

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March, 2003.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 40.

The directors do not recommend the payment of a dividend.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Reserves

Movements during the year in the reserves of the Group and the Company are set out in note 27 to the financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 87.

Investment Property

The Group's investment property was revalued at 31 March, 2003, as set out in note 13 to the financial statements. The revaluation decrease amounting to HK\$14.0 million has been charged directly to the consolidated income statement.

Property, Plant and Equipment

With the exception of certain land and buildings of insignificant carrying values where the Directors are of the opinion that their carrying values approximate their fair values, all of the Group's leasehold land and buildings were revalued at 31 March, 2003 with a revaluation decrease of HK\$17.5 million, of which HK\$15.2 million and HK\$2.3 million have been charged directly to the property, plant and equipment revaluation reserve and consolidated income statement respectively.

Details of additions to and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

Major Properties

Details of the major properties of the Group at 31 March, 2003 are set out on page 86.

Pledge of Assets

In August 2002, a subsidiary of the Company was granted certain syndicated bank loan facilities which are secured by the Group's interest in the property under development with carrying value of HK\$706.0 million as at 31 March, 2003.

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Lo Hong Sui, Vincent
Mr. Wong Ying Wai, Wilfred
Mr. Wong Yuet Leung, Frankie
Mr. Choi Yuk Keung, Lawrence
Mr. Wong Hak Wood, Louis
Mr. Wong Fook Lam, Raymond
Mrs. Lowe Hoh Wai Wan, Vivien

Non-executive Director:

Mr. Cheng Bing Chark, Henry

Independent non-executive Directors:

Mr. Griffiths, Anthony
Professor Enright, Michael John

In accordance with the Company's Bye-laws, Mr. Griffiths, Anthony and Mr. Cheng Bing Chark, Henry, shall retire by rotation at the forthcoming annual general meeting. Mr. Griffiths, Anthony, being eligible, offers himself for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

Directors' Interests in Shares

As at 31 March, 2003, the interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

| Name of Directors | Number of shares | |
|---------------------------------|--------------------|-----------------------|
| | Personal interests | Other interests |
| Mr. Lo Hong Sui, Vincent | - | 182,989,000 (Note) |
| Mr. Wong Ying Wai, Wilfred | - | - |
| Mr. Wong Yuet Leung, Frankie | - | - |
| Mr. Choi Yuk Keung, Lawrence | - | - |
| Mr. Wong Hak Wood, Louis | 520,000 | - |
| Mr. Wong Fook Lam, Raymond | - | - |
| Mrs. Lowe Hoh Wai Wan, Vivien | 40,000 | - |
| Mr. Cheng Bing Chark, Henry | - | - |
| Mr. Griffiths, Anthony | - | - |
| Professor Enright, Michael John | - | - |

Apart from the above, as at 31 March, 2003, there was no other interest recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Note:

The 182,989,000 shares are held as to 166,148,000 shares and 16,841,000 shares by the ultimate holding company, Shui On Company Limited ("SOCL") and Shui On Finance Company Limited respectively, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust. The units of the Bosrich Unit Trust are the property of a discretionary trust of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary. Accordingly, Mr. Lo Hong Sui, Vincent is deemed to be interested in such shares.

Share Options

Particulars of the Company's share option schemes are set out in note 33 to the financial statements.

Grant of options on 27 August, 2002 was made pursuant to the New Scheme adopted on the same date. Grants of options prior to 27 August, 2002 were made under the Old Scheme adopted on 20 January, 1997 and terminated on 27 August, 2002. All options granted previously under the Old Scheme continue to be valid and exercisable.

The following table discloses movements in the Company's share options during the year.

