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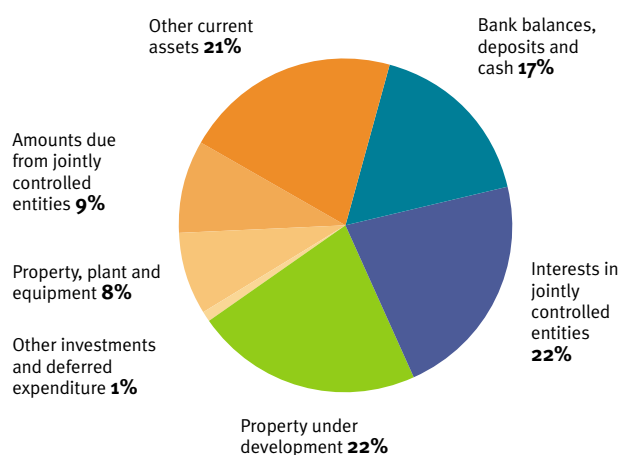
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Financial Highlights

| | 2004 HK\$ million | 2003 HK\$ million | % Change Over 2003 |
|--|----------------------|----------------------|-----------------------|
| Turnover | 3,591 | 2,311 | 55% |
| Profit (loss) from ordinary activities before taxation | 200 | (45) | N/A |
| Profit (loss) attributable to shareholders | 148 | (44) | N/A |
| Earnings (loss) per share | HK\$ | HK\$ | |
| Basic | 0.55 | (0.17) | N/A |
| Diluted | 0.54 | (0.17) | N/A |
| Dividend per share | 0.275 | NIL | N/A |

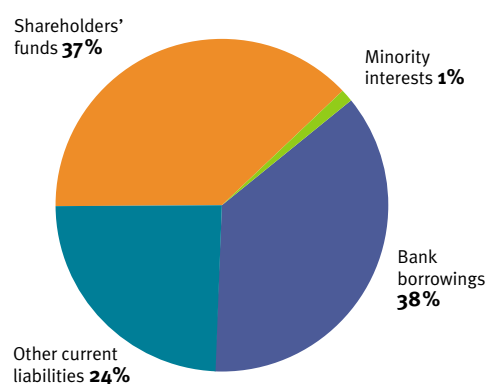
Assets Employed

as at 31 March 2004

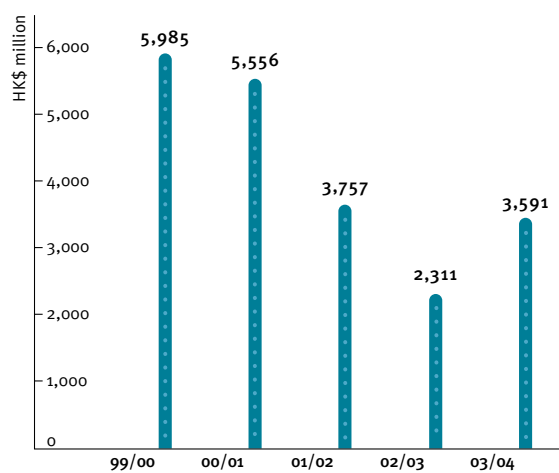


Capital and Liabilities

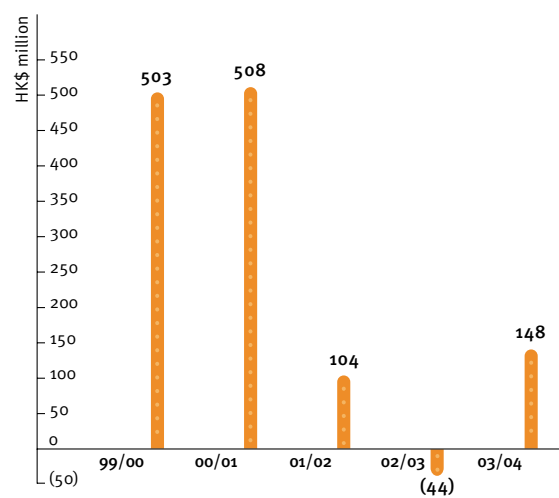
as at 31 March 2004



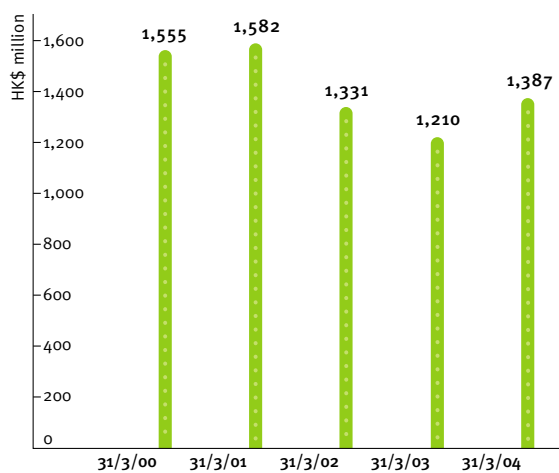
Turnover



Profit (Loss) Attributable to Shareholders



Shareholders' Funds



BOARD OF DIRECTORS

Executive Directors

Lo Hong Sui, Vincent

Wong Ying Wai, Wilfred

Wong Yuet Leung, Frankie

Choi Yuk Keung, Lawrence

Wong Hak Wood, Louis

Wong Fook Lam, Raymond

Lowe Hoh Wai Wan, Vivien

Independent Non-executive Directors

Griffiths, Anthony

Professor Enright, Michael John

Cheung Kin Tung, Marvin

SECRETARY

Tam Ching Wah, Janice

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House, 2 Church Street,

Hamilton HM 11, 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 HM 11, Bermuda

