

The Directors present their annual report and the audited financial statements for the year ended 31 March, 2005.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 39, 40 and 41 to the financial statements respectively.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 50.

The directors now recommend the payment of a final dividend of HK\$0.3 per share to the shareholders on the register of members on 19 August, 2005, amounting to HK\$80.8 million.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 28 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 29 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 116.

Investment Property

The Group's investment property was disposed of to an independent third party in November 2004 as set out in note 14 to the financial statements.

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, 2005 with a revaluation increase of HK\$6.5 million, of which HK\$3.0 million and HK\$3.5 million have been credited directly to the consolidated income statement and properties revaluation reserve 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 15 to the financial statements.

Major Properties

Details of the major properties of the Group at 31 March, 2005 are set out on page 115.

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. Choi Yuk Keung, Lawrence

Mr. Wong Yuet Leung, Frankie

Mr. Wong Fook Lam, Raymond

Mrs. Lowe Hoh Wai Wan, Vivien

Non-executive Directors:

Mr. Wong Hak Wood, Louis (redesignated from an executive director on 30 September, 2004)

Professor Enright, Michael John (redesignated from an independent non-executive director on 30 September, 2004)

Independent Non-executive Directors:

Mr. Griffiths, Anthony

Mr. Cheung Kin Tung, Marvin (appointed on 13 July, 2004 and resigned on 4 July, 2005)

Mr. Cheng Mo Chi, Moses (appointed on 30 September, 2004)

Professor Chan, K.C. (appointed on 4 July, 2005)

In accordance with the Company's Bye-laws, Mrs. Lowe Hoh Wai Wan, Vivien and Mr. Wong Hak Wood, Louis retire by rotation at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

Mr. Cheng Mo Chi, Moses and Professor Chan, K.C. were appointed by the Board during the year. In accordance with the Company's Bye-laws, both of them will retire at the forthcoming annual general meeting and, being eligible, offer themselves 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, 2005, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are taken or deemed to have taken under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Interests in the shares

Name of Director	Number of ordinary shares in the Company	
	Personal interests	Other interests
Mr. Lo Hong Sui, Vincent	—	185,183,000
Mr. Wong Ying Wai, Wilfred	120,000	—
Mr. Choi Yuk Keung, Lawrence	602,000	—
Mr. Wong Hak Wood, Louis	228,000	—

Note:

The 185,183,000 shares are held as to 166,148,000 shares and 19,035,000 shares by the ultimate holding company, Shui On Company Limited ("SOCL") and Shui On Finance Company Limited respectively, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust. The units of the Bosrich Unit Trust are the property of a discretionary trust of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary. Accordingly, Mr. Lo Hong Sui, Vincent is deemed to be interested in such shares.

Share Options

Particulars of the Company's share option schemes are set out in note 35 to the financial statements.

The grants of options on or after 27 August, 2002 were made pursuant to the New Scheme adopted on 27 August, 2002. The 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 HK\$	Number of options				At 31.3.2005	Period during which options outstanding at 31.3.2005 are exercisable	Price of Company's shares at exercise date HK\$ (Note b)
			At 1.4.2004	Granted during the year (Note a)	Exercised during the year	Cancelled during the year			
Directors									
Mr. Wong Ying Wai, Wilfred	27.8.2002	6.00	200,000	—	(120,000)	—	80,000	27.2.2003 to 26.8.2007	7.35
	27.8.2002	6.00	5,000,000	—	—	—	5,000,000*	27.8.2005 to 26.8.2010	—
Mr. Choi Yuk Keung, Lawrence	7.7.1999	11.21	280,000	—	—	—	(280,000)	7.1.2000 to 6.7.2004	—
	4.7.2000	9.56	70,000	—	—	—	70,000	4.1.2001 to 3.7.2005	—
	17.7.2001	9.30	140,000	—	—	—	140,000	17.1.2002 to 16.7.2006	—
	27.8.2002	6.00	168,000	—	—	—	168,000	27.2.2003 to 26.8.2007	—
	27.8.2002	6.00	5,000,000	—	—	—	5,000,000*	27.8.2005 to 26.8.2010	—
Mr. Wong Yuet Leung, Frankie	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	—
Mr. Wong Fook Lam, Raymond	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	—