| Name or categories of eligible participants | Date of grant | Subscription price per share | Number of options | | | | | At 31.3.2003 | Period during which share options outstanding at 31.3.2003 are exercisable | Price of Company's shares at exercise date of options |
|---|---------------|------------------------------|-------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------|--|---|
| | | | At 1.4.2002 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | | | |
| | | HK\$ | | (Note a) | | | | | HK\$ (Note b) | |
| Directors | | | | | | | | | | |
| Wong Ying Wai, Wilfred | 27.8.2002 | 6.00 | - | 200,000 | - | - | - | 200,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 5,000,000* | - | - | - | 5,000,000 | 27.8.2005 to 26.8.2010 | - |
| Wong Yuet Leung, Frankie | 15.7.1998 | 4.14 | 24,000 | - | (24,000) | - | - | - | 15.1.1999 to 14.7.2003 | 6.00 |
| | 7.7.1999 | 11.21 | 200,000 | - | - | - | - | 200,000 | 7.1.2000 to 6.7.2004 | - |
| | 4.7.2000 | 9.56 | 200,000 | - | - | - | - | 200,000 | 4.1.2001 to 3.7.2005 | - |
| | 17.7.2001 | 9.30 | 200,000 | - | - | - | - | 200,000 | 17.1.2002 to 16.7.2006 | - |
| | 27.8.2002 | 6.00 | - | 160,000 | - | - | - | 160,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 2,000,000* | - | - | - | 2,000,000 | 27.8.2005 to 26.8.2010 | - |
| Choi Yuk Keung, Lawrence | 15.7.1998 | 4.14 | 44,000 | - | - | - | - | 44,000 | 15.1.1999 to 14.7.2003 | - |
| | 7.7.1999 | 11.21 | 280,000 | - | - | - | - | 280,000 | 7.1.2000 to 6.7.2004 | - |
| | 4.7.2000 | 9.56 | 350,000 | - | - | - | - | 350,000 | 4.1.2001 to 3.7.2005 | - |
| | 17.7.2001 | 9.30 | 350,000 | - | - | - | - | 350,000 | 17.1.2002 to 16.7.2006 | - |
| | 27.8.2002 | 6.00 | - | 280,000 | - | - | - | 280,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 5,000,000* | - | - | - | 5,000,000 | 27.8.2005 to 26.8.2010 | - |
| Wong Hak Wood, Louis | 15.7.1998 | 4.14 | 30,000 | - | - | - | - | 30,000 | 15.1.1999 to 14.7.2003 | - |
| | 7.7.1999 | 11.21 | 250,000 | - | - | - | - | 250,000 | 7.1.2000 to 6.7.2004 | - |
| | 4.7.2000 | 9.56 | 280,000 | - | - | - | - | 280,000 | 4.1.2001 to 3.7.2005 | - |
| | 17.7.2001 | 9.30 | 280,000 | - | - | - | - | 280,000 | 17.1.2002 to 16.7.2006 | - |
| | 27.8.2002 | 6.00 | - | 220,000 | - | - | - | 220,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 2,000,000* | - | - | - | 2,000,000 | 27.8.2005 to 26.8.2010 | - |
| Wong Fook Lam, Raymond | 15.7.1998 | 4.14 | 24,000 | - | - | - | - | 24,000 | 15.1.1999 to 14.7.2003 | - |
| | 7.7.1999 | 11.21 | 150,000 | - | - | - | - | 150,000 | 7.1.2000 to 6.7.2004 | - |
| | 4.7.2000 | 9.56 | 160,000 | - | - | - | - | 160,000 | 4.1.2001 to 3.7.2005 | - |
| | 17.7.2001 | 9.30 | 160,000 | - | - | - | - | 160,000 | 17.1.2002 to 16.7.2006 | - |
| | 27.8.2002 | 6.00 | - | 110,000 | - | - | - | 110,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 2,000,000* | - | - | - | 2,000,000 | 27.8.2005 to 26.8.2010 | - |
| Lowe Hoh Wai Wan, Vivien | 15.7.1998 | 4.14 | 24,000 | - | - | - | - | 24,000 | 15.1.1999 to 14.7.2003 | - |
| | 7.7.1999 | 11.21 | 150,000 | - | - | - | - | 150,000 | 7.1.2000 to 6.7.2004 | - |
| | 4.7.2000 | 9.56 | 160,000 | - | - | - | - | 160,000 | 4.1.2001 to 3.7.2005 | - |
| | 17.7.2001 | 9.30 | 160,000 | - | - | - | - | 160,000 | 17.1.2002 to 16.7.2006 | - |
| | 27.8.2002 | 6.00 | - | 110,000 | - | - | - | 110,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 2,000,000* | - | - | - | 2,000,000 | 27.8.2005 to 26.8.2010 | - |
| Sub-total | | | 3,476,000 | 19,080,000 | (24,000) | - | - | 22,532,000 | | |
| Other employees (in aggregate) | 25.7.1997 | 7.50 | 158,000 | - | - | - | (158,000) | - | 25.1.1998 to 24.7.2002 | - |
| | 15.7.1998 | 4.14 | 520,000 | - | (196,000) | (14,000) | - | 310,000 | 15.1.1999 to 14.7.2003 | 6.10 |
| | 7.7.1999 | 11.21 | 2,160,000 | - | - | (70,000) | - | 2,090,000 | 7.1.2000 to 6.7.2004 | - |
| | 4.7.2000 | 9.56 | 2,392,000 | - | - | (90,000) | - | 2,302,000 | 4.1.2001 to 3.7.2005 | - |
| | 17.7.2001 | 9.30 | 2,520,000 | - | - | (110,000) | - | 2,410,000 | 17.1.2002 to 16.7.2006 | - |
| | 27.8.2002 | 6.00 | - | 2,160,000 | - | (10,000) | - | 2,150,000 | 27.2.2003 to 26.8.2007 | - |
| | 27.8.2002 | 6.00 | - | 4,000,000* | - | - | - | 4,000,000 | 27.8.2005 to 26.8.2010 | - |
| Sub-total | | | 7,750,000 | 6,160,000 | (196,000) | (294,000) | (158,000) | 13,262,000 | | |
| | | | 11,226,000 | 25,240,000 | (220,000) | (294,000) | (158,000) | 35,794,000 | | |

As at 21 July, 2003, 35,032,000 shares may be issued upon exercise of all outstanding options granted. This represents approximately 13.2% of the shares in issue.