BRANCH SHARE REGISTRARS AND

TRANSFER OFFICE

Standard Registrars Limited, 28/F,

BEA Harbour View Centre,

56 Gloucester Road, Wanchai, Hong Kong

PRINCIPAL BANKERS

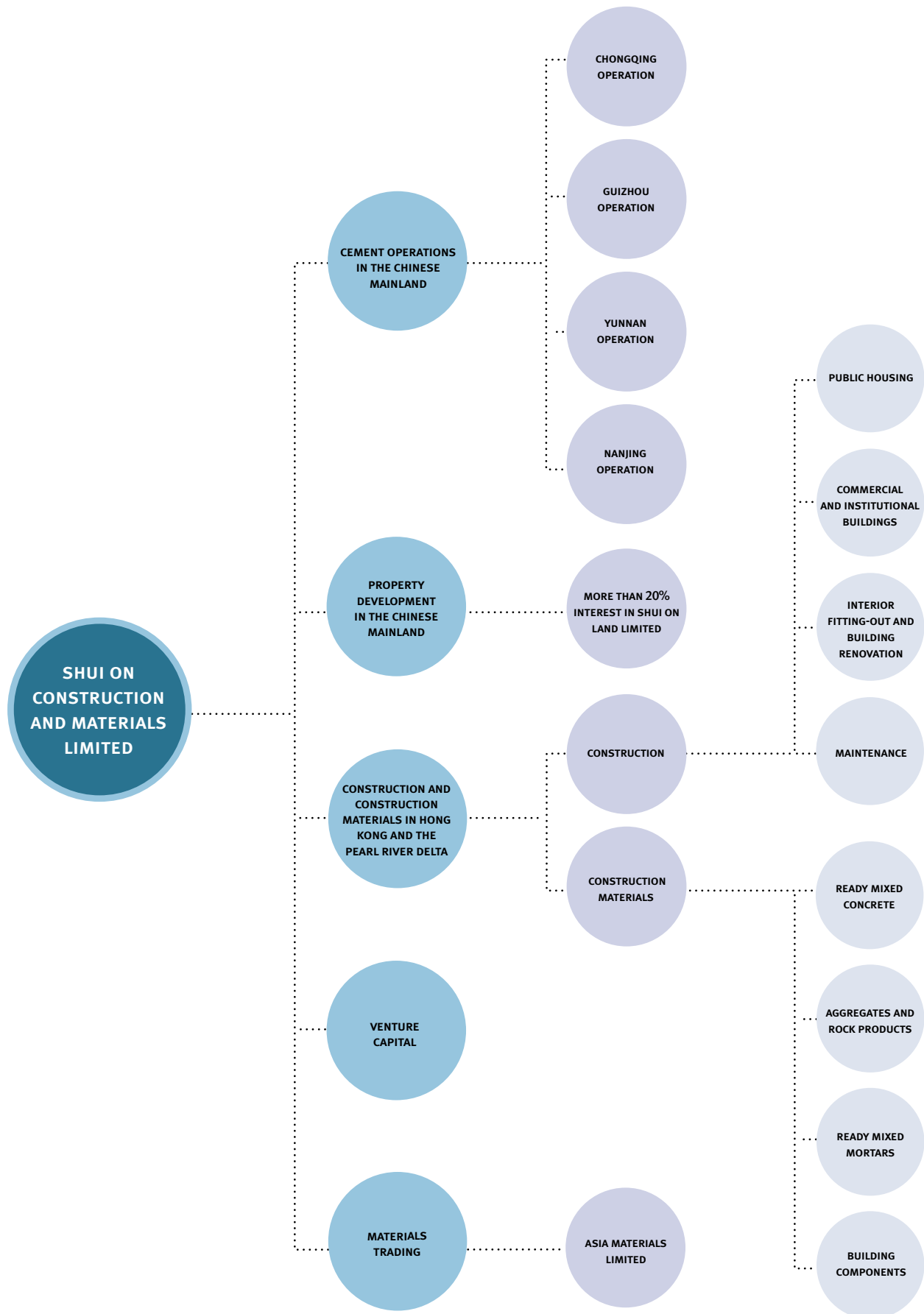
Bank of China

The Hongkong and Shanghai Banking

Corporation Limited

Hang Seng Bank Limited

Standard Chartered Bank





“Your Group’s long-term, strategic expansion in the fast growing Chinese Mainland market bore fruit during the year and enabled your Group to restore profitability. Although the construction and construction materials businesses in Hong Kong will remain difficult in the near future, the solid foundation your Group has laid in the cement and property markets on the Mainland should ensure sustainable growth in the years ahead.”

