



DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2006.

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 43, 44 and 45 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 55.

The Directors now recommend the payment of a final dividend of HK\$0.25 per share to the shareholders on the register of members on 23 August 2006, amounting to HK\$69.1 million.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 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 are set out in note 31 to the financial statements.

Under the Companies Act 1981 of Bermuda (as amended), in addition to retained profits, contributed surplus is also distributable to the shareholders of the Company. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 March 2006, the Company's reserves, including the contributed surplus, available for distribution to shareholders amounted to HK\$631.9 million (2005: HK\$877.7 million).

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 134.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 March 2006, as set out in note 15 to the financial statements. The decrease in fair value amounting to HK\$0.3 million has been charged to the consolidated income statement.



PROPERTY, PLANT AND EQUIPMENT

Details of additions to and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31 March 2006 are set out on page 133.

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 (resigned on 1 June 2006)

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 (resigned on 1 June 2006)

Professor Enright, Michael John

Independent Non-executive Directors:

Mr. Griffiths, Anthony

Mr. Cheung Kin Tung, Marvin (resigned on 4 July 2005)

Mr. Cheng Mo Chi, Moses

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

In accordance with the Company's Bye-laws, Mr. Choi Yuk Keung, Lawrence and Mr. Wong Fook Lam, Raymond retire by rotation at the forthcoming annual general meeting and, being eligible, offers 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 and Independent 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 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (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) and the Model Code for Securities Transactions by Directors of Listed Companies or 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	—	183,183,000 (Note)
Mr. Wong Ying Wai, Wilfred (resigned on 1 June 2006)	620,000	—
Mr. Choi Yuk Keung, Lawrence	600,000	—
Mr. Wong Hak Wood, Louis (resigned on 1 June 2006)	1,228,000	—
Mrs. Lowe Hoh Wai Wan, Vivien	190,000	—

Note: The 183,183,000 shares are held as to 166,148,000 shares and 17,035,000 shares respectively by the ultimate holding company, Shui On Company Limited ("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.

Save as disclosed above and the section headed "Share Options" below, none of the Directors and chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 March 2006.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 36 to the financial statements.

The grants of options on or after 27 August 2002 were made pursuant to the share option scheme of the Company adopted on 27 August 2002. The grants of options prior to 27 August 2002 were made under the share option scheme of the Company ("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.





SHARE OPTIONS - continued

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 31.3.2006	Period during which options outstanding at 31.3.2006 are exercisable	Price of Company's shares at exercise date of options HK\$ (Note b)
			At 1.4.2005	Granted during the year (Note a)	Exercised during the year	Cancelled during the year	Lapsed during the year			
Directors										
Mr. Wong Ying Wai, Wilfred (resigned on 1 June 2006)	27.8.2002	6.00	80,000	—	—	—	—	80,000	27.2.2003 to 26.8.2007	—
	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, Lawrence	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	—	(1,200,000)	—	(1,625,000)	2,175,000	27.8.2005 to 26.8.2010	9.25
Mr. Wong Yuet Leung, Frankie	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	—	—	—	(400,000)	1,600,000	27.8.2005 to 26.8.2010	—
Mr. Wong Fook Lam, Raymond	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	—	—	—	(700,000)	1,300,000	27.8.2005 to 26.8.2010	—
Mrs. Lowe Hoh Wai Wan, Vivien	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	—	(300,000)	—	(800,000)	900,000	27.8.2005 to 26.8.2010	9.45
Mr. Wong Hak Wood, Louis (resigned on 1 June 2006)	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	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			<u>20,482,000</u>	<u>—</u>	<u>(1,500,000)</u>	<u>—</u>	<u>(6,895,000)</u>	<u>12,087,000</u>		
Other employees										
(in aggregate)	4.7.2000	9.56	988,000	—	(6,000)	(26,000)	(956,000)	—	4.1.2001 to 3.7.2005	9.15
	17.7.2001	9.30	1,124,000	—	(988,000)	(40,000)	—	96,000	17.1.2002 to 16.7.2006	14.22
	27.8.2002	6.00	858,000	—	(432,000)	(44,000)	—	382,000	27.2.2003 to 26.8.2007	11.99
	27.8.2002	6.00	4,000,000	—	(1,690,000)	(1,700,000)	—	610,000	27.8.2005 to 26.8.2010	11.15
	4.8.2003	5.80	484,000	—	(154,000)	(16,000)	—	314,000	4.2.2004 to 3.8.2008	10.28
	26.7.2004	7.25	986,000	—	(334,000)	(20,000)	—	632,000	26.1.2005 to 25.7.2009	11.73
	29.7.2005	9.30	—	1,154,000	(148,000)	(20,000)	—	986,000	29.1.2006 to 28.7.2010	16.62
Sub- total			<u>8,440,000</u>	<u>1,154,000</u>	<u>(3,752,000)</u>	<u>(1,866,000)</u>	<u>(956,000)</u>	<u>3,020,000</u>		
			<u>28,922,000</u>	<u>1,154,000</u>	<u>(5,252,000)</u>	<u>(1,866,000)</u>	<u>(7,851,000)</u>	<u>15,107,000</u>		

