

Contents

2	Financial Highlights
4	Corporate Information
5	Business Structure
6	Chairman's Statement
	Review of Operations
14	<i>Construction Division</i>
18	<i>Construction Materials Division</i>
23	Directors and Senior Management
26	Report of the Directors
32	Report of the Auditors
33	Consolidated Profit and Loss Account
34	Balance Sheet
35	Consolidated Cash Flow Statement
39	Notes to Financial Statements
	Appendices
57	<i>I. Particulars of Principal Subsidiaries</i>
60	<i>II. Particulars of Principal Associated Companies</i>
61	<i>III. Particulars of Properties</i>
62	<i>IV. Group Financial Summary</i>
63	Notice of Annual General Meeting

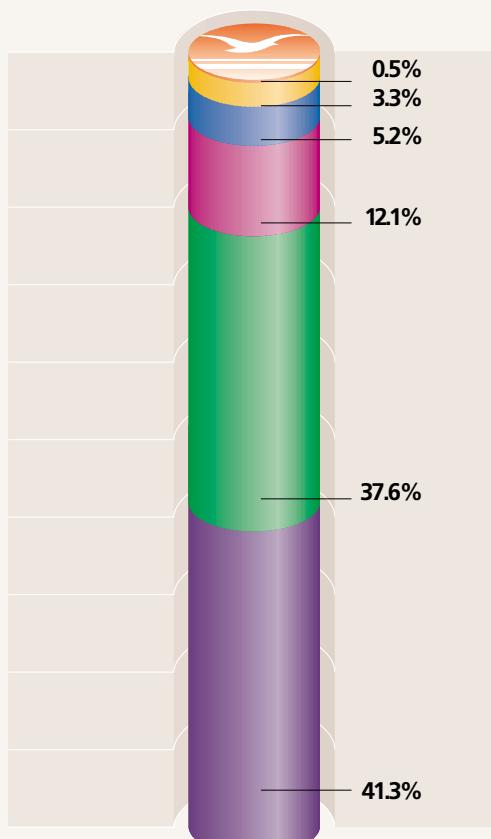
Financial Highlights

	1998 HK\$'Million	%Change over 1997
Turnover	4,732	-5.1%
Profit attributable to shareholders	313	+40.2%
Shareholders' funds	1,137	+0.7%
		HK\$
Basic earnings per share	1.20	+11.0%*
Dividend per share - Interim	0.15	
- Final	0.30	
- Special	0.70	

*Onenlargedcapital

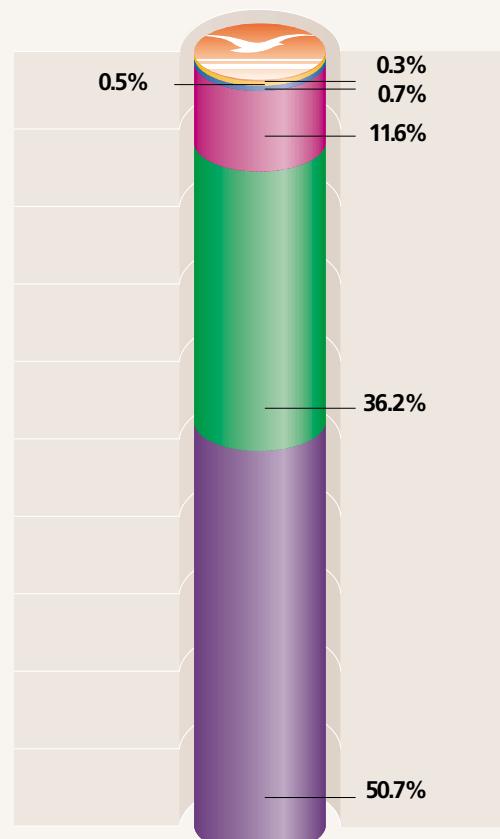
Assets Employed

as at 31 March 1998



Capital and Liabilities

as at 31 March 1998



● Cash and bank balances

● Other current assets

● Fixed assets

● Other investments

● Associated companies

● Deferred expenditure

● Shareholders' funds

● Other current liabilities

● Proposed dividends

● Minority interests

● Finance leases

● Deferred taxation

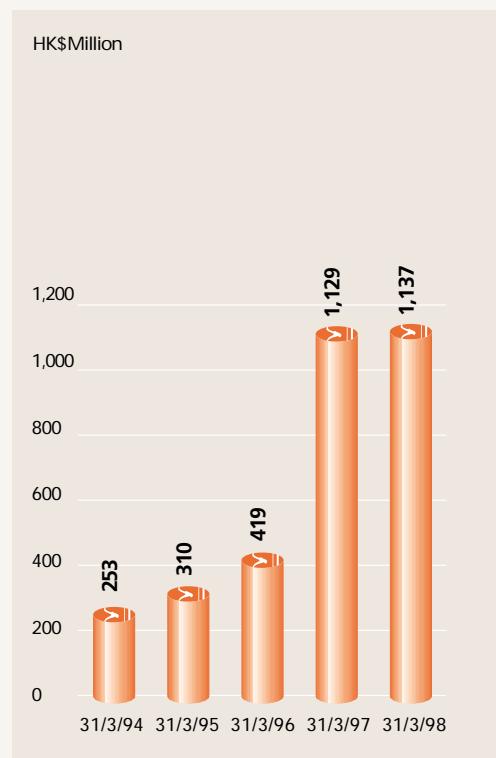
Turnover



Profit Attributable to Shareholders



Shareholders' Funds



Corporate Information

Board of Directors

Executive Directors

Lo Hong Sui, Vincent
(Chairman)
Wong Yuet Leung, Frankie
(Vice-chairman)
Choi Yuk Keung, Lawrence
(Managing Director)
Wong Fook Lam, Raymond
Wong Hak Wood, Louis
Lowe Hoh Wai Wan, Vivien

Non-executive Directors

Cheng Bing Chark, Henry
Wong Ying Wai, Wilfred*
Griffiths, Anthony*

* *Independent Directors*

Secretary

Li Chi Keung, Evans

Auditors

Deloitte Touche Tohmatsu

Solicitors

Robin Bridge & John Liu

Registered Office

Clarendon House,
2 Church Street,
Hamilton HM11, Bermuda

Head Office and Principal Place of Business

34th Floor, Shui On Centre,
6-8 Harbour Road, Hong Kong

Principal Share Registrars and Transfer Office

The Bank of Bermuda Limited
6 Front Street,
Hamilton HM11, Bermuda

Branch Share Registrars and Transfer Office

Standard Registrars Limited
Room 4401, 44th Floor,
Hopewell Centre,
183 Queen's Road East, Hong Kong

Principal Bankers

Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank

Business Structure



Chairman's Statement



Results

On behalf of the Board of Directors, I am pleased to report that Shui On Construction and Materials Limited (SOCAM) has achieved highly satisfactory results for the year ended 31 March 1998. The Group's profit attributable to shareholders rose to HK\$313 million, an increase of 40% over that of the previous year, representing earnings per share of HK\$1.20. Turnover amounted to HK\$4,732 million, a slight decrease of 5% from that of the year before.

Dividends

The Directors recommended the payment of a final dividend of HK\$0.30 per share to

shareholders whose names appear on the Register of Members of the Company on 8 September 1998. This together with the interim dividend of HK\$0.15 per share gives a total of HK\$0.45 per share for the year.

After careful consideration of the Group's development needs in the coming two years and noting the substantial cash surplus of SOCAM, the Directors further proposed that a special dividend of HK\$0.70 per share be paid to shareholders.

The proposed final dividend and special dividend will be paid on 8 October 1998 following approval at the Annual General Meeting.



Lo Hong Sui, Vincent
Chairman

Business Review

The performance of the Group's various operations remained strong despite Hong Kong's unstable economic environment, thanks to the hard work and dedication of our experienced and capable management team and staff. Their commitment to providing quality products and services on schedule and within budgeted costs, their willingness to adopt innovative production and construction techniques, and their ability to maintain cordial relationships with clients

and suppliers, all contributed to the continued success of the Group in the past year.

The property market boom in the first three quarters of 1997, together with the increase in public sector construction activities, continued to generate healthy profits for the Construction Materials Division. The turnover of our ready-mixed concrete, aggregates and cement operations, however, decreased slightly due to the incessant wet weather last year.

*Tung Chung Area 10
Phases I, II and III*



Our Construction Materials Division was also actively seeking to expand in the Chinese Mainland. Since commencement of operation in October 1997, the new rotary kiln at our joint venture cement plant in Chongqing, capable of producing 300,000 tonnes per annum, has been running at close to full capacity to supply high grade cement to the nearby area. We had also acquired a 60% interest in a 500,000-tonne cement plant in Nanjing, enabling SOCAM to establish a strategic base along the Yangtze River and capture the potential for sales to Shanghai and other coastal cities in the Mainland

where major infrastructure projects are being carried out.

Turnover for the Construction Division remained relatively high as a result of the acceleration of public housing programmes. We were able to improve our profit margins through effective cost control and good project management.

It was unfortunate that the glass balustrade incident on 22 December 1997 at Ping Tin Shopping Centre took place. We regret that the Hong Kong Housing Authority's Building Committee had made the decision, before



North Point Government Offices, a design-and-build project

investigation of all concerned parties was completed, to penalize Shui On Building Contractors Limited (SOBC). As a result of their decision, SOBC was banned from being awarded the Hong Kong Housing Authority's New Works II contracts for six months starting from 30 April 1998. SOBC's two lowest bid contracts worth about HK\$2 billion were also not awarded. Nevertheless, the suspension is not likely to have any significant impact on our financial performance in 1998/99. SOBC will endeavour to make up for the loss of opportunities by securing more contracts from other government agencies and public institutions.

This year, Shui On Construction Company Limited (SOC) successfully completed to the satisfaction of our client, the Architectural Services Department, a substantial design-and-build contract, namely, the North Point Government Offices project. The building's successful completion demonstrated fully our ability to deliver superior quality design-and-build services on schedule and at competitive prices.



Mr John Leich (right), General Manager of Ken On Concrete Company Limited, received a Certificate of Merit from Mr Po Chung OBE JP, Chairman, Organizing Committee of 1998 HKMA Quality Award (top).

Project Managers and representatives of SOCAM's award-winning sites pictured at the Award Presentation Ceremony of the HKHA Site Safety Campaign 1997 (bottom).

During the year the Group again received recognition for its accomplishments in quality, site safety and environmental protection. The awards included the following:

Shui On Building Contractors Limited (Construction Division)

- Best Building Works Contractor Award 1997 in the Hong Kong Housing Authority Site Safety Campaign for an unprecedented six years in a row.
- Four Best Building Works Site Awards, including one "Gold" and three "Silver" awards, in the Hong Kong Housing Authority Site Safety Campaign.

- The Hong Kong Housing Authority's Safety Training Award.
- The Works Bureau's Considerate Contractors Site Award for the Tseung Kwan O Area 13 site.

Shui On Construction Company Limited (Construction Division)

- The Works Bureau's Considerate Contractors Site Award for the Hong Kong Institute of Education site.

Ken On Concrete Company Limited (Construction Materials Division)

- A Certificate of Merit from the Hong Kong Management Association's 1998 Quality Award competition.



SOCAM has been awarded the contract for the PSPS development at Tseung Kwan O Town Lot No. 62 Area 65A.