Lo Hong Sui, Vincent
CHAIRMAN



Results

The Group's turnover amounted to HK\$3,590.9 million, up 55% from the previous financial year (2002 / 2003: HK\$ 2,311.3 million). The profit attributable to shareholders was HK\$147.7 million (2002 / 2003: a loss of HK\$44.3 million), representing a profit per share of HK\$0.55 (2002 / 2003: a loss per share of HK\$0.17).

The Directors recommend the payment of a final dividend of HK\$0.275 per share to shareholders whose names appear on the Register of Members of the Company on 27 September 2004.

Business Review

Demand for cement in Chongqing and Guizhou, where your Group is the largest high grade cement producer, continues to grow rapidly amidst the Central Government's substantial investments in urbanisation and infrastructure and power generating projects. Your Group's emphasis on building up market share during the year, however, meant that some of the plants have yet to yield significant profits.

In Chongqing, your Group is upgrading the existing cement plants as well as building two modern dry kilns. In Guizhou, we signed joint venture agreements with two cement plants in Bijie and Changda in 2003. By the end of the 2004 / 2005 financial year, your Group's annual production capacities of high grade cement in Chongqing and Guizhou should reach 9 million tonnes and 2.5 million tonnes respectively.

The successful sale in October 2003 of residential units in Rui Hong Xin Cheng (also known as Rainbow City), a large-scale housing project in Shanghai, yielded a substantial profit contribution to your Group. The encouraging market response reflects not only the high quality and popular design of Rui Hong Xin Cheng, but also the buoyant property market in Shanghai. With China's accession to the World Trade Organization and the 2010 World Expo in Shanghai, we believe both the economy and the real estate market in Shanghai and other major Mainland cities should continue to grow significantly.

Although Hong Kong's economy showed signs of a recovery, it was at too early a stage to benefit local construction and materials businesses. The decline in government contracts available for tender continued to affect the workload for our construction division. The sales and gross margins of the Group's construction materials operations in Hong Kong and the Pearl River Delta continued to be severely affected by the depressed construction market.

On a brighter note, the two venture capital funds in which your Group owns majority interests have begun to bear fruit. We expect these funds to bring sizeable returns to your Group.

Details of your Group's performance and development during the year are set out in the "Management Discussion and Analysis" starting from page 10.



Corporate Governance

The effective governance of the Group is a key element of our policy to behave and operate as a leading exponent of corporate best practice in Asia. The responsibility for corporate governance rests with your Board and our approach is based on safeguarding integrity and transparency both at the Board level and in our reporting to you, the shareholders of the Group.

Over the years, we have foreshadowed a number of the changes in this area introduced by the Hong Kong Stock Exchange. The Independent Non-executive Directors (INEDs) play an active role in developing and overseeing the implementation of ever higher standards of corporate governance.

The purpose of the Board is to achieve the results we have planned to enhance shareholder value without compromising our standards of integrity and transparency in a manner that protects the long-term interests of all shareholders. This work also includes establishing appropriate processes and controls and actively monitoring their effective application. While the Executive Directors are responsible for managing the operations of the Group, your Board – in particular the INEDs – reviews and approves strategies, major policies, business plans and the identification and evaluation of opportunities available to the Group and the risks it must contend with. Your Board's policy is to provide target-based performance pay and emphasise innovation in order to achieve the Group's strategy and plans.

The Audit and Remuneration Committees have been established to assist the Board in its work and to ensure these functions are the subject of rigorous, independent review. The Audit Committee consists of the three INEDs and the chief internal auditor reports to this Committee. The Remuneration

Committee comprises the Chairman and the three INEDs with one of the latter chairing the Committee. Both Committees have explicit terms of reference outlining their roles and responsibilities and it is the policy of your Board that INEDs should constitute the whole or the majority of each Committee.

Future Outlook

Your Group's successful strategic moves in the Chinese Mainland over the past several years now enable it to profit from the vast business opportunities there. Although the Central Government has announced policies to cool down activities in industries in which your Group is actively engaged, the impact on our business should be short-term. This is mainly because SOCAM has always maintained a prudent financial policy and a high degree of liquidity, and our long-established relationships with Hong Kong and international banks ensure readily available funding for our Mainland projects.

In fact, the Central Government's initiatives to curb overinvestment in these sectors may prove beneficial to well established companies like SOCAM. These initiatives should help to eliminate inefficient and speculative players in the market, prevent rampant fluctuation in prices and ensure healthy, long-term development of the targeted industries as well as the economy as a whole. The upshot will be industries that have consolidated along more rational lines and are better managed, enhancing your Group's rate of development.

With the independent shareholders' unanimous approval on 15 April 2004 to inject Rui Hong Xin Cheng development and US\$50 million cash into Shui On Land Limited (SOL) – the newly established flagship property company of Shui On Group (SOCAM's privately held parent company) – your Group now enjoys greater opportunities in the dynamic property market in the Chinese Mainland. (Details of SOL's development projects are available on page 20-27).



This move will enable SOCAM to benefit from the diversified real estate portfolio and strong reputation of the private group in the Chinese Mainland. In addition to being able to equity-account for SOL's expected stable and strong earnings, your Group is also well positioned to co-invest with SOL in selected property developments that can capitalise on SOCAM's extensive construction expertise.

We intend to use the solid experience gained in public housing and Private Sector Participation Home Ownership Scheme projects in Hong Kong to undertake mass housing development projects in major Mainland cities where demand for good quality, affordable residential units is high and increasing.

