Operation

Chongqing is the designated economic hub of southwest China under the "Go West" policy and, together with its surrounding area, has a population of over 60 million. It is expected to transform into a major industrial, commercial and financial centre in the next 10 years. Following the completion of the two dry kilns in the second half of 2004, TH Cement will further consolidate its leading position, commanding over 70% of the high grade cement market in Chongqing and nearby areas.

At Diwei Cement, the new dry kiln of 1 million t.p.a., when completed, will take the plant's total capacity to 3.5 million t.p.a. It will serve the market in central and northern Chongqing. The new dry kiln of 1.3 million t.p.a. in Hechuan will expand the plant's capacity to 2.6 million t.p.a. These two plants, together with the 1 million t.p.a. Qujiang plant just north of Chongqing, will continue to give us a major presence in the market in central and northern Sichuan.

The bridge connecting the Diwei plant to the limestone quarry on the opposite shore of the Yangtze River has been completed. The new joint-venture plant with Chongqing Steel Corporation for the processing of 1 million t.p.a. of steel slag will start production at the end of 2004. Most of the fly ash sources in Chongqing are under TH Cement's control. These developments will further lower its production cost and enhance its competitiveness.

Guizhou Operation

Your Group's plan to secure a strong foothold in major cities in Guizhou has been progressing well and we expect to have a more substantial share of the high grade cement market in the province in the future.

In 2003, SOCAM signed joint venture agreements with two cement plants in Bijie and Changda in Guizhou, increasing its annual production capacity in the province by 600,000 tonnes. Studies into the feasibility of adding three new dry kilns in Zunyi in the north, Shuicheng in the west and Qiandongnan in the southeast are underway. Meanwhile, your Group is accelerating the acquisition of smaller cement plants in all areas in which it operates.

A licence to sell high grade cement has been granted to the greenfield Dingxiao plant in Qianxinan, the southwestern prefecture. All plants in Guizhou will have a busy schedule in the year ahead to meet increasing demand. Despite this, competition in Zunyi will remain fierce due to the large number of small players there.

Overall profitability in Guizhou is expected to improve in the future when your Group's capacity surpasses 4 million t.p.a. and it enhances its market position.

Nanjing Operation

In line with the acute shortage of cement along the coastal region, the prices of cement in Nanjing saw a sharp increase from the third quarter of 2003. Most sales of Jiangnan Cement have been on a cash basis and past debts were cleared quickly. Although capacity utilisation was high during the year, low prices prevailed, resulting in a loss. As part of the government's reform initiative, the Nanjing authorities have invited tenders for the acquisition of the remaining 40% of Jiangnan Cement. Your Group has expressed interest.

Major Development

In mid June 2004, your Group entered into a framework agreement with the Yunnan authorities to form a joint venture and acquire an 80% interest in Kunming Cement and Kaiyuan Cement, two of the biggest cement operators in Yunnan, a major province in the southwestern region of China. The combined production capacity of the joint venture will reach 4.5 million t.p.a. when two new dry rotary kilns commence production. This investment will further strengthen your Group's leading position in the cement market in southwestern China. Lafarge, the largest cement group in the world with consolidated sales of around 110 million tonnes in 2003, has been granted an exclusive option to acquire 50% of your Group's shareholding in this joint venture within nine months of June 2004. It will provide free technical assistance to your Group to assess various technical and operational aspects of the production facilities of the joint venture during the exercise period of the option.

With its rich natural resources, Yunnan is one of the strategically important provinces under the "Go West" policy. The Central Government's strategy to foster links with Asean countries will further boost economic development in Yunnan, which is adjacent to Thailand, Myanmar and Laos and is close to other Asean countries. The addition of the Yunnan plants is an important step in strengthening our presence in central and western China.

PROPERTY DEVELOPMENT IN THE CHINESE MAINLAND

Rui Hong Xin Cheng (RHXC)

RHXC, also known as Rainbow City, is a residential housing development located on a 40-hectare site in Shanghai's Hongkou District, within 10 minutes by car from the Bund. Upon completion, it will comprise more than 90 blocks of high-rise residential buildings with about 12,000 quality residential units as well as retail and community facilities.