Outlook

The Asian financial turmoil has significantly slowed down the Hong Kong economy and adversely affected many sectors of our society. However, it has not had significant impact on the Group's performance, thanks to an increase in construction activity in the public sector in Hong Kong and the high volume of outstanding orders and works.

The Hong Kong SAR Government has repeatedly stated that it will adhere to its policy of providing an average of 50,000 public sector residential units per year to meet the strong demand for housing in Hong Kong. As one of the SAR's leading contractors of public housing, building for both the Hong Kong Housing Authority and Hong Kong

Housing Society, our Construction Division can expect further growth in the foreseeable future.

We have also decided to re-enter the market for Private Sector Participation Scheme (PSPS) home ownership development projects recently because we believe the market for these contracts has stabilised. In July 1998, the Construction Division has already been awarded the contract for the PSPS development at Tseung Kwan O.

In addition, we will continue to actively compete for major contracts of various government departments and agencies such as the Architectural Services Department, several of which are in the form of design-and-build contracts.



*Main campus of
Hong Kong Institute of
Education*

Aside from public housing and government buildings, we plan to compete actively in the institutional market where we feel we have a competitive edge. Our impressive portfolio of past and present clients include the University of Hong Kong, Hong Kong Institute of Education, the Hospital Authority, China Light and Power Co. Ltd., the Mass Transit Railway Corporation and the Kowloon-Canton Railway Corporation, to name but a few. Our extensive experience and good track record should assist us in securing major contracts from these institutions in the future.

The market for construction materials including concrete, cement and quarry rock products is expected to be steady in Hong Kong. Apart from increasing housing

construction activities in the public sector, the SAR Government has already proposed spending about HK\$235 billion on infrastructure developments over the next five years.

Likewise, there will be rising demand for high quality cement in the Chinese Mainland, particularly since the Mainland government is planning to spend US\$750 billion on infrastructure construction projects in the next few years. The 15th National Congress of the Communist Party of China reaffirmed the Mainland government's determination to deepen reforms in the housing sector. Welfare housing will be phased out, leading to a substantial increase in demand for private residential properties and a rise in



Housing for senior citizens (top) and Shopping Centre (bottom left) of Tin Wan Estate Phase III project and Hang Tsui Court (Tsui Wan Estate project) (bottom right) were completed during the year.

construction activities. This, together with the anticipated increase in infrastructure developments, promises excellent business opportunities for producers and suppliers of high quality cement such as our Construction Materials Division.

Both our Construction Materials Division and Construction Division have already secured an impressive number of major supply and construction contracts for the coming year. This allows me to say with confidence that SOCAM will, barring unforeseen circumstances, achieve satisfactory profit growth next year. Our cement business in the Chinese Mainland is also set to generate attractive returns in a few years' time.

For Hong Kong, 1998 and 1999 are going to be difficult but challenging years. Under the current economic climate, SOCAM will continue to take a prudent approach in pursuing new business opportunities both in Hong Kong and in the Mainland. We will, as always, continue to strive for excellence, offering quality service and products which should allow us to maintain our leadership position in the various sectors in which we do business.

Acknowledgements

Finally, I would like to extend my sincerest thanks to SOCAM's staff members, our most valuable asset, whose loyalty, dedication and hard work have made our success this year possible.

Lo Hong Sui, Vincent
Chairman

Hong Kong, July 1998

Review of Operations



**Choi Yuk Keung,
Lawrence
Managing Director**

Construction Division

The Construction Division recorded a pre-tax profit of HK\$155 million for the 97/98 financial year, an increase of 105% over the previous year. The turnover of the Construction Division for the year was HK\$3,839 million, representing a slight decrease of 3% compared with the previous year. Public housing contracts accounted for HK\$1,941 million, equivalent to 51% of the turnover.

Public Housing - Shui On Building Contractors (SOBC)

SOBC completed a total of seven contracts, comprising 6,950 residential units and various commercial premises, for the Hong Kong Housing Authority during the year with highly satisfactory results. They included Tung Chung Area 10 Phases I, II and III, Tsui Wan Estate, Ma On Shan Area 90 Phase IV, Tin Wan Estate Phase III and Tseung Kwan O Area

59 Phase VII. The total value of these contracts amounted to approximately HK\$3,283 million.

The Hong Kong SAR Government's long term target to supply an average of 50,000 public housing units each year to resolve the housing shortage problem resulted in a substantial increase in the number of Housing Authority contracts put out for tender. Around 60 contracts were available for tender during the twelve months to August 1998, compared with an average of approximately twenty projects in previous years.

SOBC won eight Housing Authority and Housing Society projects totalling 9,480 residential units during the fifteen months to June 1998, with a combined value of around HK\$5,980 million, an unprecedented record for our Group. Tender margins in the sector also became healthier in the past year.



*Ma On Shan Area 90
Phase IV (top)
Tseung Kwan O Area 59
Phase VII (Sheung Tak
Shopping Centre)
(bottom)*

The unfortunate glass balustrade incident at Ping Tin Shopping Centre resulted in SOBC being banned from the award of New Works II contracts by the Housing Authority for six months commencing 30 April 1998. Contracts for two lowest bid submitted by SOBC with a value of approximately HK\$2 billion were also not awarded by the Housing Authority. SOBC disagreed with the decision and felt strongly aggrieved, and will strive to secure more contracts in the expanding public housing market after the lifting of the ban at the end of October 1998. At 30 June 1998, SOBC still had on hand eleven contracts from the Housing Authority and Housing Society, amounting to approximately HK\$7,910 million and representing some 14,300 units.

Since April 1998, subsidiaries of SOCAM had re-entered the market for home ownership development projects under the Private Sector Participation Scheme (PSPS), a form of

government-subsidized housing programme which is designed, built and financed by private enterprises. The Shui On Group was a pioneer in such developments, having developed the first PSPS project in Yau Tong in the 1970s as well as the largest PSPS project ever built, the 5,904-unit Richland Gardens in Kowloon Bay, in the early 1980s.

SOCAM, with its substantial cash deposits and financial resources, took advantage of the current market situation. At the time of this report, we had received confirmation that we were successful in the bidding of the PSPS project in Tseung Kwan O Town Lot No 62 Area 65A, and a consortium comprising some of the largest local and international banks had been formed to provide a loan for this project. The development of this PSPS project would take approximately 28 months from August 1998 and should provide good and steady profits for our Group in the coming two financial years.



MTRC Main Depot in
Siu Ho Wan

***Other Government and Institutional
Buildings
- Shui On Construction (SOC)***

Two major contracts of SOC, the Hong Kong Institute of Education - Main Campus in Tai Po and the design-and-build contract of the North Point Government Offices at Java Road, were completed to the satisfaction of our clients during the year under very tight construction schedules. SOC's 50% participation in the construction of the MTRC Main Depot Contract 518 in Siu Ho Wan was also handed over smoothly in the first quarter of 1998, in time for the commencement of operation of the new airport railway.

During the year, three contracts for the construction of government clinics with a total value of approximately HK\$700 million were awarded to SOC. In conjunction with the launching of the massive public housing programme, numerous substantial projects from the Architectural Services Department will be available for tender in the next twelve months, including government offices and quarters, schools, hospitals and ancillary facilities. Some of these projects are in the design-and-build category in which SOC has built up a very satisfactory track record.



*Underconstruction:
South Kwai Chung
Specialist Out-Patient
Clinic (top) and Proposed
Sandwich Class Housing
Development at
Tseung Kwan O Town Lot
No. 43 Area 13 (bottom)*

Renovation and Fitting Out - Pat Davie

Pat Davie remained competitive and secured a number of large contracts totalling approximately HK\$360 million for the 15 months to June 1998. They included two MTRC renovation projects for the Kwun Tong station and Kowloon Bay Depot, refurbishment for 868 and 888 Cheung Sha Wan Road, the grandstand of the Hong Kong Jockey Club Shatin Race Course and various projects at the new Chek Lap Kok airport. The slowdown in the economy since the last quarter of 1997 had seen works in the fitting-out sector diminishing but a shift of Pat Davie to the renovation market, particularly those in the institutional sector, had offset the shortfall. In addition to securing a substantial

workload for the coming financial year, Pat Davie has also been pre-qualified to tender for a number of large contracts.

Contracts On Hand

At 30 June 1998, the gross and outstanding values of contracts on hand of the Construction Division amounted to approximately HK\$10.4 billion and HK\$7.8 billion respectively, which represented the highest values ever achieved by this Division. Together with the large number of projects on stream from the Housing Authority, the Housing Society, the Architectural Services Department as well as the MTRC, KCRC and other institutional clients, the Construction Division should be in a good position to achieve higher turnovers and profits.



Ken On's Tai Lam Kok plant (top) and Tung Chung plant (bottom)

Construction Materials Division

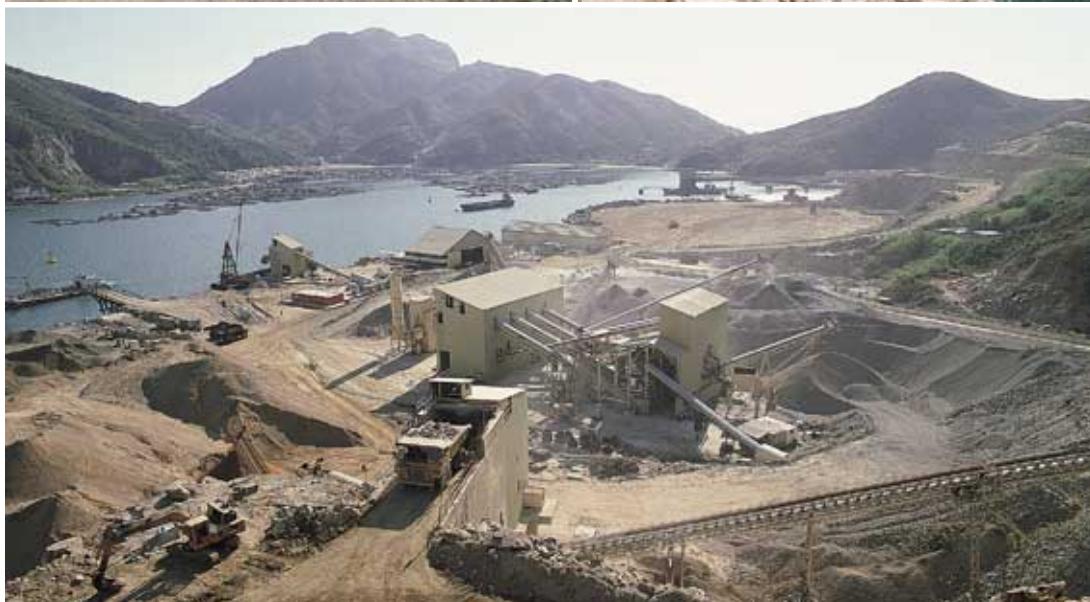
Ready-Mixed Concrete - Ken On

The reduction in the demand for concrete in the second half of 1997, resulting from the slowdown in the private residential sector and the completion of various projects of the new airport and MTRC extension, was offset to a large extent by the acceleration of the public sector housing programme. Overall consumption as well as gross margins remained stable for the year and, despite the incessant rain between July and September 1997, the total production of 1.1 million cubic metres of concrete was only slightly below

the 1.2 million cubic metres in the previous year.