Cement production in Central and Western China will continue to be an important area of growth for your Group. Although profits from this business were only moderate during the year, the increase in production capacity and consolidation of our market presence in Chongqing and Guizhou should bring a higher profit contribution in the long term.

Modernisation in Central and Western China will continue to boost local demand for high grade cement. Already the leading producer in Chongqing and Guizhou, your Group is actively studying the feasibility of entering the cement markets in nearby provinces. Our longer-term target is to build up a significant annual production capacity in the region.

An important step towards this target was taken in June when your Group entered into a framework agreement to form a joint venture to invest in the two largest cement plants in Yunnan province. In addition, your Group has entered into an agreement with Lafarge, the world's largest cement producer, whereby Lafarge has the exclusive option to purchase 50% of your Group's interest in the Yunnan joint venture. The possible participation of Lafarge in this joint venture could mark the beginning of a long-term relationship as both companies continue to expand in the Chinese Mainland.

Market conditions in Hong Kong are expected to remain difficult for your Group's construction and construction materials divisions in the near term, and these divisions will continue to focus on maintaining competitiveness through stringent cost control measures and a lean overhead.

The continued economic growth in the Chinese Mainland offers vast business opportunities. I am confident that the decisive measures implemented recently by the Central Government to cool down the economy will ensure sustainable and healthy economic growth on the Mainland. Your Group's successful transformation into a Mainland-oriented enterprise will allow it to take advantage of these opportunities and achieve long term, sustainable development.

Acknowledgments

With the dedication and hard work of our employees, SOCAM has achieved rapid expansion in the Chinese Mainland while maintaining competitiveness in the challenging Hong Kong market. As we face the opportunities and challenges that lie ahead, I am confident that our staff will continue to excel and I would like to extend my heartfelt appreciation to all of them for their strong commitment and contribution to the Group.

Lo Hong Sui, Vincent
CHAIRMAN

Hong Kong, July 2004



“With the rapid business development in the Chinese Mainland, the Directors are confident that, barring unforeseen circumstances, significant profit growth should be achieved in the coming year.”

Choi Yuk Keung, Lawrence
VICE - CHAIRMAN



CEMENT OPERATIONS IN THE CHINESE MAINLAND

We have seen significant growth in the central and western regions during the year. Development funds injected by the Central Government to the inland provinces have seen no signs of abatement despite the recent introduction of macroeconomic policy measures to curb excessive investment. Infrastructure and power generating projects under the “Go West” policy are largely shielded from these measures as they are pertinent not only to the laid down policy of improving the economy and living standards of the inland provinces but also to the alleviation of the drastic shortage of power and other resources in the coastal regions.

Measures against excessive investment in the cement industry should benefit established cement producers like your Group as overbuilding by speculative investors as well as weaker competitors without sufficient financial resources will be halted, thus reducing unhealthy competition.

As a result of the tighter control on the industry, our acquisition of strategic cement operations in Chongqing and Guizhou is expected to continue at a faster pace in the coming year. With construction of new kilns, the capacities in Chongqing and Guizhou should reach 9 million tonnes per annum (“t.p.a.”) and 2.5 million t.p.a. respectively by 31 March 2005, exceeding our original targets.

Our expanded capacity enabled us to maintain the same level of profit despite rising production costs during the year. Demand for high grade cement is expected to grow substantially in Western China. In the medium to long term, even moderate growth in the Mainland will ensure the continued expansion of your Group’s cement business.

Chongqing Operation

Chongqing is the designated economic hub of southwest China under the “Go West” policy and, together with its surrounding area, has a population of over 60 million. It is expected to transform into a major industrial, commercial and financial centre in the next 10 years. Following the completion of the two dry kilns in the second half of 2004, TH Cement will further consolidate its leading position, commanding over 70% of the high grade cement market in Chongqing and nearby areas.

At Diwei Cement, the new dry kiln of 1 million t.p.a., when completed, will take the plant’s total capacity to 3.5 million t.p.a. It will serve the market in central and northern Chongqing. The new dry kiln of 1.3 million t.p.a. in Hechuan will expand the plant’s capacity to 2.6 million t.p.a. These two plants, together with the 1 million t.p.a. Qujiang plant just north of Chongqing, will continue to give us a major presence in the market in central and northern Sichuan.

The bridge connecting the Diwei plant to the limestone quarry on the opposite shore of the Yangtze River has been completed. The new joint-venture plant with Chongqing Steel Corporation for the processing of 1 million t.p.a. of steel slag will start production at the end of 2004. Most of the fly ash sources in Chongqing are under TH Cement’s control. These developments will further lower its production cost and enhance its competitiveness.



Guizhou Operation

Your Group's plan to secure a strong foothold in major cities in Guizhou has been progressing well and we expect to have a more substantial share of the high grade cement market in the province in the future.

In 2003, SOCAM signed joint venture agreements with two cement plants in Bijie and Changda in Guizhou, increasing its annual production capacity in the province by 600,000 tonnes. Studies into the feasibility of adding three new dry kilns in Zunyi in the north, Shuicheng in the west and Qiandongnan in the southeast are underway. Meanwhile, your Group is accelerating the acquisition of smaller cement plants in all areas in which it operates.