As at 17 July 2006, 13,309,000 shares may be issued upon exercise of all outstanding options granted. This represents approximately 4.81% of the shares in issue.

Notes:

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





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 2006, 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:

Interests in the shares

Name	Number of ordinary shares in the Company	Percentage of shareholding in the Company
Cheah Cheng Hye	16,144,000 (Note a)	5.88%
John Zwaanstra & Michael William Moore	13,799,000 (Note b)	5.02%

Notes:

- a. These shares are held by Value Partners Limited which is controlled by Mr. Cheah Cheng Hye.
- b. These shares are held by Penta Investment Advisers Limited which is jointly controlled by Mr. John Zwaanstra and Mr. Michael William Moore.

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2006 with the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") save as disclosed below.

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors and Independent Non-executive Directors should be appointed for a specific term, subject to re-election. The Non-executive Director and Independent Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. 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 stipulate 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.

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 code of conduct regarding Directors' securities transactions. The Directors confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.





CONNECTED TRANSACTIONS

- a. On 2 September 2005, Shui On Construction Company Limited ("SOC"), a wholly owned subsidiary of the Company, entered into an agreement with Focus Well Limited ("Focus Well"), a wholly owned subsidiary of the Company's ultimate holding company, SOCL, pursuant to which SOC would provide project management services to Focus Well in respect of the development, construction and refurbishment of a commercial complex in Guangzhou, the PRC. The fee for the project management services is equal to 5% of the total construction costs, design and consultancy fees for the project, which amounts to approximately RMB15 million (about HK\$14.4 million). Details of the transaction are set out in an announcement of the Company dated 5 September 2005.

- b. On 2 November 2005, Panyu Dynamic Mark Steel & Aluminium Engineering Company Limited, a non-wholly owned subsidiary of the Company, entered into a sub-contract with Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited ("Shui On Panyu"), a company in which the Company has 50% interest and Guangzhou Panyu Guanglu Industrial Company Limited ("Panyu Guanglu") has a 45% interest. Panyu Guanglu is a company in which Mr. Li Qiao Zi, a director of certain subsidiaries of the Company, has more than a 50% interest. Under the sub-contract, Shui On Panyu was commissioned to manufacture and install 152 prefabricated shop units at designated underground stations in Guangzhou, the PRC, for a total consideration of approximately RMB5.3 million (about HK\$5.1 million). Details of the transaction are set out in an announcement of the Company dated 20 January 2006.

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 of 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, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 36 to the financial statements.

PROVIDENT AND RETIREMENT FUND SCHEMES

Details of the Group's provident and retirement fund schemes are shown in note 33 to the financial statements.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The five largest suppliers of the Group accounted for less than 25% of the total purchases of the Group in the year.

The five largest customers of the Group accounted for approximately 68% 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 and five largest suppliers.



DONATIONS

During the year, the Company and its subsidiaries made donations of HK\$3.5 million to business associations and institutions.

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 2006.

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\$901.4 million as at 31 March 2006, details of which are as follows:

Affiliated companies	Effective percentage of interest	Balance as at 31 March 2006					Total HK\$ million
		Unsecured loans		Guarantees given HK\$ million (Note b)	Convertible redeemable participating junior preference shares HK\$ million		
		Interest free with no fixed repayment terms HK\$ million	Interest bearing with no fixed repayment terms HK\$ million (Note a)				
Biella Enterprises Limited	20%	0.1	—	—	—	0.1	
Brisfull Limited	50%	0.2	41.8	—	—	42.0	
Chongqing Foreign Investment Consultation and Service Co. Ltd.	30%	1.3	—	—	—	1.3	
Coral Waters (Barbados) SRL	50%	15.0	—	—	—	15.0	
Guangzhou On Track Construction Precast Products Co. Ltd.	40%	1.7	—	—	—	1.7	
Guizhou Bijie Shui On Cement Co. Ltd.	80%	6.1	30.0	—	—	36.1	
Guizhou Changda Shui On Cement Co. Ltd.	51%	0.5	—	—	—	0.5	
Guizhou Kaili Ken On Concrete Co. Ltd.	75%	3.3	1.9	—	—	5.2	
Guizhou Kaili Shui On Cement Co. Ltd.	90%	20.0	20.0	—	—	40.0	
Guizhou Shuicheng Shui On Cement Co. Ltd.	31.5%	0.1	—	—	—	0.1	
Guizhou Xinpu Shui On Cement Co. Ltd.	36%	0.7	—	—	—	0.7	
Guizhou Xishui Shui On Cement Co. Ltd.	90%	28.6	—	—	—	28.6	
Guizhou Zunyi Ken On Concrete Co. Ltd.	75%	2.4	2.8	—	—	5.2	
Guizhou Zunyi Shui On Cement Co. Ltd.	80%	39.1	10.0	—	—	49.1	
Lafarge Shui On Cement Limited	45%	19.7	—	—	—	19.7	
Lamma Yue Jie Co. Ltd.	60%	16.9	—	—	—	16.9	
Mountain Breeze (Barbados) SRL	50%	0.2	—	—	—	0.2	
Mountain Mist (Barbados) SRL	45%	1.6	—	—	—	1.6	
Nanjing Jiangnan Cement Company Limited	60%	119.7	—	—	—	119.7	
Shanghai Shui On Construction Co. Ltd.	50%	28.9	—	—	—	28.9	
Shui On Land Limited	30.99%	—	—	—	389.8	389.8	
Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited	50%	0.9	—	—	—	0.9	



DISCLOSURE UNDER RULE 13.21 AND RULE 13.22 OF THE LISTING RULES - continued

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

Balance as at 31 March 2006

Affiliated companies	Effective percentage of interest	Unsecured loans		Guarantees given HK\$ million (Note b)	Convertible redeemable participating junior preference shares HK\$ million	Total HK\$ million
		Interest free with no fixed repayment terms HK\$ million	Interest bearing with no fixed repayment terms HK\$ million (Note a)			
Sichuan Hejiang Shui On Cement Co. Ltd.	90%	1.4	15.9	—	—	17.3
Sommerset Investments Limited	45%	0.7	—	—	—	0.7
Super Race Limited	50%	—	—	5.0	—	5.0
The Yangtze Ventures II Limited	75.4%	75.4	—	—	—	75.4
		<u>384.5</u>	<u>122.4</u>	<u>5.0</u>	<u>389.8</u>	<u>901.7</u>

The proforma combined balance sheet of the above affiliated companies as at 31 March 2006 is as follows:

	HK\$ million
Non-current assets	<u>18,624.5</u>
Current assets	11,431.2
Current liabilities	<u>(8,124.7)</u>
Net current assets	<u>3,306.5</u>
Non-current liabilities	(9,303.9)
Minority interests	<u>(482.5)</u>
Net assets	<u>12,144.6</u>

Details of the above affiliated companies are set out in notes 44 and 45 to the financial statements.



**DISCLOSURE UNDER RULE 13.21 AND RULE 13.22 OF THE LISTING RULES** - 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 Ltd.	Fixed at 2.5%
Guizhou Bijie Shui On Cement Co. Ltd.	HIBOR + 2%
Guizhou Kaili Ken On Concrete Co. Ltd.	HIBOR + 2%
Guizhou Kaili Shui On Cement Co. Ltd.	HIBOR + 2%
Guizhou Zunyi Ken On Concrete Co. Ltd.	HIBOR + 2%
Guizhou Zunyi Shui On Cement Co. Ltd.	HIBOR + 2%
Sichuan Hejiang Shui On Cement Co. Ltd.	HIBOR + 2%

- b. The guarantee given by the Group to Super Race Limited was in favour of a financial institution for granting credit facility to this company.
- 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 in and/or working capital for these companies.

As at 31 March 2006, the total exposure on capital commitments reported by the affiliated companies amounted to approximately HK\$1,608.7 million. The contingent liabilities of the affiliated companies as at 31 March 2006 are set out in note 20 to the financial statements.

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

The Company was granted the following banking facilities:

- a. a 3-year revolving loan of HK\$150 million in April 2004;
- b. two 3-year revolving loans, each amounting to HK\$200 million and totalling HK\$400 million, in October 2004;
- c. a 2-year revolving loan of HK\$200 million in January 2005; and
- d. a 3-year term loan of HK\$200 million in February 2005.

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% 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

17 July 2006