Ken On was one of four finalists in the prestigious Hong Kong Management Association Quality Award 1998. The Certificate of Merit awarded to Ken On represents a major recognition for our pursuit of excellence in quality and service, and our continued efforts to improve and innovate.

At 30 June 1998, the outstanding order book of Ken On stood at around one million cubic metres which should allow a full production schedule in the coming year.



Lamma Rock Products' Longkoushan quarry in Xinhui (top left), Chik Wan quarry in Zhuhai (top right) and Lamma quarry in Hong Kong (bottom).

Aggregates and Rock Production - Lamma Rock Products

Lamma Rock Products' three quarries, located on Lamma Island in Hong Kong, at Chik Wan in Zhuhai and at Longkoushan in Xinhui, produced a total of 4.3 million tonnes of rock products during the year. Most of the turnover was derived from its production of 3.3 million tonnes of aggregates of which 57% was supplied to an in-house customer, KenOn.

A reduction in the demand for marine rocks occurred due to the completion of most of the new airport and MTRC infrastructure and civil engineering works which required

reclamation. The bad weather in the summer of 1997 further dampened this category of sales but the effect on results was not significant due to the relatively low margin of the products concerned. Rehabilitation of the quarry face of the Lamma Island site as well as the excavation of rocks were both on schedule in accordance with government requirements. We are in the process of locating a replacement quarry in the nearby area of the Chinese Mainland in preparation for the expiry of the current Lamma quarrying contract in 2002. The healthy order book of Ken On, as well as the increase in infrastructure projects in the coming year, should assume a reasonable level of quarrying activities.



Far East Cement silos and terminal at Lamma Island

Cement Import and Distribution -

Far East Cement

The cement market in Hong Kong remained stable in 1997. Far East Cement, 50% of which is owned by SOCAM, registered a trading volume of 552,000 tonnes of bulk and bagged cement. Ken On was the major customer accounting for approximately 75% of bulk cement sales.

The Asian financial turmoil had significantly curtailed the level of civil and building activities in South East Asian countries. The resultant excess supply in the region, coupled with the continual recession in Japan, had created a drop in cement prices throughout Asia. This reduction in the cost of imported cement, together with the steady orders from Ken On as well as the stable cement market in Hong Kong, should enable Far East Cement to continue its good trading records in 1998.

Chongqing Cement Operation

The TH Cement Group in Chongqing, in which the Group has an effective interest of 34%, had a successful year. The operation of the existing kiln entered the second full year under the joint venture and continued to be profitable. The new rotary kiln, with a capacity of 300,000 tonnes per annum, was successfully commissioned in October 1997 and was capable of reaching nearly full production by the beginning of 1998.

The quality of the high grade cement from this new kiln exceeded our expectation and a portion of the production was of the very high 625 grade standard. Other cement products, with the addition of fly ash and slag, were also developed, with demand often exceeding the production capacity. The sales network in Chongqing, a city with over 30 million people, was expanded to take advantage of the increasing infrastructure and building



Stockpile (top left) and rotary kiln (top right) in the Nanjing cement plant.
Rotary kiln in the Chongqing cement plant (bottom).

activities in this fourth direct municipality in China. The robust sales of this joint venture in the expanding cement market in Chongqing has led to feasibility studies on the viability of adding a second rotary kiln of around 300,000 tonnes of annual production capacity.

Nanjing Cement Operation

The over-supply of cement in Asia had affected certain Chinese cities near the coastal region and a more cautious approach was adopted by the Group in our negotiations with the two major cement producers of Nanjing, with whom letters of intent for joint venture co-operation had previously been signed. However, recent acceleration in massive infrastructure projects and the commercialisation of state-subsidised housing had raised optimism in the cement market. In March 1998, an agreement was reached with Jiangnan Cement, the smaller of the two Nanjing cement producers, and a joint venture was established. Our Group

holds 60% of this cement operation and approximately HK\$15 million was injected as working capital. In April, an initial equity contribution of approximately HK\$45 million was made and a further amount of roughly HK\$45 million will be required before the end of 1998 to fulfil our commitment. The existing Jiangnan Cement plant is capable of producing about 500,000 tonnes of grade 425 and 525 cement products per annum and the intention is to increase the production capacity to one million tonnes in the future. A team comprising our senior executives and cement experts had been assigned the responsibility of enhancing management in the production, marketing and distribution capabilities of this cement plant in the coming months.

Negotiations for a joint venture with the larger of the two Nanjing cement producers, Zhongquo Cement, carried on but, given the current uncertainty in the industry, we will continue to take a prudent approach in pursuing this project.



Projects under construction: Homantin South Phase III (top), Tin Shui Wai Area 31 Phase II (bottom left), and Un Chau Street Estate Phase III (bottom right)

With the competitive situation in the Shanghai cement market following the Asian financial turmoil in October, we also delayed our co-operation with the Shanghai cement producer with whom a letter of intent had been signed. A joint venture is likely to be deferred until more attractive terms of co-operation can be obtained.

Proceeds from New Issue and Placement of Shares

The current Asian financial crisis has prompted us to take a more conservative approach in our investment in the prospective cement joint ventures as stated in the prospectus for the floatation of our Group in February 1997. The TH Cement plant in Chongqing, as explained, is operating successfully and feasibility studies on a further kiln is contemplated. Investment opportunities in other Chongqing cement plants are being pursued cautiously. With the

slowdown also in the negotiations for cement joint ventures in Shanghai and Nanjing, further commitment in cement joint ventures in the Chinese Mainland in the coming year is not expected to be substantial, apart from the second capital injection of approximately HK\$45 million in the Jiangnan Cement joint venture. At 31 March 1998, the unused floatation proceeds of around HK\$560 million, together with surplus cash from operations, were placed on cash and fixed deposits which amounted to approximately HK\$926 million. Part of the floatation proceeds will now be diverted to PSPS projects which will present opportunities to generate healthy profits and turnovers. The PSPS project in Tseung Kwan O, which we have secured for a premium of approximately HK\$509 million, will require equity contribution of around HK\$200 million which can be comfortably covered by our substantial cash resources.

Directors and Senior Management

Directors

Executive Directors

Lo Hong Sui, Vincent GBS

Aged 50, has been the Chairman of the Company since its incorporation in January 1997. He is also chairman of the Shui On Group which he founded 27 years ago. He is the founding chairman and current president of the Business and Professionals Federation of Hong Kong, a member of The Ninth National Committee of Chinese People's Political Consultative Conference, the president of Shanghai-Hong Kong Council for the Promotion and Development of Yangtze, an adviser to Chinese Society of Macroeconomics, a member of Hong Kong/United States Economic Co-operation Committee, a council member of the China Overseas Friendship Association, a court member of the Hong Kong University of Science and Technology and a director of Great Eagle Holdings Limited. Mr. Lo was awarded the Gold Bauhinia Star recently.

Wong Yuet Leung, Frankie

Aged 49, has been the Vice-chairman of the Company since its incorporation in January 1997. He joined the Shui On Group in 1981 and has been its group managing director since 1991. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and the University of Lancaster respectively.

Choi Yuk Keung, Lawrence

Aged 44, has been the Managing Director of the Company since its incorporation in January 1997. He has also been an executive director of the Shui On Group since 1990. He was appointed managing director of the Shui

On Group's construction division in 1991 and also that of the construction materials division in 1995. He joined the Shui On Group in 1973 and has over 20 years of experience in construction. He holds a Bachelor of Science degree in Engineering from the University of California, Berkeley.

Wong Fook Lam, Raymond

Aged 43, has been an Executive Director of the Company since its incorporation in January 1997. He joined the Shui On Group in 1989 and has been an executive director since 1992. He is a Fellow of the Institute of Chartered Accountants in England and Wales and of the Hong Kong Society of Accountants, and an Associate of the Institute of Chartered Accountants of Australia.

Wong Hak Wood, Louis

Aged 47, has been an Executive Director of the Company since its incorporation in January 1997. He has also been a director of Shui On Building Contractors Limited and Shui On Construction Company Limited since 1993. He joined the Shui On Group in 1981 and has over 20 years of experience in construction. He holds a Bachelor of Science degree in Civil Engineering from the University of Manchester and is a Chartered Engineer, a Fellow of the Institution of Civil Engineers and a member of the Hong Kong Institution of Engineers. He is currently chairman of the Building Committee and honorary treasurer of the Hong Kong Construction Association, a member of the Registered Contractors' Disciplinary Board and chairman of the Board of Studies of the Construction Management Training Programme of the Construction Industry Training Authority.

Lowe Hoh Wai Wan, Vivien

Aged 49, has been an Executive Director of the Company since its incorporation in January 1997. She joined the Shui On Group in 1980 and has been an executive director of Shui On (Contractors) Limited since 1993. She holds a Bachelor of Arts degree in Sociology from the State University of New York, a Master of Arts degree in Sociology from the University of Illinois, and a Doctor of Philosophy degree in Sociology from the University of Wisconsin. She is currently a member of the Labour Advisory Board Committee on Occupational Safety and Health.

Non-executive Directors

Cheng Bing Chark, Henry

Aged 47, has been a Non-executive Director of the Company since its incorporation in January 1997. He has also been an executive director of the Shui On Group and managing director of the Shui On Group's properties division since 1994. He first joined the Shui On Group in 1982. He emigrated to Australia in 1990 and rejoined the Shui On Group in 1992. He holds a Master of Arts degree from the University of Wisconsin.

Wong Ying Wai, Wilfred

Aged 45, has been a Non-executive Director of the Company since its incorporation in January 1997. He is a Deputy to The Ninth National People's Congress, president and chief executive officer of China Investment Group Limited, chairman of the Business and Professionals Federation of Hong Kong and president of The Hong Kong Federation of Youth Groups. He was educated at Harvard University, Oxford University, the University of Hong Kong and the Chinese University of Hong Kong.

Griffiths, Anthony

Aged 54, has been a Non-executive Director of the Company since its incorporation in January 1997. He is the managing director of GML Consulting Limited. He is also the vice-chairman of the Hong Kong Coalition of Service Industry and the chairman of its Professional Services Committee, and a member of the Inland Revenue Department Users' Committee and the Inland Revenue Review Board. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Senior Management

Chan Cheu Hung, William

Aged 50, is an Executive Director of Shui On Building Materials Limited, Ken On Concrete Company Limited and Lamma Rock Products Limited. He joined the Shui On Group in 1978, emigrated to Australia in 1984 and rejoined the Shui On Group in 1988. He holds a Master's degree in Business Administration and is a Fellow of the Institute of Quarrying.

Leung Kam Woon, Barnabas

Aged 51, is the Director of business development of the construction materials division. He joined the Shui On Group in 1978 and was the managing director of Far East Cement Company Limited from 1995 to 1996. He holds a Master's degree in Management Science and a Master's degree in Engineering, both from the University of California, Berkeley and a Bachelor's degree in Engineering Science from the University of Portland. He is a Fellow of the Institute of Quarrying.

Law, John Rodney

Aged 52, is the Director and General Manager of Pat Davie Limited. He joined the Shui On Group in 1988 and has over 30 years of experience in the construction industry.

Leich, John

Aged 47, is the General Manager of Ken On Concrete Company Limited. He joined the Shui On Group in 1992 and has over 20 years of experience in the concrete and cement industries. He holds a Bachelor's degree in Civil Engineering from the University of Sydney and has completed studies for a Master's degree in Business Administration at the University of Technology, Sydney.