A licence to sell high grade cement has been granted to the greenfield Dingxiao plant in Qianxinan, the southwestern prefecture. All plants in Guizhou will have a busy schedule in the year ahead to meet increasing demand. Despite this, competition in Zunyi will remain fierce due to the large number of small players there.

Overall profitability in Guizhou is expected to improve in the future when your Group's capacity surpasses 4 million t.p.a. and it enhances its market position.

Nanjing Operation

In line with the acute shortage of cement along the coastal region, the prices of cement in Nanjing saw a sharp increase from the third quarter of 2003. Most sales of Jiangnan Cement have been on a cash basis and past debts were cleared quickly. Although capacity utilisation was high during the year, low prices prevailed, resulting in a loss. As part of the government's reform initiative, the Nanjing authorities have invited tenders for the acquisition of the remaining 40% of Jiangnan Cement. Your Group has expressed interest.

Major Development

In mid June 2004, your Group entered into a framework agreement with the Yunnan authorities to form a joint venture and acquire an 80% interest in Kunming Cement and Kaiyuan Cement, two of the biggest cement operators in Yunnan, a major province in the southwestern region of China. The combined production capacity of the joint venture will reach 4.5 million t.p.a. when two new dry rotary kilns commence production. This investment will further strengthen your Group's leading position in the cement market in southwestern China. Lafarge, the largest cement group in the world with consolidated sales of around 110 million tonnes in 2003, has been granted an exclusive option to acquire 50% of your Group's shareholding in this joint venture within nine months of June 2004. It will provide free technical assistance to your Group to assess various technical and operational aspects of the production facilities of the joint venture during the exercise period of the option.

With its rich natural resources, Yunnan is one of the strategically important provinces under the "Go West" policy. The Central Government's strategy to foster links with Asean countries will further boost economic development in Yunnan, which is adjacent to Thailand, Myanmar and Laos and is close to other Asean countries. The addition of the Yunnan plants is an important step in strengthening our presence in central and western China.



PROPERTY DEVELOPMENT IN THE CHINESE MAINLAND Rui Hong Xin Cheng (RHXC)

RHXC, also known as Rainbow City, is a residential housing development located on a 40-hectare site in Shanghai's Hongkou District, within 10 minutes by car from the Bund. Upon completion, it will comprise more than 90 blocks of high-rise residential buildings with about 12,000 quality residential units as well as retail and community facilities.

The pre-sale of the first seven residential blocks in the current phase in October 2003 met with an overwhelming response. Almost all units were sold immediately, at an average price of around RMB7,900 per square metre, generating a sizeable profit for the year under review.

Shui On Land (" SOL ")

SOL, established recently by the private arm of the Shui On Group for property development and investment in the Chinese Mainland, is intended to be the flagship property company of the Shui On Group. The objective is to grow the entity into a premier real estate developer, owner and operator in the Chinese Mainland. In May 2004, Rainbow City development was injected into SOL in return for a US\$130 million equity interest. In addition, your Group will receive bonus shares worth US\$8.8 million if certain performance targets on the sale of Rainbow City are met. The capital gain will be recognised in the 2004/2005 financial year. Your Group has also subscribed US\$25 million junior preference shares in SOL and a further US\$25 million will be taken up. Assuming all preference shares in SOL are fully subscribed for, your Group will hold a 20.7% stake in the newly established company. This transaction was approved unanimously by independent shareholders at a Special General Meeting on 15 April 2004 and SOL started operation in June 2004.

In addition to generating a substantial premium on the injection of Rainbow City development into SOL, the transaction will also enable your Group to benefit from SOL's portfolio of properties for sale and for rental which will produce steady, recurrent rental income as well as development profits and capital appreciation opportunities.

SOL focuses on two key segments in the Mainland property market: City Core Development Projects, which are large-scale, mixed-use redevelopments, and Integrated Residential Development Projects, which are high-quality developments offering full amenities. Up to the date of this report, SOL's portfolio includes the Taipingqiao Redevelopment Project (comprising the world-renowned Shanghai Xintiandi, Corporate Avenue and luxury residential developments) and Rainbow City in Shanghai with total buildable space of more than two million square metres.

SOL's group of investors includes ERGO Tru Asia Limited, Metro Holdings Limited, Citigroup Venture Capital International, Ocean Equity Holdings Limited, Value Partners Funds, Standard Chartered Bank, Shanghai Hotel Investments Limited and Jebsen & Company Limited.

VENTURE CAPITAL

Your Group owns 66% and 75% respectively of two venture capital funds, namely The Yangtze Ventures Limited and The Yangtze Ventures II Limited (collectively "YVF"). Up to the date of this report, the sum of the first fund is fully invested while the second fund is partially invested.



YVF has made seven direct investments. In April 2004, one of its investments, Solomon Systech (International) Limited (“SSL”), among the largest global suppliers of displays and integrated circuits for mobile phones, was successfully listed on the Main Board of the Hong Kong Stock Exchange. One-third of YVF’s stake in SSL was sold during the initial public offering at an estimated profit of HK\$97 million, of which HK\$64 million will be attributable to your Group.