* These options were granted under the mega grant as stipulated in the Circular dated 30 July, 2002. Certain financial and performance targets must be achieved before the options granted will vest and be exercisable.

Notes:

- The closing price of the Company's shares preceding the date on which the options were granted was HK\$6.00.
- 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.

Share Options - continued

The share options granted are not recognised in the financial statements until they are exercised. The Directors consider that it is not appropriate to disclose the value of options granted during the year, since any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.

Apart from the aforesaid, during the year, none of the Directors or the chief executive of the Company or their spouses or children under the age of 18 were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations.

Substantial Shareholders' Interests in Shares

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 was no person having an interest in 10% or more of the issued share capital of the Company as at 31 March, 2003.

Arrangement to Purchase Shares or Debentures

Other than as disclosed above, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Connected Transactions

- (a) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of 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.
- (b) During the year, the Company provided management information systems services to Shui On Investment Company Limited, Shui On Properties Management Limited, Shui On Properties Limited and Centre Top Limited, wholly-owned subsidiaries of SOCL. The services were charged at rates designed to recover the costs and expenses incurred by the Company on a reasonable basis. The aggregate amount charged by the Company for such services for the year was approximately HK\$0.5 million.
- (c) The Group occupied an office in Shanghai, the People's Republic of China ("PRC"), which was owned by Shanghai Jiu Hai Rimmer Properties Co. Ltd., a subsidiary of SOCL. The rentals paid during the year amounted to HK\$0.6 million.
- (d) The Group paid building management fees of HK\$0.1 million during the year to Shui On Properties Management Limited, a wholly-owned subsidiary of SOCL, in relation to the Group's properties held for sale in Tseung Kwan O.
- (e) Pursuant to a relinquishment agreement entered into between Hollyfield Holdings Limited, a wholly-owned subsidiary of the Company, and Shanghai Ruichen Property Company Limited ("Shanghai Ruichen"), a subsidiary of SOCL, on 2 May, 2001 (as supplemented by an agreement dated 22 May, 2001 between these parties), Shanghai Ruichen has agreed, amongst others, to relinquish and surrender the development rights and title of a residential property development at Hongkou District of Shanghai to Shanghai Rui Hong Xin Cheng Company Limited ("Rui Hong"), a 99% indirectly owned subsidiary of the Company. In consideration of the above, Rui Hong had paid Shanghai Ruichen a sum of Rmb184.5 million (approximately HK\$172.4 million) during the year. Construction of the superstructure for the project began in July 2002.

Connected Transactions - continued

On 4 February, 2002, Rui Hong entered into a management agreement with Shanghai Ruichen in relation to the provision of project management, maintenance and sales and marketing services for a residential property development project which is 100% held by Shanghai Ruichen. Under the management agreement, Rui Hong received fees of HK\$15.5 million from Shanghai Ruichen during the year.

In the opinion of those Directors not having an interest in the above transactions, these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms or on terms mutually agreed between the parties.

Directors' Interests in Contracts of Significance

Save as aforesaid under the section headed "Connected Transactions", no contracts of significance, to which the Company, its ultimate holding company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Provident and Retirement Fund Schemes

Details of the Group's provident and retirement fund schemes are shown in note 29 to the financial statements.

Major Suppliers and Major Customers

The five largest suppliers of the Group accounted for less than 30% of the total purchases of the Group in the year.

The five largest customers of the Group accounted for approximately 53% of the total turnover of the Group in the year with the largest customer, the Hong Kong Housing Authority, accounting for approximately 44% of the turnover of the Group.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has a beneficial interest in the Group's five largest customers.

Donations

During the year, the Company and its subsidiaries made donations of HK\$1.5 million to business associations and institutions related to the Group's activities.

Corporate Governance

(i) Audit Committee

The Audit Committee comprises two independent non-executive directors, Mr. Griffiths, Anthony and Professor Enright, Michael John, and convenes at least four meetings every year. The Committee has reviewed with management the accounting principles and practices adopted by the Group in the course of its review of the annual financial statements and discussed audit, internal control and financial reporting matters.

(ii) Remuneration Committee

In April 2002, the Company set up a Remuneration Committee of the Board of Directors, which comprises the Chairman of the Company, Mr. Lo Hong Sui, Vincent and two independent non-executive directors, Mr. Griffiths, Anthony and Professor Enright, Michael John. The Committee met twice during the year and has reviewed the share option grants and bonus payment.