Lee Wing Kee, Stephen

Aged 45, is the General Manager of Shui On Building Contractors Limited and Shui On Construction Company Limited. He joined the Shui On Group in 1985 but emigrated in 1994 and rejoined the Shui On Group in 1996. He has over 20 years of experience in construction. He holds a Bachelor of Science degree in Civil Engineering and is a chartered civil engineer.

Li Chun Ki, Stephen

Aged 45, is the Deputy General Manager of Shui On Building Contractors Limited. He joined the Shui On Group in 1985 and has over 20 years of experience in construction. He holds a Bachelor of Applied Science degree in Civil Engineering and is a chartered civil engineer.

Wong Leung Bing, Tony

Aged 47, is the Technical Director of the construction materials division. He joined the Shui On Group in 1979 but left in 1989 and rejoined in 1992. He has over 18 years of experience in the construction materials industry in Hong Kong. He holds a Bachelor's degree in Civil Engineering and a Master's degree in Concrete Technology both from the University of Dundee.

Kong Hon Ling, Frank

Aged 46, is the General Manager of special projects for the construction materials division. He joined the Shui On Group in 1982 and has over 20 years of experience in the quarrying industry. He holds a Bachelor's degree in Mechanical Engineering and a Master's degree in Mechanical Engineering from Nottingham University and is a member of the Institute of Quarrying.

Tam Kim Hung, Vincent

Aged 46, is the Deputy General Manager of special projects for the construction materials division. He joined the Shui On Group in 1981. He holds a Bachelor's degree in Business Administration and a Master of Science degree in Management Studies.

Li Chi Keung, Evans

Aged 37, is the Company Secretary of the Company and has been with the Shui On Group since 1991. He holds a Master's degree in Business Administration from the University of Leicester. He is a Fellow of the Association of Chartered Certified Accountants and an Associate of The Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries and the Hong Kong Society of Accountants.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 March 1998.

Principal Activities

The principal activity of the Company is investment holding. Its subsidiaries are engaged principally in construction and contracting, renovation and fitting out, manufacturing and trading of construction materials, and investment holding.

An analysis of the Group's turnover and contribution to the Group's results of each principal activity and by geographical location is as follows:-

	Turnover		Contribution to Group results	
	1998	1997	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Analysis by principal activities				
Company and subsidiaries				
Construction and building maintenance	3,839,317	3,963,021	155,320	75,849
Sale of construction materials	892,557	1,021,155	132,766	160,768
Others	-	-	44,778	5,901
	4,731,874	4,984,176	332,864	242,518
Associated companies				
Sale of construction materials	-	-	29,450	24,849
	4,731,874	4,984,176	362,314	267,367
(b) Analysis by geographical locations				
Company and subsidiaries				
Hong Kong	4,637,567	4,870,811	321,344	226,587
Other regions in the People's Republic of China	94,307	113,365	11,520	15,931
	4,731,874	4,984,176	332,864	242,518
Associated companies				
Hong Kong	-	-	29,450	24,849
	4,731,874	4,984,176	362,314	267,367

Financial Results and Dividends

The results of the Group for the year ended 31 March 1998 are set out in the consolidated profit and loss account on page 33. An interim dividend of HK\$0.15 per share was paid on 15 December 1997. The Directors have resolved to recommend the payment of a final dividend of HK\$0.30 per share and a special dividend of HK\$0.70 per share to shareholders whose names appear on the Company's register of members on 8 September 1998.

Fixed Assets

The movements in fixed assets of the Group during the year are shown in note (9) to the financial statements.

Share Capital

Movements in the share capital of the Company during the year are shown in note (17) to the financial statements.

Reserves

Movements in the share premium, contributed surplus, translation reserve and property revaluation reserve of the Company and the Group during the year are shown in notes (18), (19), (20) and (21) to the financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no statutory restrictions against such rights under the laws in Bermuda.

Particulars of Principal Subsidiaries

Particulars regarding the principal subsidiaries of the Company are set out in Appendix I to the financial statements.

Particulars of Principal Associated Companies

Particulars regarding the principal associated companies of the Group are set out in Appendix II to the financial statements.

Particulars of Properties

Particulars regarding the properties held by the Group are set out in Appendix III to the financial statements.

Directors

The Directors of the Company during the year were:-

Mr. Lo Hong Sui, Vincent
Mr. Wong Yuet Leung, Frankie
Mr. Choi Yuk Keung, Lawrence
Mr. Wong Fook Lam, Raymond
Mr. Wong Hak Wood, Louis
Mrs. Lowe Hoh Wai Wan, Vivien
* Mr. Cheng Bing Chark, Henry
#* Mr. Wong Ying Wai, Wilfred
#* Mr. Griffiths, Anthony

* Non-executive directors

Independent directors

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

The non-executive directors are subject to the same rotation requirements as the executive directors.

Directors' Interests in Shares

(i) Shares

As at 31 March 1998, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:-

Name of Directors	Number of shares			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Lo Hong Sui, Vincent	-	-	-	192,148,000 (Note)
Mr. Wong Yuet Leung, Frankie	975,000	-	-	-
Mr. Choi Yuk Keung, Lawrence	1,389,000	-	-	-
Mr. Wong Fook Lam, Raymond	-	-	-	-
Mr. Wong Hak Wood, Louis	488,000	-	-	-
Mrs. Lowe Hoh Wai Wan, Vivien	-	-	-	-
Mr. Cheng Bing Chark, Henry	-	-	-	-
Mr. Wong Ying Wai, Wilfred	-	-	-	-
Mr. Griffiths, Anthony	-	-	-	-

Apart from the above, as at 31 March 1998, there was no other interest recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance.

Note:-

The 192,148,000 shares are held by Shui On Company Limited, which is wholly owned by Bosrich Holdings Inc. ("Bosrich"). The shares in Bosrich are owned by a trust of which Mr. Lo Hong Sui, Vincent, Mrs. Lo Ho Ching Kit, Jean and their children are eligible beneficiaries. Accordingly, Mr. Lo Hong Sui, Vincent is deemed to be interested in such shares.

(ii) Options

The Directors had personal interests in share options to subscribe for shares in the Company at an exercise price of HK\$7.50 per share, exercisable during the period from 25 January 1998 to 24 July 2002, as follows:

Name of Directors	Number of share options		
	Granted during the year	Exercised during the year	At 31 March 1998
Mr. Wong Yuet Leung, Frankie	400,000	-	400,000
Mr. Choi Yuk Keung, Lawrence	400,000	-	400,000
Mr. Wong Fook Lam, Raymond	280,000	-	280,000
Mr. Wong Hak Wood, Louis	280,000	-	280,000
Mrs. Lowe Hoh Wai Wan, Vivien	200,000	-	200,000

Details of the employee share option scheme are set out in note 17(c) to the financial statements.

Apart from the above, during the year, none of the Directors and 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 Securities (Disclosure of Interests) Ordinance disclosed that there is no person having an interest in 10% or more of the issued share capital of the Company as at 31 March 1998.

Dealings in the Company's Shares

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

Connected Transactions

Perkime Limited and Super Race Limited, 50% owned associated companies of Shui On Company Limited ("SOCL"), the Company's ultimate holding company, performed construction works as subcontractors to Shui On Building Contractors Limited ("SOBC"), a wholly-owned subsidiary of the Group, on normal commercial terms during the year. The aggregate amount charged by these companies of SOCL to SOBC for the year was approximately HK\$2,652,000.

During the year, Pat Davie Limited ("PDL"), a 60% owned subsidiary of the Group, performed decoration and renovation works for Shanghai Ruichen Property Company Limited, a 99% owned subsidiary of SOCL, Shanghai Shui On Consulting Company Limited, a wholly-owned subsidiary of SOCL, and Shanghai Jiu Hai Rimmer Properties Company Limited, a 80% owned subsidiary of SOCL. The jobs were charged at profit margins according to normal commercial terms and were considered to be fair and reasonable in the circumstances. The aggregate amount charged by PDL for such works for the year was approximately HK\$16,131,000.

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, during the year. The services were charged at rates meant to recover the costs and expenses incurred by the Company and were fair and reasonable in the circumstances. The aggregate amount charged by the Company for such services for the year was approximately HK\$564,000.

During the year, Shui On Holdings Limited ("SOH"), a wholly-owned subsidiary of SOCL, continued to provide guarantee for a finance lease facility extended to Shui On Plant & Equipment Services Limited, a wholly-owned subsidiary of the Group. As at 31 March 1998, the outstanding obligation under this finance lease amounted to approximately HK\$4,058,000.

The Group is licensed by SOH to use the trademark, trade name "Shui On", "• fw" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.

Directors' Interests

Save as aforesaid under the Section headed "Connected Transactions", there were no contracts of significance, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year in which a director had a material interest either directly or indirectly.

None of the Directors of the Company has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensations.

Other than the share options granted to the Directors as aforementioned, there were no arrangements to which the Company or any of its subsidiaries was a party so as 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.

Employee Provident and Retirement Scheme

Details of the Group's employee provident and retirement scheme are shown in note (4)(iii) to the financial statements.

Interest Capitalised

No interest was capitalised by the Group during the year.

Liquidity and Financing

As at 31 March 1998, the Group had cash balances of approximately HK\$926,177,000 (1997 - HK\$710,539,000). Other than obligations under finance leases of approximately HK\$11,880,000 (1997 - HK\$101,278,000), there were no overdrafts, bills payable or other bank loans as at 31 March 1998 (1997 - these bank loans amounted to approximately HK\$41,172,000 in total).

Major Supplies and Major Customers

The five largest suppliers of the Group accounted for approximately 20% of the total purchases of the Group in the year.

The five largest customers of the Group accounted for approximately 75% of the total turnover of the Group in the year with the largest customer, Hong Kong Housing Authority, accounting for 33% 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 suppliers or five largest customers.

Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that non-executive directors were not appointed for a specific term as they are subject to retirement by rotation at annual general meetings in accordance with the Company's Bye-laws.

Group Financial Summary

A financial summary of the Group is set out in Appendix IV to the financial statements.

Year 2000 Compliance

A review of the Group's computer systems has been conducted to identify areas which could be affected by the year 2000 issue and appropriate measures are being undertaken to ensure that the computer systems in use within the Group are year 2000 compliant within 1999. It is anticipated that the year 2000 issue will not pose any significant operational problems to the Group and that expenditure associated with such compliance will not be material.