Another investment in the portfolio, China Infrastructure Group, owns and operates two container ports in Zhapu and Wuhan in China. The investment in Zhapu, near Shanghai, was successfully disposed of recently and the attributable share of the sale proceeds is expected to be channelled to your Group before the end of 2004. The port operation in Wuhan is planned to be listed on the GEM Board of the Hong Kong Stock Exchange. The whole investment is expected to bring a substantial profit to your Group in the coming year.

Another investment, engaged in the development and manufacturing of nutrition products that increase productivity and enhance immunity of livestock, may also be listed within the next financial year.

YVF has also invested in a Shanghai-based integrated circuit design company, Apexone Microelectronics Inc., which has recently attracted two of the largest United States venture capital funds to invest a total of US\$10 million in the company in the second round of fund raising. Based on the latest subscription prices, the value of YVF’s investment has increased fourfold.



CONSTRUCTION IN HONG KONG

The economic downturn in Hong Kong continued in the first half of the year. In the second half of the year, buoyant trade, the disappearance of SARS and closer linkage with the Mainland boosted the Hong Kong economy and acted as a catalyst to recovery in the property market. The Government is still cautious in public works spending during this revival and the construction industry has reaped little meaningful benefit.

Four Architectural Services Department (“ASD”) projects and a Hong Kong Housing Authority (“HKHA”) project, secured in the previous year, contributed to a turnover of HK\$2,440 million for the year, representing an increase of 38% from the previous year. Due to the slim tender margins on these contracts, pre-tax profits fell by 79% to HK\$6 million.

The Government’s fiscal deficit also adversely affected the implementation of public projects. The Central Government Complex at Tamar was suspended and a number of tenders were either cancelled or delayed as the Government re-set its priorities.

Downsizing continued in the construction division to maintain a lean and efficient organisation, which could quickly be strengthened should there be a market recovery.



Public Housing – Shui On Building Contractors (SOBC)

The value of public housing works performed for the HKHA totalled HK\$1,140 million, equivalent to 47% of the turnover for the year. One contract - the Redevelopment of Tai Wo Hau Estate Phase 6 comprising 510 residential units - was completed. Only a handful of new works tenders were issued by the HKHA during the year and SOBC won the Fanling Area 36 Phase 3 Development at HK\$380 million.

SOBC succeeded in securing several maintenance works contracts during the year, including the District Term Contract for Ma On Shan at HK\$80 million, the District Term Contract for Tuen Mun West at HK\$140 million and other maintenance works totalling HK\$40 million.

The HKHA has recently sold some of its remaining Home Ownership Scheme flats to the Government for use as quarters for disciplinary forces. Retail and car-parking facilities in existing housing projects will also be packaged for public listing on the Hong Kong Stock Exchange. These actions should alleviate its stretched financial position and give it a better chance to fulfil its forecast of providing 90,000 rental flats within five years and provide a steady workload in the market.

Other Government and Institutional Buildings – Shui On Construction (SOC)

Two contracts were completed, namely, the Welfare Complex at Lai King Headland and the Structural Systems Design and Construction of Schools in Areas 20 and 40 in Tung Chung.

With the gradual economic recovery and improvement in the fiscal deficit, the Government should be able to adhere to its commitment to provide more infrastructure projects for the construction industry.

Renovation and Fitting-out – Pat Davie

The improving economy helped to revive the long stagnant fitting-out market in Hong Kong, enabling Pat Davie to be profitable during the year. A number of large contracts were won, including the fitting-out of 170,000 square feet of prime office space for UBS AG Hong Kong Branch in the International Finance Centre II, two contracts for the Disneyland hotels and a substantial refurbishment contract from the Hong Kong Housing Society for 1,500 units in Serenity Place, a Sandwich Class Housing Scheme project to be converted for sale as private residential units.

The Shanghai fitting-out market is still in its development stage. Pat Davie was closely involved with consultancy work for the private group's substantial development projects adjacent to Shanghai Xintiandi during the year, with a view to establishing a fully-fledged operation when it is viable to do so.

Contracts on hand

At 30 June 2004, the gross and outstanding value of contracts on hand of the construction division amounted to approximately HK\$3.4 billion and HK\$2.0 billion respectively.



CONSTRUCTION MATERIALS IN HONG KONG AND THE PEARL RIVER DELTA

Ready-mixed concrete – Ken On *Hong Kong*

The concrete market in Hong Kong experienced a continued downturn during the year due to sluggish construction activities and the vicious price war started about three years ago. Both the market volume and selling prices reached new lows. Compared with the record sales of around 11 million cubic metres in 1997, the market shrank more than 50% to around 5.5 million cubic metres in 2003.

Although the price war has ended and two of the major players have merged, consolidation of the industry is expected to continue. Selling prices have re-bounded to over HK\$400 per cubic metre but the total volume of prospective orders remains below 5 million cubic metres a year as there are few infrastructure and construction works in the pipeline.

Under these very difficult market conditions, Ken On incurred a substantial operating loss for the second consecutive year, with sales volume falling by around 23% year-on-year. Ongoing cost-cutting measures were implemented, including the closure of the two batching plants in Chai Wan and Tai Lam Kok. Raw material and cartage costs were also reduced. Ken On continued to share the production facilities at Shatin and Yau Tong with other concrete operators, while the Tsing Yi plant became the key production centre and distribution depot for cement and aggregates.