Directors' Report

Share Options - continued

Name or categories of eligible participants	Date of grant	Subscription price per share HK\$	At 1.4.2004	Number of options				At 31.3.2005	Period during which options outstanding at 31.3.2005 are exercisable	Price of Company's shares at exercise date HK\$
				Granted during the year (Note a)	Exercised during the year	Cancelled during the year	Lapsed during the year			
Mrs. Lowe Hoh Wai Wan, Vivien	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	66,000	—	—	—	—	66,000	27.2.2003 to 26.8.2007	—
	27.8.2002	6.00	2,000,000	—	—	—	—	2,000,000*	27.8.2005 to 26.8.2010	—
Mr. Wong Hak Wood, Louis	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	132,000	—	(44,000)	—	—	88,000	27.2.2003 to 26.8.2007	10.85
	27.8.2002	6.00	2,000,000	—	—	—	—	2,000,000*	27.8.2005 to 26.8.2010	—
Sub-total			21,676,000	—	(164,000)	—	(1,030,000)	20,482,000		
Other employees (in aggregate)	7.7.1999	11.21	2,040,000	—	—	(100,000)	(1,940,000)	—	7.1.2000 to 6.7.2004	—
	4.7.2000	9.56	1,394,000	—	(316,000)	(90,000)	—	988,000	4.1.2001 to 3.7.2005	10.92
	17.7.2001	9.30	1,472,000	—	(230,000)	(118,000)	—	1,124,000	17.1.2002 to 16.7.2006	10.71
	27.8.2002	6.00	1,356,000	—	(366,000)	(132,000)	—	858,000	27.2.2003 to 26.8.2007	8.86
	27.8.2002	6.00	4,000,000	—	—	—	—	4,000,000*	27.8.2005 to 26.8.2010	—
	4.8.2003	5.80	714,000	—	(224,000)	(6,000)	—	484,000	4.2.2004 to 3.8.2008	8.86
	26.7.2004	7.25	—	1,030,000	(44,000)	—	—	986,000	26.1.2005 to 25.7.2009	10.10
Sub-total			10,976,000	1,030,000	(1,180,000)	(446,000)	(1,940,000)	8,440,000		
			32,652,000	1,030,000	(1,344,000)	(446,000)	(2,970,000)	28,922,000		

As at 18 July, 2005, 28,764,000 shares may be issued upon exercise of all outstanding options granted. This represents approximately 10.7% of the shares in issue.

* These options were granted under the mega grant as stipulated in the circular dated 30 July, 2002. As approved by the Remuneration Committee on 6 July, 2005 and the Board on 18 July, 2005, the number of options vest under the mega grant to (1) individual directors are: Mr. Wilfred Wong (3,500,000); Mr. Lawrence Choi (3,375,000); Mr. Frankie Wong (1,600,000); Mr. Louis Wong (1,000,000); Mr. Raymond Wong (1,300,000) and Mrs. Vivien Lowe (1,200,000) and (2) other employees in aggregate (2,300,000).

Share Options - continued

Notes:

- a. The closing price of the Company's shares preceding the date on which the options were granted was HK\$7.3.
- 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.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Apart from the aforesaid, during the year, none of the Directors or the chief executives of the Company or their associates had any interests or short position in any shares, underlying shares or debenture equity of the Company or any of its associated corporations as at 31 March, 2005.

Substantial Shareholders' Interests in Shares

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 31 March, 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	Number of ordinary shares in the Company	Percentage of shareholding in the Company
Cheah Cheng Hye	13,912,000	5.17%

Of the 13,912,000 shares, 13,450,000 shares are held by Value Partners Limited which is controlled by Mr. Cheah Cheng Hye.

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. On 18 February, 2004, the Group entered into the Rainbow Sale and Purchase Agreement and the Subscription and Shareholder's Agreement (the "Agreements") for co-investment in Shui On Land Limited ("SOL") with the Company's ultimate holding company, SOCL. The Agreements involved the sale to SOL the entire issue share capital of Foresight Profits Limited ("Foresight") and the benefit of certain debt owed by Hollyfield (a wholly owned subsidiary of Foresight) to the Company, for an initial consideration (subject to adjustment) of US\$130 million which will be satisfied by the allotment and issue of 130 million ordinary shares in SOL credited as fully paid to the Group. Foresight is the holding company of a 99% subsidiary, which develops the Rui Hong Xin Cheng project (also known as Rainbow City) in Shanghai. The Group is currently holding a 30.16% equity interest in SOL. An additional cash injection of US\$50 million was also made for subscription of convertible, redeemable, participating junior preference shares in SOL. Details of the transactions are set out in a circular issued to the shareholders dated 23 March, 2004. The Agreements were approved by independent shareholders in a Special General Meeting on 15 April, 2004.
- b. On 13 September, 2004, Shui On Construction Company Limited, a wholly owned subsidiary of the Company, entered into a joint venture agreement with Focus Top Limited, a wholly owned subsidiary of SOL, to form a joint venture, namely "Shui On Joint Venture", to undertake a project in relation to the design and construction of Independent Commission Against Corruption Headquarters Building at Java Road, North Point, Hong Kong. Details of the joint venture were set out in an announcement dated 14 September, 2004.