Auditors

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu who have expressed their willingness to continue in office. 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

Hong Kong, 7 July 1998

Report of the Auditors

**Deloitte Touche
Tohmatsu**



德勤·關黃陳方
會計師行

Certified Public Accountants

26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Tel: (852) 2852 1600
Fax: (852) 2541 1911
E-mail: mail@deloitte.com.hk

執業會計師
香港中環干諾道中 111 號
永安中心 26 樓
電話: (852) 2852 1600
傳真: (852) 2541 1911
電子郵件: mail@deloitte.com.hk

To the Shareholders of Shui On Construction and Materials Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 7 July 1998

Consolidated Profit and Loss Account

For the year ended 31 March 1998

	Notes	1998 HK\$	1997 HK\$
Turnover	(3)	4,731,873,688	4,984,176,184
Profit from ordinary activities	(4)	332,863,543	242,518,521
Share of results of associated companies		29,450,381	24,848,772
Profit before taxation		362,313,924	267,367,293
Taxation	(5)	(49,965,400)	(43,913,679)
Profit after taxation		312,348,524	223,453,614
Minority interest		787,526	(38,915)
Profit attributable to shareholders	(6)	313,136,050	223,414,699
Dividends	(7)	(299,000,000)	(180,000,000)
Profit for the year retained		14,136,050	43,414,699
Earnings per share	(8)	1.20	1.09

The profit for the year retained comprises:-

Company and subsidiaries		19,410,086	22,664,310
Associated companies			
- Share of profit after taxation		24,925,964	20,750,389
- Dividend paid to the Group		(30,200,000)	-
		(5,274,036)	20,750,389
		14,136,050	43,414,699

Balance Sheet

As at 31 March 1998

	Notes	1998		1997	
		The Group	The Company	The Group	The Company
		HK\$	HK\$	HK\$	HK\$
Fixed assets	(9)	271,946,443	4,249,651	282,579,056	5,174,052
Investments in subsidiaries	(10)	-	965,195,869	-	532,568,299
Investments in associated companies	(11)	75,144,513	7,825,550	48,448,470	(294,668)
Other investments	(12)	115,828,394	-	10,422,696	-
Deferred expenditure	(13)	11,949,984	-	24,006,203	-
Net current assets/ (liabilities)	(14)	689,352,738	(112,812,690)	840,818,466	325,642,015
		1,164,222,072	864,458,380	1,206,274,891	863,089,698
Deduct:					
Long-term liabilities	(15)	4,074,366	-	62,228,396	-
Deferred taxation	(16)	6,356,000	-	5,437,000	-
Minority interests		16,844,474	-	9,679,691	-
Total Net Assets		1,136,947,232	864,458,380	1,128,929,804	863,089,698
Representing:					
Share capital	(17)	260,000,000	260,000,000	260,000,000	260,000,000
Share premium	(18)	509,671,417	509,671,417	509,671,417	509,671,417
Contributed surplus	(19)	197,561,471	88,932,881	197,561,471	88,932,881
Translation reserve	(20)	(110,830)	-	99,648	-
Capital reserve		2,132	-	2,132	-
Property revaluation reserve	(21)	34,316,914	-	40,225,058	-
Retained profits	(22)	135,506,128	5,854,082	121,370,078	4,485,400
Total Shareholders' Fund		1,136,947,232	864,458,380	1,128,929,804	863,089,698

Choi Yuk Keung, Lawrence
Managing Director

Wong Fook Lam, Raymond
Director

The financial statements on pages 33 to 60 were approved by the Board of Directors on 7 July 1998.

Consolidated Cash Flow Statement

For the year ended 31 March 1998

	Notes	1998 HK\$	1997 HK\$
Net cash inflow from operating activities	(a)	570,474,839	516,739,641
Returns on investments and servicing of finance			
Interest received		65,733,410	25,438,401
Interest paid		(2,542,234)	(12,734,201)
Finance lease charges		(4,433,193)	(7,804,178)
Dividends received from unlisted investments		652,909	2,102,804
Dividends received from listed investment		614,408	-
Dividends received from associated companies		30,200,000	-
Dividends paid		(38,979,900)	(180,000,000)
Net cash inflow/(outflow) from returns on investments and servicing of finance		51,245,400	(172,997,174)
Taxation			
Hong Kong profits tax paid		(54,338,385)	(18,938,993)
Hong Kong profits tax recovered		115,404	379,610
Net tax paid		(54,222,981)	(18,559,383)
Investing activities			
Purchases of fixed assets		(50,006,949)	(83,881,935)
Sale proceeds of fixed assets		1,888,992	3,777,915
Investment in associated companies		(31,970,079)	81,061,058
Purchase of subsidiary			
(Net of cash and cash equivalents acquired)	(b)	(2,805,863)	-
Additions to deferred expenditure		(1,202,253)	(12,157,634)
Increase in other investments		(105,405,698)	(4,205,609)
Deposit paid for acquisition of property		(39,141,748)	-
Net cash outflow from investing activities		(228,643,598)	(15,406,205)
Net cash inflow before financing carried forward		338,853,660	309,776,879

Consolidated Cash Flow Statement

For the year ended 31 March 1998

	Notes	1998 HK\$	1997 HK\$
Net cash inflow before financing brought forward		338,853,660	309,776,879
Financing			
Net proceeds received on issue of shares	(ci)	-	574,671,417
Repayment of obligations under finance leases	(cii)	(89,398,469)	(48,433,143)
Repayment of bank loan	(ciii)	(4,278,750)	(2,852,500)
Minority interest	(civ)	5,620,614	(728,028)
Net cash (outflow)/inflow from financing		(88,056,605)	522,657,746
Increase in cash and cash equivalents		250,797,055	832,434,625
Cash and cash equivalents at the beginning of the year		675,590,090	(157,514,489)
Effect of foreign exchange rate changes		(210,478)	669,954
Cash and cash equivalents at the end of the year	(d)	926,176,667	675,590,090

Notes To Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1998 HK\$	1997 HK\$
Operating profit	332,863,543	242,518,521
Interest income	(67,515,532)	(25,438,401)
Interest expense	2,539,704	12,734,201
Finance lease charges	4,481,814	7,804,178
Depreciation on fixed assets	56,030,061	54,961,831
(Increase)/decrease in construction work-in-progress and stocks	(71,646,859)	134,149,678
Decrease/(increase) in debtors, deposits and prepayments	305,809,458	(226,881,798)
Increase in creditors and accruals	1,213,995	323,795,540
Decrease in bills payable and trust receipts	(1,944,853)	(31,573,029)
Amortisation of deferred expenditure	13,258,472	18,431,505
Loss/(profit) on disposal of fixed assets	120,026	(109,890)
(Decrease)/increase in amount due to affiliated companies	(3,467,673)	6,360,778
Dividends from unlisted investment	(652,909)	-
Dividends from listed investment	(614,408)	-
Exchange realignment	-	(13,473)
Net cash inflow from operating activities	570,474,839	516,739,641

(b) Purchase of subsidiary

	1998 HK\$	1997 HK\$
Net assets purchased		
Fixed assets	5,893,833	-
Stocks and work-in-progress	4,083,281	-
Debtors and prepayments	135,009	-
Bank and cash	43,987	-
Creditors and accruals	(4,974,565)	-
Minority interest	(2,331,695)	-
Satisfied by cash	2,849,850	-

Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiary

	1998 HK\$	1997 HK\$
Cash consideration	2,849,850	-
Cash and cash equivalents acquired	(43,987)	-
	2,805,863	-

Consolidated Cash Flow Statement

For the year ended 31 March 1998

(c) Analysis of changes in financing during the year

	1998	1997
	HK\$	HK\$
(i) Share capital and share premium		
Balance at the beginning of the year	769,671,417	341,649,166
Contributed surplus from restructuring	-	(146,649,166)
Issue of shares	-	604,500,000
Restructuring and share issue expenses	-	(29,828,583)
Balance at the end of the year	769,671,417	769,671,417
(ii) Obligations under finance leases		
Balance at the beginning of the year	101,278,171	113,564,071
Inception of finance lease contracts	-	36,147,243
Repayment during the year	(89,398,469)	(48,433,143)
Balance at the end of the year	11,879,702	101,278,171
(iii) Bank loan		
Balance at the beginning of the year	4,278,750	7,131,250
Repayment during the year	(4,278,750)	(2,852,500)
Balance at the end of the year	-	4,278,750
(iv) Minority interest		
Balance at the beginning of the year	9,679,691	10,368,804
Share of (loss)/profit during the year	(787,526)	38,915
Purchase of subsidiary	2,331,695	-
Increase/(decrease) during the year	5,620,614	(728,028)
Balance at the end of the year	16,844,474	9,679,691

(d) Analysis of the balances of cash and cash equivalents

	1998	1997
	HK\$	HK\$
Bank balances, deposits and cash	926,176,667	710,538,584
Bank loans and overdrafts	-	(34,948,494)
	926,176,667	675,590,090

Notes to Financial Statements

For the year ended 31 March 1998

(1) General

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider that its ultimate holding company is Shui On Company Limited, a private limited liability company incorporated in the British Virgin Islands.

(2) Significant Accounting Policies

(a) Basis of accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or made up to the effective date of disposal, as appropriate.

Capital reserve or goodwill on acquisition of subsidiaries or associated companies represents the shortfall or excess of the purchase consideration over the fair value of the Group's share of the separable net assets of subsidiaries or associated companies at the date of acquisition. Capital reserve or goodwill is credited or written off directly to reserves, respectively, in the year of acquisition.

On disposal of a subsidiary or an associated company, the attributable amount of capital reserve or goodwill relating to the subsidiary or associated company which was previously credited or written off directly to reserves, respectively, is included in the calculation of the gain or loss on disposal of the business in the profit and loss account.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than half of the issued share capital or controls more than half of the voting power or where the Company controls the composition of its board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for any permanent diminution in value.

(d) Associated companies

An associated company is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence in management, including participation in commercial and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associated companies for the year. In the consolidated balance sheet, investments in associated companies are stated at the Group's share of the net assets of the associated companies.

The results of associated companies are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value.

(2) Significant Accounting Policies (Continued)

(e) Listed investments

Long-term listed investments are stated at cost less provision, if necessary, for any permanent diminution in value.

(f) Joint ventures

Joint ventures are interests in projects or business entities in respect of which the rights and obligations of the partners are governed by the respective joint venture contracts. Interest in joint ventures are stated at cost less provision for loss where appropriate.

(g) Taxation

Hong Kong taxation is calculated at the prevailing rate on the estimated assessable profits less available tax relief for losses brought forward of each individual company comprising the Group. Provision for taxation arising in other regions of the People's Republic of China ("PRC") and overseas taxation is calculated based on the applicable local legislation on the estimated assessable profits of the individual companies concerned. Tax deferred or accelerated by the effect of timing differences is provided, using the liability method, to the extent that it is probable that a liability or an asset will crystallize in the foreseeable future.

(h) Tangible fixed assets and depreciation

Tangible fixed assets other than land and buildings in Hong Kong are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the tangible fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

When assets are sold or retired, their cost or valuation and accumulated depreciation are removed from the accounts and any gain or loss resulting from their disposal is included in the profit and loss account.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives and after taking into account their estimated residue value, using the straight line method, at the following annual rates:-

Category of fixed assets	Annual depreciation rates
Property in Hong Kong and other regions of the PRC under medium lease	
Leasehold Land	Over the term of the lease
Buildings	2.5%
Property in Hong Kong under short lease	Over the term of the lease
Plant and machinery	10-25%
Furniture, fixtures, equipment and motor vehicles	20-33%

Land and buildings in Hong Kong are stated in the balance sheet at their revalued amounts, being the fair values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

(2) Significant Accounting Policies (Continued)

(h) Tangible fixed assets and depreciation (Continued)

Any surplus arising on revaluation of fixed assets is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, when it is recognised as income. A decrease in net carrying amount arising on revaluation of fixed assets is charged to the profit and loss account to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

(i) Construction work-in-progress, consumable stores and stocks

Construction work-in-progress is stated at costs incurred plus estimated attributable profits less foreseeable losses and progress payments received and receivable. Costs comprise direct materials, labour and an appropriate portion of overheads. Estimated attributable profits from long-term construction and maintenance jobs are recognized according to the stage of completion once the degree of completion of a job exceeds 25 per cent and when the outcome of the contracts can be ascertained with reasonable accuracy after making due allowance for anticipated losses at the time they are identified. Profits from short-term jobs are recognized when the jobs are completed.