The pre-sale of the first seven residential blocks in the current phase in October 2003 met with an overwhelming response. Almost all units were sold immediately, at an average price of around RMB7,900 per square metre, generating a sizeable profit for the year under review.

Shui On Land (" SOL ")

SOL, established recently by the private arm of the Shui On Group for property development and investment in the Chinese Mainland, is intended to be the flagship property company of the Shui On Group. The objective is to grow the entity into a premier real estate developer, owner and operator in the Chinese Mainland. In May 2004, Rainbow City development was injected into SOL in return for a US$130 million equity interest. In addition, your Group will receive bonus shares worth US$8.8 million if certain performance targets on the sale of Rainbow City are met. The capital gain will be recognised in the 2004/2005 financial year. Your Group has also subscribed US$25 million junior preference shares in SOL and a further US$25 million will be taken up. Assuming all preference shares in SOL are fully subscribed for, your Group will hold a 20.7% stake in the newly established company. This transaction was approved unanimously by independent shareholders at a Special General Meeting on 15 April 2004 and SOL started operation in June 2004.

In addition to generating a substantial premium on the injection of Rainbow City development into SOL, the transaction will also enable your Group to benefit from SOL's portfolio of properties for sale and for rental which will produce steady, recurrent rental income as well as development profits and capital appreciation opportunities.

SOL focuses on two key segments in the Mainland property market: City Core Development Projects, which are large-scale, mixed-use redevelopments, and Integrated Residential Development Projects, which are high-quality developments offering full amenities. Up to the date of this report, SOL's portfolio includes the Taipingqiao Redevelopment Project (comprising the world-renowned Shanghai Xintiandi, Corporate Avenue and luxury residential developments) and Rainbow City in Shanghai with total buildable space of more than two million square metres.

SOL's group of investors includes ERGO Tru Asia Limited, Metro Holdings Limited, Citigroup Venture Capital International, Ocean Equity Holdings Limited, Value Partners Funds, Standard Chartered Bank, Shanghai Hotel Investments Limited and Jebsen & Company Limited.

VENTURE CAPITAL

Your Group owns 66% and 75% respectively of two venture capital funds, namely The Yangtze Ventures Limited and The Yangtze Ventures II Limited (collectively "YVF"). Up to the date of this report, the sum of the first fund is fully invested while the second fund is partially invested.

YVF has made seven direct investments. In April 2004, one of its investments, Solomon Systech (International) Limited ("SSL"), among the largest global suppliers of displays and integrated circuits for mobile phones, was successfully listed on the Main Board of the Hong Kong Stock Exchange. One-third of YVF's stake in SSL was sold during the initial public offering at an estimated profit of HK$97 million, of which HK$64 million will be attributable to your Group.

Another investment in the portfolio, China Infrastructure Group, owns and operates two container ports in Zhapu and Wuhan in China. The investment in Zhapu, near Shanghai, was successfully disposed of recently and the attributable share of the sale proceeds is expected to be channelled to your Group before the end of 2004. The port operation in Wuhan is planned to be listed on the GEM Board of the Hong Kong Stock Exchange. The whole investment is expected to bring a substantial profit to your Group in the coming year.

Another investment, engaged in the development and manufacturing of nutrition products that increase productivity and enhance immunity of livestock, may also be listed within the next financial year.

YVF has also invested in a Shanghai-based integrated circuit design company, Apexone Microelectronics Inc., which has recently attracted two of the largest United States venture capital funds to invest a total of US$10 million in the company in the second round of fund raising. Based on the latest subscription prices, the value of YVF's investment has increased fourfold.

CONSTRUCTION IN HONG KONG

The economic downturn in Hong Kong continued in the first half of the year. In the second half of the year, buoyant trade, the disappearance of SARS and closer linkage with the Mainland boosted the Hong Kong economy and acted as a catalyst to recovery in the property market. The Government is still cautious in public works spending during this revival and the construction industry has reaped little meaningful benefit.