Corporate Governance - continued

(iii) Code of Best Practice

The Company has complied throughout the year ended 31 March, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (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.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Disclosure under Practice Note 19 to the Listing Rules ("PN 19")

(i) Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$791.1 million as at 31 March, 2003, details of which are as follows:

| Affiliated companies | Effective percentage of interest | Balance as at 31 March, 2003 | | | | Total HK\$ million |
|--|----------------------------------|---|--|---|-----------------------|-----------------------|
| | | Unsecured loan | | Guarantee given HK\$ million (Note b) | Total HK\$ million | |
| | | Interest free with no fixed repayment terms HK\$ million | Interest bearing with no fixed repayment terms HK\$ million (Note a) | | | |
| Allied Well Investment Limited | 50% | 8.3 | - | - | 8.3 | |
| Brisfull Limited | 50% | - | 25.8 | - | 25.8 | |
| Guizhou Dingxiao Shui On Cement Co. Ltd. | 89% | 1.0 | 71.4 | - | 72.4 | |
| Guizhou Kaili Shui On Cement Co. Ltd. | 89% | 0.9 | 20.0 | - | 20.9 | |
| Guizhou Xinpu Shui On Cement Co. Ltd. | 79% | 1.4 | 67.9 | - | 69.3 | |
| Guizhou Xishui Shui On Cement Co. Ltd. | 89% | 8.0 | - | - | 8.0 | |
| Guizhou Zunyi Shui On Cement Co. Ltd. | 79% | 3.4 | 72.8 | - | 76.2 | |
| Lamma Yue Jie Company Limited | 60% | 4.4 | - | - | 4.4 | |
| Nanjing Jiangnan Cement Company Ltd. | 60% | 83.7 | - | - | 83.7 | |
| Sawdrill Limited (Note c) | 50% | 0.5 | - | - | 0.5 | |
| Shenzhen Lamma Yue Jie Concrete Products Co. Ltd. | 60% | - | - | 10.0 | 10.0 | |
| Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited | 50% | 0.5 | - | - | 0.5 | |
| Sichuan Hejiang T.H. Cement Co. Ltd. | 89% | 0.1 | 10.7 | - | 10.8 | |
| Super Race Limited | 50% | - | - | 5.0 | 5.0 | |
| TH Industrial Management Limited (Note d) | 50% | 245.3 | - | 150.0 | 395.3 | |
| | | 357.5 | 268.6 | 165.0 | 791.1 | |

Disclosure under Practice Note 19 to the Listing Rules ("PN 19") - continued

(i) Financial assistance and guarantees to affiliated companies - continued

Notes:

(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 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 Zunyi Shui On Cement Co. Ltd. | London interbank offered rate plus 2% |
| Sichuan Hejiang T.H. Cement Co. Ltd. | Hong Kong interbank offered rate plus 2% |

(b) The guarantees given by the Group to Shenzhen Lamma Yue Jie Concrete Products Co. Ltd., 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) Except Sawdrill Limited being treated as an associate, all other affiliated companies are accounted for as jointly controlled entities 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.

Additionally, the Company is required under paragraph 3.10 of PN19 to include in its annual report a proforma combined balance sheet of the affiliated companies which should include significant balance sheet classifications and state the attributable interest of the Company in the affiliated companies. By reason of the accounting year-end dates of certain of these affiliated companies not being co-terminus with that of the Company, the Company is of the opinion that it is misleading and not practical to show the proforma combined balance sheet as at 31 March, 2003. Pursuant to PN19, the Company had made an application to The Stock Exchange of Hong Kong Limited and obtained a waiver of such disclosure by providing the following statement as an alternative.

As at 31 March, 2003, the total exposure on the combined indebtedness (including amounts owing to the Group) and capital commitments reported on by the affiliated companies amounted to approximately HK\$1,466.0 million and HK\$61.0 million respectively. Such affiliated companies reported no contingent liabilities as at 31 March, 2003.

(d) Subsequent to the year end date, an additional guarantee of HK\$150.0 million was given by the Company in favour of a financial institution for granting revolving loan facilities of HK\$150.0 million to TH Industrial Management Limited.

Disclosure under Practice Note 19 to the Listing Rules ("PN 19") - continued

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

The Company has been granted three 3-year term and revolving loan facilities, each amounting to HK\$200.0 million and totalling HK\$600.0 million, in September 2001 and a 3-year term loan facility of HK\$200.0 million in January 2002 which require SOCL and the Chairman of the Group, Mr. Lo Hong Sui, Vincent and his associates (as defined in the Listing Rules) to retain controlling interests of not less than 50% in the Company throughout the tenure of the loan agreements. Breach of this obligation will create a default in respect of these loan facilities.

Auditors

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Lo Hong Sui, Vincent

Chairman

Hong Kong, 21 July, 2003