Consumable stores are stated at the lower of cost and replacement value. Cost represents the actual purchase cost calculated on a weighted average or first-in, first-out basis.

Stocks are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present locations and conditions, is calculated on a first-in, first-out basis. Net realisable value represents the estimated selling price less all further costs to completion and direct selling expenses.

(j) Recognition of revenue

- (i) Income on long-term contracts is recognised by reference to the value of work carried out during the year. Income from short-term contracts is recognised on completion basis.
- (ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (iii) Sale of goods is recognised upon transfer to customers of the significant risks and rewards of ownership of the goods.
- (iv) Dividend income is recognised when the Group's right to receive the relevant payment has been established.

(k) Deferred expenditure

Deferred expenditure includes site establishment expenditure for quarrying rights or leases which is written off over the duration of the relevant quarrying rights or site leases. Pre-operating expenses incurred before the commencement of full operation of a project are amortised over the period which can reasonably be expected to benefit from such expenditure.

(l) Re-instatement costs

Estimated expenditure in connection with site restoration is provided for over the duration of the relevant quarrying rights or the respective site leases.

(2) Significant Accounting Policies (Continued)**(m) Foreign currency translation**

Monetary assets and liabilities denominated in currencies other than Hong Kong dollars at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Exchange differences arising therefrom are included in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the translation of foreign subsidiaries' financial statements are dealt with as movements in reserves.

(n) Finance leases and operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the Group are accounted for as finance leases. Assets held under finance leases are capitalized at their fair value at the date of acquisition and are recorded as fixed assets. The corresponding obligations to pay future rentals are recorded as liabilities. Finance charges are charged to the profit and loss account. Depreciation of leased assets is provided in accordance with the Group's depreciation policy.

All other leases are classified as operating leases and the rentals are charged or credited to the profit and loss account on a straight-line basis over the terms of the respective leases.

(o) Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

(p) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(3) Turnover

	1998 HK\$	1997 HK\$
Gross certified value of construction revenue and income from building maintenance jobs	3,839,316,540	3,963,020,830
Sale of construction materials	892,557,148	1,021,155,354
	4,731,873,688	4,984,176,184

(4) Profit from Ordinary Activities

	1998 HK\$	1997 HK\$
Profit from ordinary activities is arrived at after charging:		
Bank interest paid	1,200,445	10,436,020
Finance lease charges	4,481,814	7,804,178
Interest on other loans wholly repayable within 5 years	1,339,259	2,298,181
	7,021,518	20,538,379
Depreciation	58,616,233	57,416,866
Less: Amount capitalised to construction jobs	(2,586,172)	(2,455,035)
	56,030,061	54,961,831
Directors' emoluments (note 4(i))		
Directors' fee	170,000	42,500
Management remuneration	12,241,490	10,811,664
Provident fund contributions	432,384	353,537
Auditors' remuneration	2,044,700	2,008,477
Payments under operating leases on land and buildings	25,496,753	19,333,321
Amortisation of deferred expenditure	13,258,472	18,431,505
Loss on disposal of fixed assets	120,026	-
and after crediting:		
Dividends from listed investment	614,408	-
Dividends from unlisted investment	652,909	2,102,804
Interest received	67,515,532	25,438,401
Profit on disposal of fixed assets	-	109,890

(i) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows:-

	1998 HK\$	1997 HK\$
Fees		
Executive directors	60,000	15,000
Non-executive directors	110,000	27,500
Other emoluments		
Executive directors	12,241,490	10,811,664
Salaries and other benefits	432,384	353,537
Provident fund contributions	-	-
Non-executive directors	12,843,874	11,207,701

Notes to Financial Statements

For the year ended 31 March 1998

(4) Profit from Ordinary Activities (Continued)

Directors' emoluments fall within the following bands:

<i>Emolumentbands</i>		1998	1997
		Number of directors	Number of directors
HK\$0 - HK\$1,000,000		5	5
HK\$1,000,001 - HK\$2,000,000		-	1
HK\$2,000,001 - HK\$3,000,000		3	2
HK\$3,000,001 - HK\$4,000,000		1	1
		9	9

(ii) Five highest-paid employees

Among the five highest-paid employees, three (1997 - three) are executive directors whose remuneration is disclosed in note 4(i) above. The remuneration of the other two (1997 - two) employees disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange is as follows:

	1998	1997
	HK\$	HK\$
Salaries and other emoluments	4,541,569	4,295,361
Provident fund contributions	165,888	143,090
	4,707,457	4,438,451

The above emoluments fall within the following bands:-

<i>Emolumentbands</i>		1998	1997
		Number of employees	Number of employees
HK\$0 - HK\$1,000,000		-	-
HK\$1,000,001 - HK\$2,000,000		-	-
HK\$2,000,001 - HK\$3,000,000		2	2
		2	2

(iii) Employee provident and retirement scheme

The Group is a participating member in the Shui On Provident and Retirement Scheme ("the Scheme"). The Scheme is registered under the Occupational Retirement Scheme Ordinance. The assets of the Scheme are administered by the Trustees of the Scheme and are held separately from the assets of the Group. The Scheme is funded by contributions from both employees and employers at rates ranging from 5% to 10% of the employees' basic monthly salary. In accordance with the rules of the Scheme, contributions forfeited due to the resignations of staff members are kept in the Scheme and not used to reduce the contributions to be made by the Group.

The Group's total contribution to the Scheme charged to the profit and loss account during the year ended 31 March 1998 amounted to HK\$15,240,169 (1997 - HK\$9,491,095).

(5) Taxation

	1998 HK\$	1997 HK\$
Company and subsidiaries		
Hong Kong profits tax	44,521,983	39,929,296
Deferred taxation (Note 16)	919,000	(114,000)
Associated companies		
Hong Kong profits tax	4,984,417	3,620,883
Deferred taxation	(460,000)	477,500
	49,965,400	43,913,679

Hong Kong profits tax is provided at the rate of 16.5% (1997 - 16.5%) based on the estimated assessable profits for the year.

(6) Profit Attributable to Shareholders

The profit attributable to shareholders dealt with in the profit and loss account of the Company amounted to HK\$300,368,682 (1997 - HK\$4,485,400) for the year.

(7) Dividends

	1998 HK\$	1997 HK\$
Interim dividend - HK\$0.15 (1997 - nil) per share on 260,000,000 shares	39,000,000	-
Proposed dividend:-		
Final dividend - HK\$0.30 (1997 - nil) per share on 260,000,000 shares	78,000,000	-
Special dividend - HK\$0.70 (1997 - nil) per share on 260,000,000 shares	182,000,000	-
	260,000,000	-
Dividends paid to shareholders of the Group's subsidiaries before the restructuring of the Group in January 1997	-	180,000,000
	299,000,000	180,000,000

(8) Earnings per Share

The calculation of basic earnings per share is based on the Group's profit for the year attributable to shareholders of HK\$313,136,050 (1997 - HK\$223,414,699) and on 260,000,000 shares (1997 - weighted average number of 205,863,014 shares) in issue during the year. The fully diluted earnings per share is not shown as the exercise of the subscription rights attached to the share options would not have a material diluting effect on earnings per share.

Notes to Financial Statements

For the year ended 31 March 1998

(9) Fixed Assets

<i>The Group</i>	<i>Land and buildings in Hong Kong under medium-term lease</i>	<i>Land and buildings in Hong Kong under short lease</i>	<i>Land and buildings in other regions of the PRC under medium-term lease</i>
	HK\$	HK\$	HK\$
At cost/valuation			
At 31/3/1997	76,518,982	27,750,743	-
Purchase of subsidiary	-	-	4,583,692
Additions	-	-	574,993
Disposals	-	-	-
Reallocation	-	-	-
Elimination of accumulated depreciation of revalued land and buildings under medium-term lease	(3,110,838)	-	-
Revaluation deficits	(5,908,144)	-	-
At 31/3/1998	67,500,000	27,750,743	5,158,685
Accumulated depreciation			
At 31/3/1997	1,519,566	27,710,251	-
Purchase of subsidiary	-	-	395,343
Charge for the year	1,591,272	11,298	150,448
Written back on disposal	-	-	-
Reallocation	-	-	-
Elimination of accumulated depreciation of revalued land and buildings under medium-term lease	(3,110,838)	-	-
At 31/3/1998	-	27,721,549	545,791
Net book value			
At 31/3/1998	67,500,000	29,194	4,612,894
At 31/3/1997	74,999,416	40,492	-
Basis of book value			
At valuation	67,500,000	-	-
At cost	-	27,750,743	5,158,685
	67,500,000	27,750,743	5,158,685

Notes: (i) The Group's land and buildings in Hong Kong under medium-term lease have been revalued as at 31 March 1998 by Mr. William Randolph Robinson, a Chartered Surveyor, on an open market value basis. The above-mentioned valuations have been adopted by the Directors in these financial statements and the deficit arising from revaluation has been debited to property revaluation reserve. No separate valuation was undertaken for land and buildings in Hong Kong under short lease as its net book value is immaterial.

(ii) Medium-term lease is defined as a lease having not more than 50 years and not less than 20 years to run. Short lease is defined as a lease having less than 20 years to run.

<i>Plant and machinery owned</i>	<i>Plant and machinery leased</i>	<i>Motor vehicles owned</i>	<i>Motor vehicles leased</i>	<i>Equipment, furniture and other assets</i>	<i>Total</i>
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
237,794,537	128,324,279	30,831,750	5,140,458	34,452,235	540,812,984
1,802,056	-	74,467	-	35,420	6,495,635
42,808,890	-	2,342,769	31,487	4,248,810	50,006,949
(10,250,079)	-	(3,398,062)	-	(2,642,296)	(16,290,437)
110,626,670	(110,626,670)	5,171,945	(5,171,945)	-	-
-	-	-	-	-	(3,110,838)
-	-	-	-	-	(5,908,144)
382,782,074	17,697,609	35,022,869	-	36,094,169	572,006,149
146,575,827	47,637,999	12,875,990	1,220,661	20,693,634	258,233,928
176,912	-	25,691	-	3,856	601,802
32,522,913	14,480,422	5,663,735	601,719	3,594,426	58,616,233
(8,723,493)	-	(2,920,685)	-	(2,637,241)	(14,281,419)
51,773,145	(51,773,145)	1,822,380	(1,822,380)	-	-
-	-	-	-	-	(3,110,838)
222,325,304	10,345,276	17,467,111	-	21,654,675	300,059,706
160,456,770	7,352,333	17,555,758	-	14,439,494	271,946,443
91,218,710	80,686,280	17,955,760	3,919,797	13,758,601	282,579,056
-	-	-	-	-	67,500,000
382,782,074	17,697,609	35,022,869	-	36,094,169	504,506,149
382,782,074	17,697,609	35,022,869	-	36,094,169	572,006,149

(iii) Should the revalued land and buildings in Hong Kong under medium-term lease be carried at cost less accumulated depreciation, their net book value as at the balance sheet date would be HK\$33,583,086 (1997 - HK\$35,174,358).