Four Architectural Services Department ("ASD") projects and a Hong Kong Housing Authority ("HKHA") project, secured in the previous year, contributed to a turnover of HK$2,440 million for the year, representing an increase of 38% from the previous year. Due to the slim tender margins on these contracts, pre-tax profits fell by 79% to HK$6 million.

The Government's fiscal deficit also adversely affected the implementation of public projects. The Central Government Complex at Tamar was suspended and a number of tenders were either cancelled or delayed as the Government re-set its priorities.

Downsizing continued in the construction division to maintain a lean and efficient organisation, which could quickly be strengthened should there be a market recovery.

Public Housing – Shui On Building Contractors (SOBC)

The value of public housing works performed for the HKHA totalled HK$1,140 million, equivalent to 47% of the turnover for the year. One contract - the Redevelopment of Tai Wo Hau Estate Phase 6 comprising 510 residential units - was completed. Only a handful of new works tenders were issued by the HKHA during the year and SOBC won the Fanling Area 36 Phase 3 Development at HK$380 million.

SOBC succeeded in securing several maintenance works contracts during the year, including the District Term Contract for Ma On Shan at HK$80 million, the District Term Contract for Tuen Mun West at HK$140 million and other maintenance works totalling HK$40 million.

The HKHA has recently sold some of its remaining Home Ownership Scheme flats to the Government for use as quarters for disciplinary forces. Retail and car-parking facilities in existing housing projects will also be packaged for public listing on the Hong Kong Stock Exchange. These actions should alleviate its stretched financial position and give it a better chance to fulfil its forecast of providing 90,000 rental flats within five years and provide a steady workload in the market.

Other Government and Institutional Buildings – Shui On Construction (SOC)

Two contracts were completed, namely, the Welfare Complex at Lai King Headland and the Structural Systems Design and Construction of Schools in Areas 20 and 40 in Tung Chung.

With the gradual economic recovery and improvement in the fiscal deficit, the Government should be able to adhere to its commitment to provide more infrastructure projects for the construction industry.

Renovation and Fitting-out – Pat Davie

The improving economy helped to revive the long stagnant fitting-out market in Hong Kong, enabling Pat Davie to be profitable during the year. A number of large contracts were won, including the fitting-out of 170,000 square feet of prime office space for UBS AG Hong Kong Branch in the International Finance Centre II, two contracts for the Disneyland hotels and a substantial refurbishment contract from the Hong Kong Housing Society for 1,500 units in Serenity Place, a Sandwich Class Housing Scheme project to be converted for sale as private residential units.

The Shanghai fitting-out market is still in its development stage. Pat Davie was closely involved with consultancy work for the private group's substantial development projects adjacent to Shanghai Xintiandi during the year, with a view to establishing a fully-fledged operation when it is viable to do so.

Contracts on hand

At 30 June 2004, the gross and outstanding value of contracts on hand of the construction division amounted to approximately HK$3.4 billion and HK$2.0 billion respectively.

CONSTRUCTION MATERIALS IN HONG KONG AND THE PEARL RIVER DELTA

Ready-mixed concrete – Ken On

Hong Kong

The concrete market in Hong Kong experienced a continued downturn during the year due to sluggish construction activities and the vicious price war started about three years ago. Both the market volume and selling prices reached new lows. Compared with the record sales of around 11 million cubic metres in 1997, the market shrank more than 50% to around 5.5 million cubic metres in 2003.

Although the price war has ended and two of the major players have merged, consolidation of the industry is expected to continue. Selling prices have re-bounded to over HK$400 per cubic metre but the total volume of prospective orders remains below 5 million cubic metres a year as there are few infrastructure and construction works in the pipeline.

Under these very difficult market conditions, Ken On incurred a substantial operating loss for the second consecutive year, with sales volume falling by around 23% year-on-year. Ongoing cost-cutting measures were implemented, including the closure of the two batching plants in Chai Wan and Tai Lam Kok. Raw material and cartage costs were also reduced. Ken On continued to share the production facilities at Shatin and Yau Tong with other concrete operators, while the Tsing Yi plant became the key production centre and distribution depot for cement and aggregates.