The directors, including the independent non-executive directors, confirm that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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.

Remuneration Policy

The remuneration policy developed by the Group to reward its employees is based on their performance, qualifications and competence displayed.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, their individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 35 to the financial statements.

Provident and Retirement Fund Schemes

Details of the Group's provident and retirement fund schemes are shown in note 31 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 36% of the total turnover of the Group in the year with the largest customer, the Hong Kong Housing Authority, accounting for approximately 30% 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\$2.5 million to business associations and institutions related to the Group's activities.

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.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 March, 2005.

Disclosure under Rule 13.21 and Rule 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\$1,353.5 million as at 31 March, 2005, details of which are as follows:

Balance as at 31 March, 2005						
Unsecured loans						
Affiliated companies	Effective percentage of interest	Interest free with no fixed repayment terms	Interest bearing with no fixed repayment terms	Guarantees given	Convertible redeemable participating junior preference shares	Total
		HK\$ million	HK\$ million		HK\$ million	
			(Note a)	(Note b)		HK\$ million
Brisfull Limited	50%	0.1	37.5	—	—	37.6
Guangzhou On Track Construction Precast Products Company Ltd.	40%	2.1	—	9.4	—	11.5
Guizhou Bijie Shui On Cement Co. Ltd.	79%	3.9	24.0	—	—	27.9
Guizhou Dingxiao Shui On Cement Co. Ltd.	89%	2.3	56.4	—	—	58.7
Guizhou Kaili Ken On Concrete Co. Ltd.	74%	3.1	1.9	—	—	5.0
Guizhou Kaili Shui On Cement Co. Ltd.	89%	13.3	20.0	—	—	33.3
Guizhou Xinpu Shui On Cement Co. Ltd.	79%	17.7	42.9	—	—	60.6
Guizhou Xishui Shui On Cement Co. Ltd.	89%	22.8	—	—	—	22.8
Guizhou Yuqing Shui On Cement Co. Ltd.	79%	0.1	—	—	—	0.1
Guizhou Zunyi Ken On Concrete Co. Ltd.	74%	1.3	2.8	—	—	4.1
Guizhou Zunyi Shui On Cement Co. Ltd.	79%	17.7	10.0	—	—	27.7
Lamma Yue Jie Company Limited	60%	12.8	—	—	—	12.8
Nanjing Jiangnan Cement Company Ltd.	60%	92.6	—	—	—	92.6
Shenzhen Lamma Yue Jie Concrete Products Co. Ltd.	60%	—	—	10.0	—	10.0
Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited	50%	0.4	—	—	—	0.4
Sichuan Hejiang T.H. Cement Co. Ltd.	89%	0.7	10.7	—	—	11.4
Super Race Limited	50%	—	—	5.0	—	5.0
TH Industrial Management Limited	50%	293.6	—	300.0	—	593.6
The Yangtze Ventures II Limited	75%	75.4	—	—	—	75.4
Shui On Land Limited	30%	—	—	—	243.6	243.6
Shanghai Shiu On Construction Co. Ltd.	50%	19.4	—	—	—	19.4
		579.3	206.2	324.4	243.6	1,353.5

Disclosure under Rule 13.21 and Rule 13.22 of the Listing Rules - continued

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

The proforma combined balance sheet of the above affiliated companies as at 31 March, 2005 is as follows:

	HK\$ million
Non-current assets	12,685.7
Current assets	2,652.5
Current liabilities	(4,144.3)
Net current liabilities	(1,491.8)
Non-current liabilities	(5,371.6)
Minority interest	(1,069.0)
Shareholders' funds	4,753.3

Details of the above affiliated companies are set out in notes 40 and 41 to the financial statements.

Note:

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

<u>Affiliated companies</u>	<u>Interest rate per annum</u>
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 T.H. Cement Co. Ltd.	Hong Kong interbank offered rate plus 2%

- b. The guarantees given by the Group to Guangzhou On Track Construction Precast Products Company Ltd., 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. All affiliated companies are accounted for as jointly controlled entities or associates of the Group.

Disclosure under Rule 13.21 and Rule 13.22 of the Listing Rules - continued

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

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 31 March, 2005, the total exposure on capital commitments reported on by the affiliated companies amounted to approximately HK\$1,035.2 million. Such affiliated companies reported no contingent liabilities as at 31 March, 2005.

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

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 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 year 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.

Auditors

A resolution will be submitted to the forthcoming 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

18 July, 2005