Notes to Financial Statements

For the year ended 31 March 1998

(9) Fixed Assets (Continued)

<i>The Company</i>	<i>Motor vehicles</i> HK\$	<i>Equipment, furniture and other assets</i> HK\$	<i>Total</i> HK\$
At cost			
Balance at 31/3/1997	565,241	4,891,672	5,456,913
Additions	226,204	341,367	567,571
Disposals	-	(3,682)	(3,682)
Balance at 31/3/1998	791,445	5,229,357	6,020,802
Accumulated depreciation			
Balance at 31/3/1997	59,448	223,413	282,861
Charge for the year	205,113	1,283,177	1,488,290
Balance at 31/3/1998	264,561	1,506,590	1,771,151
Net book value			
Balance at 31/3/1998	526,884	3,722,767	4,249,651
Balance at 31/3/1997	505,793	4,668,259	5,174,052

(10) Investments in Subsidiaries

	1998 HK\$	1997 HK\$
Unlisted shares, at cost	283,932,893	283,932,881
Add: Amounts due from subsidiaries	691,325,255	249,453,695
	975,258,148	533,386,576
Less: Amounts due to subsidiaries	10,062,279	818,277
	965,195,869	532,568,299

Particulars regarding the principal subsidiaries are set out in Appendix I to these financial statements.

(11) Investments in Associated Companies

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Share of net assets of associated companies	44,823,544	-	50,097,580	-
Amounts due from associated companies	95,691,335	7,825,550	70,680,063	-
Amounts due to associated companies	(65,370,366)	-	(72,329,173)	(294,668)
	75,144,513	7,825,550	48,448,470	(294,668)

Particulars regarding the principal associated companies are set out in Appendix II to these financial statements.

(12) Other Investments

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
At cost:				
Listed investments in Hong Kong	89,318,408	-	-	-
Interest in joint ventures (note)	26,479,986	-	10,412,696	-
Other unlisted investments	30,000	-	10,000	-
	115,828,394	-	10,422,696	-
Market value of listed investments	90,341,950	-	-	-

Note:

Interest in joint ventures represents the Group's interest in the following jointly controlled entities:

Name of entity	Place of incorporation and operation	Principal activities	Percentage interest
Beijing Shui On Joint Venture Construction Company Limited	Beijing, PRC	Building Construction	50%
Shanghai Shui On Construction Company Limited	Shanghai, PRC	Building Construction	50%
Nanjing Jiangnan Cement Company Limited	Nanjing, PRC	Manufacturing and trading of cement	60%

Notes to Financial Statements

For the year ended 31 March 1998

(13) Deferred Expenditure

	As at 31 March 1997 HK\$	Additions HK\$	Amortisation during the year HK\$	As at 31 March 1998 HK\$
Site establishment costs	18,969,077	-	(11,385,469)	7,583,608
Pre-operating expenses	5,037,126	1,202,253	(1,873,003)	4,366,376
	24,006,203	1,202,253	(13,258,472)	11,949,984

(14) Net Current Assets/(Liabilities)

	1998		1997	
	The Group HK\$	The Company HK\$	The Group HK\$	The Company HK\$
Current assets				
Construction work-in-progress and stocks (note)	186,991,684	-	108,675,372	-
Tax prepaid	-	-	54,404	-
Deposit for acquisition of property	39,141,748	-	-	-
Debtors, deposits and prepayments	616,368,717	5,266,784	920,261,044	5,162,475
Bank balances, deposits and cash	926,176,667	146,991,628	710,538,584	323,692,972
	1,768,678,816	152,258,412	1,739,529,404	328,855,447
Deduct:				
Current liabilities				
Bills payable and trust receipts	-	-	1,944,853	-
Creditors and accruals	788,375,180	5,071,102	782,120,430	3,213,432
Proposed dividends	260,000,000	260,000,000	-	-
Bank loans and overdrafts (unsecured)	-	-	34,948,494	-
Current portion of long-term liabilities	7,805,336	-	43,328,525	-
Provision for taxation	20,055,898	-	29,811,299	-
Amount due to affiliated companies	3,089,664	-	6,557,337	-
	1,079,326,078	265,071,102	898,710,938	3,213,432
	689,352,738	(112,812,690)	840,818,466	325,642,015

(14) Net Current Assets/(Liabilities) (Continued)

Note:

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Construction work-in-progress				
Direct costs incurred to-date on contracts plus attributable profits				
less foreseeable losses	3,922,360,353	-	6,919,202,324	-
Less: Progress payments received and receivable	3,775,287,735	-	6,861,015,273	-
	147,072,618	-	58,187,051	-
Stocks of aggregates, materials and consumable stores	39,919,066	-	50,488,321	-
	186,991,684	-	108,675,372	-

(15) Long-Term Liabilities

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Obligations under finance leases repayable:-				
Within one year	7,805,336	-	40,476,025	-
In the second year	4,074,366	-	35,414,157	-
In the third to fifth year, inclusive	-	-	24,668,276	-
More than five years	-	-	719,713	-
	11,879,702	-	101,278,171	-
Less: Current portion	7,805,336	-	40,476,025	-
	4,074,366	-	60,802,146	-
Bank loan (secured) repayable:-				
Within one year	-	-	2,852,500	-
In the second year	-	-	1,426,250	-
	-	-	4,278,750	-
Less: Current portion	-	-	2,852,500	-
	-	-	1,426,250	-
Total	4,074,366	-	62,228,396	-

Notes to Financial Statements

For the year ended 31 March 1998

(16) Deferred Taxation

	<i>The Group</i>	
	1998	1997
	HK\$	HK\$
Balance brought forward	5,437,000	5,551,000
Charge for the year (Note 5)	919,000	(114,000)
Balance carried forward	6,356,000	5,437,000

At the balance sheet date, the major components of the deferred taxation liabilities/(assets), provided and unprovided, are as follows:

<i>The Group</i>	Provided		Unprovided	
	1998	1997	1998	1997
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences arising from:				
Excess of tax allowances over depreciation	8,456,000	7,112,000	7,843,000	6,133,000
Other timing differences	(2,100,000)	(1,675,000)	-	-
Tax effect of taxation losses	-	-	(9,800,000)	(8,269,000)
	6,356,000	5,437,000	(1,957,000)	(2,136,000)

(17) Share Capital

(a) Authorized:

	1998	1997
	HK\$	HK\$
400,000,000 shares of HK\$1 each	400,000,000	400,000,000

(b) Issued and fully paid:

	1998	1997
	HK\$	HK\$
260,000,000 shares of HK\$1 each	260,000,000	260,000,000

(17) Share Capital (Continued)

(c) Employee share option scheme

Under the Employee Share Option Scheme which became effective on 16 July 1997, the board of directors of the Company may offer to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 90% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately after the preliminary announcement of the Group's annual results, subject to a maximum of 10% of the issued share capital of the Company from time to time. Consideration paid for each option was HK\$1.00.

Pursuant to the employee share option scheme, options to subscribe for shares in the Company are granted to certain executives. At 31 March 1998, options to subscribe for 2,550,000 shares within the following exercisable periods were outstanding (1997: Nil):

Exercisable period	Option price	Number of shares
	HK\$	
25 January 1998 - 24 July 2002	7.50	510,000
25 July 1998 - 24 July 2002	7.50	510,000
25 July 1999 - 24 July 2002	7.50	510,000
25 July 2000 - 24 July 2002	7.50	510,000
25 July 2001 - 24 July 2002	7.50	510,000
		2,550,000

(18) Share Premium

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Balance brought forward	509,671,417	509,671,417	-	-
Premium on issue of shares	-	-	539,500,000	539,500,000
Restructuring and share issue expenses	-	-	(29,828,583)	(29,828,583)
Balance carried forward	509,671,417	509,671,417	509,671,417	509,671,417

(19) Contributed Surplus

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Balance brought forward and carried forward	197,561,471	88,932,881	197,561,471	88,932,881

Contributed surplus arose when the Company issued shares in exchange for the equity in subsidiaries and associated companies pursuant to the restructuring in January 1997. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders of the Company.

Notes to Financial Statements

For the year ended 31 March 1998

(20) Translation Reserve

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Balance brought forward	99,648	-	(570,306)	-
Exchange difference on translation of financial statements of foreign subsidiaries	(210,478)	-	669,954	-
Balance carried forward	(110,830)	-	99,648	-

(21) Property Revaluation Reserve

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Balance brought forward	40,225,058	-	-	-
Revaluation (deficit)/surplus on the Group's land and buildings in Hong Kong under medium-term lease	(5,908,144)	-	40,225,058	-
Balance carried forward	34,316,914	-	40,225,058	-

(22) Retained Profits

	1998		1997	
	The Group	The Company	The Group	The Company
	HK\$	HK\$	HK\$	HK\$
Balance brought forward	121,370,078	4,485,400	77,955,379	-
Profit for the year retained	14,136,050	1,368,682	43,414,699	4,485,400
Balance carried forward	135,506,128	5,854,082	121,370,078	4,485,400
Profits retained by				
Company	5,854,082		4,485,400	
Subsidiaries	98,344,191		80,302,787	
Associated companies	31,307,855		36,581,891	
	135,506,128		121,370,078	

As at the balance sheet date, the Company's reserves, including the contributed surplus as per note 19 above, available for distribution to shareholders amounted to HK\$94,786,963 (1997 - HK\$93,418,281).

(23) Quarrying Contract

The right granted to a subsidiary, Lamma Rock Products Limited ("LRP"), to operate a quarry at a site on Lamma Island, Hong Kong has been extended for a further period of 5 years plus a 2 year maintenance period commencing December 1995. At the end of the extended period, LRP is obliged to reinstate the quarry site and remove all plant and machinery and other structures from the quarry area at its own cost.

(24) Related Party Transactions

During the year, in the ordinary and normal course of business, the Group had the following significant transactions with Shui On Company Limited and its subsidiaries and associated companies other than those of the Group ("SOCL Group"), conducted on an arm's length basis and under normal commercial terms similar to those provided to third parties:

Nature of transactions	1998 HK\$'000	1997 HK\$'000
Income received from SOCL Group:		
Construction/subcontracting work	-	12,640
Supply of construction materials	-	22,094
Decoration work	16,131	9,590
Machine hire and repairs and maintenance	-	22,083
Management and information systems services	564	-
Interest	-	12,430
Costs and expenses paid to SOCL Group:		
Construction/subcontracting work	2,652	138,243
Supply of construction materials	-	2,987
Management and administrative services	-	24,071
Interest	-	1,456
Royalty paid for the use of land for the production of concrete	-	656

Notes to Financial Statements

For the year ended 31 March 1998

(25) Commitments and Contingent Liabilities

As at the balance sheet date, the Group had commitments and contingent liabilities not provided for in these financial statements as follows:-

- (a) performance bonds established amounting to approximately HK\$322,000,000 (1997 - HK\$222,000,000);
- (b) guarantees in lieu of utility deposits amounting to approximately HK\$1,000,000 (1997 - HK\$1,000,000);
- (c) balance payment for the acquisition of a property amounting to approximately HK\$116,000,000 (1997 - nil);
- (d) commitment under an equity joint venture agreement to make equity contributions of RMB96,000,000 (1997 - nil); and
- (e) commitments under operating leases in respect of land and buildings to make payments in the next year as follows:-

	1998	1997
	HK\$	HK\$
<hr/>		
Operating leases which expire:		
within one year	1,357,876	6,133,000
in the second to fifth year inclusive	15,538,349	16,960,966
over five years	1,133,878	-
	<hr/> 18,030,103	<hr/> 23,093,966

(26) Post Balance Sheet Event

Subsequent to the balance sheet date, a wholly-owned subsidiary of the Company has made a balance payment of approximately HK\$116,000,000 for acquiring a property in Hong Kong from an independent third party for a total cash consideration of \$155,000,000.