During the year, Ken On produced 470,000 cubic metres of concrete and mortar products. The prospects for the coming year indicate a possibly lower level of production.

Guangzhou

The newly established concrete batching plant at Panyu started to serve the orders offered by large-scale infrastructure projects there such as the Guangzhou Metro expansion project, while the production line at Xinzhou served the southeastern part of Guangzhou City. The combined production volume of these two plants dropped by 11% to 370,000 cubic metres due to intensified market competition. Exacerbated by reduced gross margins and the write-off of certain assets of the Nanhai plant closed at the beginning of the year, the Guangzhou operations registered a loss during the year.

Quarrying Operations

Your Group's output of rocks decreased due to weak concrete demand in Hong Kong. Production of aggregates and other rock products fell by approximately 30% to 2 million tonnes, while prices of diesel oil and steel parts rose in the Mainland. As a result, the quarrying business recorded a loss during the year.

The site formation contract in Guishan Island, Zhuhai, continued to provide crushed rocks as by-products for the Group. Chik Wan's quarrying activities were halted following the completion of projects on hand and the Hong Kong Government's postponement of the Central Reclamation Phase 3 and other large-scale projects.



MATERIALS TRADING

Cement Import and Distribution

The cement market in Hong Kong continued to be affected by reduced construction activities and the overall market size decreased by about 10% during the year. A total of 230,000 tonnes of cement and clinker were imported from Japan, handled and processed at the Group's Tsing Yi depot and external grinding facility in Green Island. The Chai Wan depot ceased operation as part of the Group's rationalisation programme.

Asia Materials

Asia Materials registered a considerable increase in turnover during the year and has significantly reduced its loss. It has been supplying wood materials to manufacturers in the Mainland and the United States and aims to develop an effective supply chain with key customers. It also acts as the procurement consultant for the Las Vegas Sands casino project in Macau, sourcing a wide range of furniture, fixtures and equipment. This project is targeted for completion in July 2004. Negotiations with the Venetian Group in the United States to provide materials procurement and supply chain management services to its mega hotel and resort projects in Macau and Las Vegas progress satisfactorily.

PROSPECTS

The Group has successfully evolved from a Hong Kong-based firm into a Mainland-oriented company. Increasing urbanisation, combined with growing income and expanding financing options, are likely to result in buoyant markets for Shui On's urban property developments in the Mainland. China's economy grew at a rate of 9.1% in 2003 and is expected to grow at a steady and healthy pace in the coming years.



This implies substantial prospects for the property business. Substantial infrastructure investments and the Central Government's transfers are likely to stimulate further development in the building materials markets in central and western China, again providing opportunities for your Group's cement operations in these regions. The recent credit tightening and macroeconomic policy measures designed to prevent overheating in the economy are expected to enable strong players including SOL and your Group to benefit from reduced competition and healthy long term growth of the industries concerned.

Through SOL, your Group has invested in a large and diversified portfolio of real estate in the Mainland. This enables your Group to tap the rapidly expanding real estate market in the Mainland, benefit from SOL's strong capital appreciation and recurring income stream, and fortify its earnings in coming years.

Your Group's recent investment in the two biggest cement plants in Yunnan will not only lift the total production capacity of high grade cement in excess of 16 million t.p.a. in the central and western regions by end of this year, but also allow it to actively participate in the modernisation and restructuring of the Mainland cement industry. If the option to participate in your Group's Yunnan joint venture is exercised by Lafarge, it could mark the beginning of a long term co-operation.

With the rapid business development in the Mainland, the Directors of your Group are confident that, barring unforeseen circumstances, significant profit growth should be achieved in the coming year.



FINANCIAL REVIEW

Liquidity and Financing

As at 31 March, 2004, your Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK\$779.7 million (2003: HK\$1,174.2 million).

The Group's gearing ratio, calculated on the basis of net bank borrowings (i.e. total bank borrowings less bank balances, deposits and cash) over shareholders' equity, decreased to 56% at 31 March, 2004 from 97% at 31 March, 2003.

Treasury Policies

Bank borrowings are mainly dominated in Hong Kong dollars and have been arranged on a floating rate basis. Appropriate hedging products will be utilized, if necessary, to minimize interest rate exposure. Investments in the Chinese Mainland are partly financed by borrowings from Hong Kong. Given that the exchange rate of Hong Kong dollar against Renminbi has been and will likely remain stable, and that income from operations in the Chinese Mainland are denominated in Renminbi, your Group expects that fluctuation in the Renminbi exchange rate will not pose a substantial negative effect on the business performance and the financial status of the Group. Therefore no hedging against Renminbi exchange risk has been made.

EMPLOYEES

At 31 March, 2004, the number of salaried staff of the Group was approximately 1,290 in Hong Kong and 12,250 in subsidiaries and jointly controlled entities in the Chinese Mainland. As the Group recognizes human resources to be one of the major driving forces of profitability and business growth, employees' remuneration packages are maintained at competitive levels. Employees are rewarded on a

performance-related basis within the general framework of the Group's salary and bonus systems. Other staff benefits include provident fund schemes, medical insurance, in-house training and subsidies for job related seminars, and programmes organized by professional bodies and educational institutes. Share options are granted annually by the Board of Directors to senior management staff members as appropriate. Likewise in the Chinese Mainland, staff benefits are commensurate with market levels, with an emphasis on provision of training and development programmes and resources.

