

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March, 2004.

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 37, 38 and 39 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 43.

The directors now recommend the payment of a final dividend of HK\$0.275 per share to the shareholders on the register of members on 27 September, 2004, amounting to HK\$73.7 million.

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 94.

Investment Property

The Group's investment property was revalued at 31 March, 2004, as set out in note 13 to the financial statements. The revaluation increase amounting to HK\$17.0 million has been credited 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, 2004 with a revaluation increase of HK\$1.1 million, of which HK\$0.5 million and HK\$0.6 million have been credited directly to 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 14 to the financial statements.

Major Properties

Details of the major properties of the Group at 31 March, 2004 are set out on page 93.

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 (resigned on 2 September, 2003)

Independent Non-executive Directors:

Mr. Griffiths, Anthony

Professor Enright, Michael John

Mr. Cheung Kin Tung, Marvin (appointed on 13 July, 2004)

In accordance with the Company's Bye-laws, Mr. Wong Ying Wai, Wilfred, Professor Enright, Michael John and Mr. Cheung Kin Tung, Marvin, shall 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 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, 2004, 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have 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	-	183,699,000
Mr. Choi Yuk Keung, Lawrence	602,000	-
Mr. Wong Hak Wood, Louis	184,000	-

Note: The 183,699,000 shares are held as to 166,148,000 shares and 17,551,000 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.

The grant of options on 27 August, 2002 was made pursuant to the New Scheme adopted on the same date. 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.

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 31.3.2004	Period during which options outstanding at 31.3.2004 are exercisable	Price of Company's shares at exercise date of options HK\$
			At 1.4.2003	Granted during the year (Note a)	Exercised during the year	Cancelled during the year	Lapsed during the year			
Directors										
Mr. 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	-
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. 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	-	(280,000)	-	-	70,000	4.1.2001 to 3.7.2005	11.05
	17.7.2001	9.30	350,000	-	(210,000)	-	-	140,000	17.1.2002 to 16.7.2006	11.05
	27.8.2002	6.00	280,000	-	(112,000)	-	-	168,000	27.2.2003 to 26.8.2007	11.05
	27.8.2002	6.00	5,000,000	-	-	-	-	5,000,000*	27.8.2005 to 26.8.2010	-
Mr. Wong Hak Wood, Louis	15.7.1998	4.14	30,000	-	(30,000)	-	-	-	15.1.1999 to 14.7.2003	4.9
	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	-	(88,000)	-	-	132,000	27.2.2003 to 26.8.2007	10.6
	27.8.2002	6.00	2,000,000	-	-	-	-	2,000,000*	27.8.2005 to 26.8.2010	-
Mr. 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	-
Mrs. Lowe Hoh Wai Wan, Vivien	15.7.1998	4.14	24,000	-	(24,000)	-	-	-	15.1.1999 to 14.7.2003	4.8
	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	-	(44,000)	-	-	66,000	27.2.2003 to 26.8.2007	8.2
	27.8.2002	6.00	2,000,000	-	-	-	-	2,000,000*	27.8.2005 to 26.8.2010	-
Sub-total			22,532,000	-	(788,000)	-	(68,000)	21,676,000		
Other employees										
(in aggregate)	15.7.1998	4.14	310,000	-	(106,000)	(6,000)	(198,000)	-	15.1.1999 to 14.7.2003	4.8
	7.7.1999	11.21	2,090,000	-	-	(50,000)	-	2,040,000	7.1.2000 to 6.7.2004	-
	4.7.2000	9.56	2,302,000	-	(828,000)	(80,000)	-	1,394,000	4.1.2001 to 3.7.2005	11.5
	17.7.2001	9.30	2,410,000	-	(838,000)	(100,000)	-	1,472,000	17.1.2002 to 16.7.2006	11.4
	27.8.2002	6.00	2,150,000	-	(694,000)	(100,000)	-	1,356,000	27.2.2003 to 26.8.2007	11.3
	27.8.2002	6.00	4,000,000	-	-	-	-	4,000,000*	27.8.2005 to 26.8.2010	-
4.8.2003	5.80	-	780,000	(66,000)	-	-	714,000	4.2.2004 to 3.8.2008	9.1	
Sub-total			13,262,000	780,000	(2,532,000)	(336,000)	(198,000)	10,976,000		
			35,794,000	780,000	(3,320,000)	(336,000)	(266,000)	32,652,000		

As at 13 July, 2004, 32,446,000 shares may be issued upon exercise of all outstanding options granted. This represents approximately 12.1% 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\$5.7.
- 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 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, 2004.