(27) Comparative Figures

Certain comparative figures have been re-aligned to conform with the presentation of the current year.

Appendix I

Particulars of Principal Subsidiaries

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries which principally affect the results or assets of the Group. All the companies listed below were incorporated and are operating in Hong Kong except otherwise indicated.

Direct subsidiaries	Attributable interest	Issued and paid-up share capital	Principal activities
* Shui On Contractors Limited	100%	1 share of US\$1	Investmentholding
* Shui On Materials Limited	100%	1 share of US\$1	Investmentholding
Indirect subsidiaries	Attributable interest	Issued and paid up share capital/ registered capital	Principal activities
Asia No.1 Material Supply Limited	100%	100 ordinary shares of HK\$100 each 1,000 non-voting deferred shares of HK\$100 each	Holding of a quarry right
Billion Centre Company Limited	100%	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	Holding of a land lease
Dynamic Mark Limited	100%	100 ordinary shares of HK\$1 each 3,000,000 non-voting deferred shares of HK\$1 each	Investmentholding
* Eventful Time Investments Limited	100%	1 share of US\$1	Investmentholding
First Direction Limited	100%	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	Propertyholding
Great Market Limited	100%	100 ordinary shares of HK\$1 each 5 non-voting deferred shares of HK\$1 each	Investmentholding
** Guangdong Kenon Concrete Co., Ltd.	100%	Registered and paid up capital HK\$10,500,000	Supply of ready-mixed concrete
** Guangzhou Ken On Concrete Co., Ltd.	100%	Registered and paid up capital HK\$10,500,000	Supply of ready-mixed concrete
Instant Mortars Limited	100%	2 ordinary shares of HK\$1 each	Supply of ready-mixed mortars

Appendix I
Particulars of Principal Subsidiaries

Indirect subsidiaries	Attributable interest	Issued and paid up share capital/ registered capital	Principal activities
* Jesca Limited	100%	2 ordinary shares of HK\$1 each	Investment holding
Ken On Concrete Company Limited	100%	11,000,000 ordinary shares of HK\$1 each	Supply of ready-mixed concrete
Kinew Company Limited	66.7%	3 ordinary shares of HK\$1 each	Holding of a land lease
Kinscore Limited	100%	2 ordinary shares of HK\$1 each	Investment holding
Kotemax Limited	100%	2 ordinary shares of HK\$1 each	Property holding
Lamma Rock Products Limited	100%	100 ordinary shares of HK\$10 each 3,500,000 non-voting deferred shares of HK\$10 each	Quarrying
** Panyu Dynamic Mark Steel & Aluminium Engineering Co. Ltd.	75%	Registered and paid up capital HK\$4,000,000	Steel fabrication
Panyu Shui Fai Metal Works Engineering Company Limited	55%	Registered and paid up capital HK\$9,000,000	Manufacturing wall form and other metal works
Pat Davie Limited	60%	2,600,100 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$10 each	Interior decoration, fitting out, design and contracting
Pat Davie (China) Limited	60%	2 ordinary shares of HK\$1 each	Investment holding
P.D. (Contractors) Limited	60%	1,000,000 ordinary shares of HK\$1 each	Renovation work
Pinetop Limited	100%	2 ordinary shares of HK\$1 each	Investment holding
Project Way Limited	100%	2 ordinary shares of HK\$1 each	Investment holding

<i>Indirect subsidiaries</i>	<i>Attributable interest</i>	<i>Issued and paid up share capital/ registered capital</i>	<i>Principal activities</i>
Shui Fai Metal Works Engineering Company Limited	55%	10,000 ordinary shares of HK\$1 each	Sales and installation of wallform and other metal works
Shui On Building Contractors Limited	100%	6,000,100 ordinary shares of HK\$1 each 33,000,100 non-voting deferred shares of HK\$1 each 50,000 non-voting deferred shares of HK\$1,000 each	Building construction and maintenance
Shui On Building Materials Limited	100%	100 ordinary shares of HK\$1 each 1,000,000 non-voting deferred shares of HK\$1 each	Investment holding and sale of construction materials
Shui On Construction Company Limited	100%	100 ordinary shares of HK\$1 each 69,000,000 non-voting deferred shares of HK\$1 each 1,030,000 non-voting deferred shares of HK\$100 each	Building construction
Shui On Corporate Services Limited	100%	2 ordinary shares of HK\$1 each	Provision of corporate services
Shui On Plant & Equipment Services Limited	100%	1,611,000 ordinary shares of HK\$1 each 45,389,000 non-voting deferred shares of HK\$1 each	Owning and leasing of plant and machinery and structural steel construction work
** Xinhui Longkoushan Rock Products Limited	100%	Registered and paid up capital US\$1,785,700	Quarrying

* Incorporated in the British Virgin Islands

** Registered and operated in other regions of the PRC

Appendix II

Particulars of Principal Associated Companies

The Directors are of the opinion that a complete list of the particulars of all associated companies will be of excessive length and therefore the following list contains only the particulars of associated companies which principally affect the results or assets of the Group. All the associated companies were incorporated and are operating in Hong Kong except otherwise stated:-

<i>Indirect associated companies</i>	<i>Attributable interest</i>	<i>Issued and paid up share capital/ registered capital</i>	<i>Principal activities</i>
Biella Enterprises Limited	20%	5 ordinary shares of HK\$1 each	Holding of a land lease
Brisfull Limited	50%	5,000,000 ordinary shares of HK\$1 each	Sale and installation of aluminium window products
City Engineering Limited	50%	10,000 ordinary shares of HK\$1 each	Installation of mouldwork
Far East Cement Company Limited	50%	200,000 ordinary shares of HK\$100 each	Trading of cement and investment holding
Houswell Enterprises Limited	50%	2 ordinary shares of HK\$1 each	Trading of bagged cement
** Kaiping Biaofu Metal Products Limited	50%	Registered and paid up capital US\$800,000	Manufacturing of aluminium window products
Quorum Asia Limited	30%	2 ordinary shares of HK\$1 each	Interior decoration, design and contracting
*# TH Industrial Management Limited	50%	2,740 ordinary shares of US\$1 each	Investment holding
**# Chongqing T.H. Cement Co. Ltd.	34%	Registered and paid up capital RMB50,000,000	Manufacturing and sale of cement
**# Chongqing T.H. Special Cement Co. Ltd.	34%	Registered capital RMB125,000,000 and paid up capital RMB88,687,797	Manufacturing and sale of cement
**# Chongqing T.H. White Cement Co. Ltd.	30%	Registered and paid up capital US\$1,506,000	Manufacturing and sale of cement
* Incorporated in the Bahamas			
** Registered and operated in other regions of the PRC			
# Companies not audited by Deloitte Touche Tohmatsu			

Appendix III

Particulars of Properties

Particulars of properties held by the Group as at 31 March 1998 were as follows:-

<i>Location</i>	<i>Use</i>	<i>Approx. floor area (Sq. Ft.)</i>	<i>Group's interest</i>
Section A of Lot No.609, Lot Nos. 610 and 611, Section F of Lot No. 612 in Demarcation District No.85, Fanling, New Territories	Workshop and storage	27,980	100%
Section B and the Remaining Portion of Lot No.1477 in Demarcation District No.77, Ping Che, Fanling, New Territories	Workshop and storage	17,260	100%
番禺市市橋鎮沙頭小羅塘	Workshop and storage	25,380	55%

Appendix IV

Group Financial Summary

(1) Results

The proforma combined results of the Group for the four years ended 31 March 1997 have been prepared on a merger basis as if the existing group structure had been in existence throughout the relevant years.

	For the year ended 31 March				
	1994 HK\$'000	1995 HK\$'000	1996 HK\$'000	1997 HK\$'000	1998 HK\$'000
Turnover	1,717,050	2,341,095	3,066,611	4,984,176	4,731,873
Operating profit	22,969	32,306	75,450	242,518	332,864
Share of results of associated companies	(2,197)	3,033	6,495	24,849	29,450
Profit before taxation	20,772	35,339	81,945	267,367	362,314
Taxation	(1,398)	(2,839)	(11,740)	(43,913)	(49,965)
Profit after taxation	19,374	32,500	70,205	223,454	312,349
Minority interests	(569)	(2,092)	(198)	(39)	787
Profit attributable to shareholders	18,805	30,408	70,007	223,415	313,136

(2) Assets and Liabilities

	As at 31 March	
	1997 HK\$'000	1998 HK\$'000
Fixed assets		282,579 271,946
Interest in associated companies		48,449 75,145
Other investments		10,423 115,828
Deferred expenditure		24,006 11,950
Current assets		1,739,529 1,768,679
Current liabilities		(898,711) (1,079,326)
Long-term liabilities		(62,228) (4,074)
Deferred taxation		(5,437) (6,356)
Minority interest		(9,680) (16,844)
Net assets	1,128,930	1,136,948

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the shareholders of Shui On Construction and Materials Limited ("the Company") will be held at Boardroom I, Grand Hyatt, 1 Harbour Road, Hong Kong on Tuesday, 8 September 1998 at 3:00 p.m. for the following purposes:-

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 1998.
2. To declare a final dividend and a special dividend.
3. To elect Directors and fix their remuneration.
4. To re-appoint Auditors and authorise the Directors to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

Ordinary Resolutions

(I) "THAT:

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$1.00 each in the capital of the Company and to make or grant offers, agreements or options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power either during or after the Relevant Period be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to this Resolution, otherwise than pursuant to (i) a rights issue; (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend pursuant to the Bye-laws of the Company from time to time, shall not exceed twenty per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or
- (iii) the date on which the authority set out in this Resolution is revoked or varied by ordinary resolution of the shareholders in general meeting of the Company."

(II) "THAT:

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$1.00 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company to be repurchased pursuant to the approval in paragraph (a) above shall not exceed ten per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and
- (c) the expression "Relevant Period" shall for the purposes of this Resolution have the same meaning as assigned to it under Ordinary Resolution I set out in the notice convening this meeting."

(III) "THAT the general mandate granted to the Directors to allot, issue and deal with additional shares of the Company pursuant to Ordinary Resolution I set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution II set out in the notice convening this meeting, provided that such amount shall not exceed ten per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution."

By Order of the Board

Evans Li
CompanySecretary

Hong Kong, 7 July 1998

Notes:-

- (1) Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the head office of the Company at 34th Floor, Shui On Centre, 6-8 Harbour Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
- (3) The register of members of the Company will be closed from Tuesday, 1 September 1998 to Tuesday, 8 September 1998, both days inclusive, during which period no transfer of shares will be effected.
- (4) Concerning Ordinary Resolution I above, approval is being sought from the members as a general mandate in compliance with the Rules Governing the Listing of Securities on the Stock Exchange. The Directors, however, have no immediate plans to issue any new shares of the Company.
- (5) An explanatory statement containing further details regarding Ordinary Resolution II above will be sent to members together with the 1997/98 Annual Report.