During the year, Ken On produced 470,000 cubic metres of concrete and mortar products. The prospects for the coming year indicate a possibly lower level of production.

Guangzhou

The newly established concrete batching plant at Panyu started to serve the orders offered by large-scale infrastructure projects there such as the Guangzhou Metro expansion project, while the production line at Xinzhou served the southeastern part of Guangzhou City. The combined production volume of these two plants dropped by 11% to 370,000 cubic metres due to intensified market competition. Exacerbated by reduced gross margins and the write-off of certain assets of the Nanhai plant closed at the beginning of the year, the Guangzhou operations registered a loss during the year.

Quarrying Operations

Your Group's output of rocks decreased due to weak concrete demand in Hong Kong. Production of aggregates and other rock products fell by approximately 30% to 2 million tonnes, while prices of diesel oil and steel parts rose in the Mainland. As a result, the quarrying business recorded a loss during the year.

The site formation contract in Guishan Island, Zhuhai, continued to provide crushed rocks as by-products for the Group. Chik Wan's quarrying activities were halted following the completion of projects on hand and the Hong Kong Government's postponement of the Central Reclamation Phase 3 and other large-scale projects.

MATERIALS TRADING

Cement Import and Distribution

The cement market in Hong Kong continued to be affected by reduced construction activities and the overall market size decreased by about 10% during the year. A total of 230,000 tonnes of cement and clinker were imported from Japan, handled and processed at the Group's Tsing Yi depot and external grinding facility in Green Island. The Chai Wan depot ceased operation as part of the Group's rationalisation programme.

Asia Materials

Asia Materials registered a considerable increase in turnover during the year and has significantly reduced its loss. It has been supplying wood materials to manufacturers in the Mainland and the United States and aims to develop an effective supply chain with key customers. It also acts as the procurement consultant for the Las Vegas Sands casino project in Macau, sourcing a wide range of furniture, fixtures and equipment. This project is targeted for completion in July 2004. Negotiations with the Venetian Group in the United States to provide materials procurement and supply chain management services to its mega hotel and resort projects in Macau and Las Vegas progress satisfactorily.

PROSPECTS

The Group has successfully evolved from a Hong Kong-based firm into a Mainland-oriented company. Increasing urbanisation, combined with growing income and expanding financing options, are likely to result in buoyant markets for Shui On's urban property developments in the Mainland. China's economy grew at a rate of 9.1% in 2003 and is expected to grow at a steady and healthy pace in the coming years. This implies substantial prospects for the property business. Substantial infrastructure investments and the Central Government's transfers are likely to stimulate further development in the building materials markets in central and western China, again providing opportunities for your Group's cement operations in these regions. The recent credit tightening and macroeconomic policy measures designed to prevent overheating in the economy are expected to enable strong players including SOL and your Group to benefit from reduced competition and healthy long term growth of the industries concerned.

Through SOL, your Group has invested in a large and diversified portfolio of real estate in the Mainland. This enables your Group to tap the rapidly expanding real estate market in the Mainland, benefit from SOL's strong capital appreciation and recurring income stream, and fortify its earnings in coming years.

Your Group's recent investment in the two biggest cement plants in Yunnan will not only lift the total production capacity of high grade cement in excess of 16 million t.p.a. in the central and western regions by end of this year, but also allow it to actively participate in the modernisation and restructuring of the Mainland cement industry. If the option to participate in your Group's Yunnan joint venture is exercised by Lafarge, it could mark the beginning of a long term co-operation.

With the rapid business development in the Mainland, the Directors of your Group are confident that, barring unforeseen circumstances, significant profit growth should be achieved in the coming year.

FINANCIAL REVIEW

Liquidity and Financing

As at 31 March, 2004, your Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK$779.7 million (2003: HK$1,174.2 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, decreased to 56% at 31 March, 2004 from 97% at 31 March, 2003.