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, 2004, 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	16,666,000	6.22%

Of the 16,666,000 shares, 16,204,000 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. 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\$0.4 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\$0.9 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 ("Hollyfield"), 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 in the 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). Construction of the superstructure for the project began in July 2002.

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\$5.5 million from Shanghai Ruichen during the year.

- f. On 18 February, 2004, the Group entered into the Rainbow Sale and Purchase Agreement and the Subscription and Shareholders' 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 the 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 Hollyfield and Rui Hong, which develops the Rui Hong Xin Cheng project (also known as Rainbow City) in Shanghai. Together with an additional cash injection of up to US\$50 million to be made by the Group of which US\$25 million was paid on 31 May, 2004 for the subscription of the preference convertible shares, the Group shall hold more than 20% interest in SOL upon completion of the Agreements. 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.

In connection with the above, an agreement was entered into by Shanghai Ruichen and Hollyfield on 29 April, 2004 to terminate the relinquishment agreement dated 2 May, 2001 (as supplemented by an agreement dated 22 May, 2001).

Another agreement was signed by Shanghai Ruichen and Rui Hong on 29 April, 2004 to terminate the management agreement dated 4 February, 2002.

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 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\$0.7 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.

Disclosure Under Rule 13.22 The Listing Rules (“Rule 13.22”)

(i) Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$913.4 million as at 31 March, 2004, details of which are as follows:

Affiliated companies	Effective percentage of interest	Balance as at 31 March, 2004				Total HK\$ million
		Unsecured loan		Guarantee given		
		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%	8.4	-	-	-	8.4
Brisfull Limited	50%	0.1	32.9	-	-	33.0
Guangzhou On Track Construction Precast Products Company Ltd.	40%	2.7	-	-	-	2.7
Guizhou Bijie Shui On Cement Co. Ltd.	79%	1.4	-	-	-	1.4
Guizhou Dingxiao Shui On Cement Co. Ltd.	89%	1.4	36.4	-	-	37.8
Guizhou Kaili Ken On Concrete Co. Ltd.	74%	1.2	1.9	-	-	3.1
Guizhou Kaili Shui On Cement Co. Ltd.	89%	5.6	20.0	-	-	25.6
Guizhou Xinpu Shui On Cement Co. Ltd.	79%	3.9	67.9	-	-	71.8
Guizhou Yuqing Shui On Cement Co. Ltd.	79%	0.2	-	-	-	0.2
Guizhou Zunyi Ken On Concrete Co. Ltd.	74%	0.2	-	-	-	0.2
Guizhou Zunyi Shui On Cement Co. Ltd.	79%	14.2	-	-	-	14.2
Lamma Yue Jie Company Limited	60%	7.9	-	-	-	7.9
Nanjing Jiangnan Cement Company Ltd.	60%	89.1	-	-	-	89.1
Shenzhen Lamma Yue Jie Concrete Products Co. Ltd.	60%	-	-	10.0	-	10.0
Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited	50%	0.2	-	-	-	0.2
Sichuan Hejiang T.H. Cement Co. Ltd.	89%	0.5	10.7	-	-	11.2
Super Race Limited	50%	-	-	5.0	-	5.0
TH Industrial Management Limited	50%	253.9	-	300.0	-	553.9
The Yangtze Ventures II Limited	75%	37.7	-	-	-	37.7
		428.6	169.8	315.0		913.4

Disclosure Under Rule 13.22 The Listing Rules (“Rule 13.22”) - continued

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

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 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%
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. All 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 Rule 13.22 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, 2004. Pursuant to Rule 13.22, 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, 2004, 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\$2,132.4 million and HK\$7.8 million respectively. Such affiliated companies reported no contingent liabilities as at 31 March, 2004.

(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 2003 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.

Post Balance Sheet Events

Details of significant events occurring after the balance sheet date are set out in note 36 to the financial statements.

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

13 July, 2004