Treasury Policies

Bank borrowings are mainly dominated in Hong Kong dollars and have been arranged on a floating rate basis. Appropriate hedging products will be utilized, if necessary, to minimize interest rate exposure. Investments in the Chinese Mainland are partly financed by borrowings from Hong Kong. Given that the exchange rate of Hong Kong dollar against Renminbi has been and will likely remain stable, and that income from operations in the Chinese Mainland are denominated in Renminbi, your Group expects that fluctuation in the Renminbi exchange rate will not pose 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.

EMPLOYEES

At 31 March, 2004, the number of salaried staff of the Group was approximately 1,290 in Hong Kong and 12,250 in subsidiaries and jointly controlled entities in the Chinese Mainland. As the Group recognizes human resources to be one of the major driving forces of profitability and business growth, employees' remuneration packages are maintained at competitive levels. Employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. Other staff benefits include provident fund schemes, medical insurance, in-house training and subsidies for job related seminars, and programmes organized by professional bodies and educational institutes. Share options are granted annually by the Board of Directors to senior management staff members as appropriate. Likewise in the Chinese Mainland, staff benefits are commensurate with market levels, with an emphasis on provision of training and development programmes and resources.

CORPORATE GOVERNANCE

I. Audit Committee

During the year ended 31 March, 2004, the Committee comprises two independent non-executive directors, Mr. Anthony Griffiths (chairman of the Committee) and Professor Michael John Enright. An additional independent non-executive director, Mr. Marvin Cheung Kin Tung, was appointed as member of the Committee in July 2004.

The Committee met five times during the year to examine the completeness of the financial statements of the Group and to review effectiveness of systems of internal control as well as other major operational or financial issues. The two independent non-executive directors and the chief internal auditor attended all meetings and, by invitation, the finance director and representatives of the external auditors attended. The company secretary acts as the secretary to the Committee, ensuring full minutes of all meetings are kept and circulated.

The Committee adopts an internal audit work plan each year, monitoring both the progress and the staffing, inclusive of development, of the Internal Audit department. During the year, the Committee reviewed assignments completed in accordance with the work plan and examined the following key issues:

- The identification and management of the business risks of the major operations in both Hong Kong and the Chinese Mainland.
- The effectiveness of internal control systems designated for procurement, accounts payable and payment functions.
- The critical evaluation of selected business operations from a risk perspective.
- The adequacy of the provision for doubtful debts included in the financial statements.
- The changes in accounting policies and the financial impact of new accounting practices on the Group.

The Committee also reviewed the results announcements, the interim and annual reports, connected party transactions and other items requiring the Committee's review as specified in the Hong Kong Stock Exchange Listing Rules/ financial oversight regulations.

The Committee was generally satisfied with what it found. In the future, considerable emphasis will be placed on the identification, management of and accounting for business risks.

II. Remuneration Committee

1. Role and composition of the Committee

The Committee was established in April 2002 to advise the Board of Directors on the remuneration and terms and conditions of employment of the executive directors. During the year ended 31 March, 2004, the Committee comprises Chairman of the Company, Mr. Vincent Lo Hong Sui and the Group's independent non-executive directors, Mr. Anthony Griffiths and Professor Michael John Enright. One of the independent non-executive directors, Mr. Anthony Griffiths, is the Chairman of the Committee. An additional independent non-executive director, Mr. Marvin Cheung Kin Tung, was appointed as member of the Committee in July 2004.

The Committee is responsible to:

(a) propose and review reward policies for executive directors;

(b) propose share option awards to individual executive directors; and

(c) approve salary and bonus awards for individual executive directors.

2. Compensation philosophy and practice

The objective of the Committee is to attract, motivate and retain senior executives to formulate and implement appropriate strategies, which are in the best interest of the shareholders.

The Committee met three times during the financial year ended 31 March, 2004 and reviewed the annual share option grants made in mid 2003; discussed the timing for future bonus distribution; initiated the arrangement of an executive compensation benchmarking survey and reviewed the performance of grantees of the mega grant of options made in August 2002.

III. Code of Best Practice

The Company has complied throughout the year ended 31 March, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Bye-laws.

Choi Yuk Keung, Lawrence
VICE - CHAIRMAN
Hong Kong, July 2004