CORPORATE GOVERNANCE

I. Audit Committee

During the year ended 31 March, 2004, the Committee comprises two independent non-executive directors, Mr. Anthony Griffiths (chairman of the Committee) and Professor Michael John Enright. An additional independent non-executive director, Mr. Marvin Cheung Kin Tung, was appointed as member of the Committee in July 2004.

The Committee met five times during the year to examine the completeness of the financial statements of the Group and to review effectiveness of systems of internal control as well as other major operational or financial issues. The two independent non-executive directors and the chief internal auditor attended all meetings and, by invitation, the finance director and representatives of the external auditors attended. The company secretary acts as the secretary to the Committee, ensuring full minutes of all meetings are kept and circulated.

The Committee adopts an internal audit work plan each year, monitoring both the progress and the staffing, inclusive of development, of the Internal Audit department. During the year, the Committee reviewed assignments completed in accordance with the work plan and examined the following key issues:



- The identification and management of the business risks of the major operations in both Hong Kong and the Chinese Mainland.
- The effectiveness of internal control systems designated for procurement, accounts payable and payment functions.
- The critical evaluation of selected business operations from a risk perspective.
- The adequacy of the provision for doubtful debts included in the financial statements.
- The changes in accounting policies and the financial impact of new accounting practices on the Group.

The Committee also reviewed the results announcements, the interim and annual reports, connected party transactions and other items requiring the Committee's review as specified in the Hong Kong Stock Exchange Listing Rules/ financial oversight regulations.

The Committee was generally satisfied with what it found. In the future, considerable emphasis will be placed on the identification, management of and accounting for business risks.

II. Remuneration Committee

1. Role and composition of the Committee

The Committee was established in April 2002 to advise the Board of Directors on the remuneration and terms and conditions of employment of the executive directors. During the year ended 31 March, 2004, the Committee comprises Chairman of the Company, Mr. Vincent Lo Hong Sui and the Group's independent non-executive directors, Mr. Anthony Griffiths and Professor Michael John Enright. One of the independent non-executive directors, Mr. Anthony Griffiths, is the Chairman of the Committee. An additional independent non-executive director, Mr. Marvin Cheung Kin Tung, was appointed as member of the Committee in July 2004.



The Committee is responsible to:

- (a) propose and review reward policies for executive directors;
- (b) propose share option awards to individual executive directors; and
- (c) approve salary and bonus awards for individual executive directors.

2. Compensation philosophy and practice

The objective of the Committee is to attract, motivate and retain senior executives to formulate and implement appropriate strategies, which are in the best interest of the shareholders.

The Committee met three times during the financial year ended 31 March, 2004 and reviewed the annual share option grants made in mid 2003; discussed the timing for future bonus distribution; initiated the arrangement of an executive compensation benchmarking survey and reviewed the performance of grantees of the mega grant of options made in August 2002.

III. Code of Best Practice

The Company has complied throughout the year ended 31 March, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Bye-laws.

Choi Yuk Keung, Lawrence

VICE - CHAIRMAN

Hong Kong, July 2004

Diversified investments in the thriving Mainland property market

Through the injection of Rui Hong Xin Cheng development (also known as Rainbow City) and US\$50 million cash into Shui On Land Limited (SOL), the newly established flagship property firm of Shui On Group (SOCAM's privately held parent company), your Group now enjoys bigger and broader property development opportunities in the dynamic Mainland market.



SOL consolidates Shui On Group's prime developments together with two decades of experience in the Chinese Mainland. It focuses on two key business segments: City Core Development Projects, which are large-scale, mixed-use redevelopments, and Integrated Residential Development Projects, which are high-quality developments offering full amenities and consistent with overall city infrastructure planning. Your Group's stake in SOL allows it to benefit from SOL's well-balanced portfolio of properties which will produce steady, recurrent rental income as well as development profits and capital appreciation opportunities.



atlandi
ARK
LIVE HOUSE

atlandi
ARK
LIVE HOUSE



Taipingqiao: A city within city

A city core development encompassing 1.3 million square metres of mixed commercial and residential developments in the heart of Shanghai, the Taipingqiao Redevelopment Project blends the architecture and charm of Old Shanghai with modern features and facilities.

The main components of this project are Shanghai Xintiandi, Corporate Avenue and luxury residential developments. At the centre is a 44,000-square-metre green area containing the largest man-made lake in downtown Shanghai, creating a desirable environment and unrivalled views for the whole development.

Shanghai Xintiandi

This internationally acclaimed restoration area of premium commercial buildings houses some of Shanghai's most popular restaurants, bars, shops and boutiques, and covers a total gross floor area of 56,000 square metres.

Shanghai Xintiandi is a re-creation of a sprawling "Shikumen" residential area, with courtyard houses and stone-framed entrances, an architectural symbol of early 20th century Shanghai.

With its postmodern "yesterday-meets-tomorrow" design concept, Shanghai Xintiandi has won various awards including the Urban Land Institute's 2003 Award for Excellence, which is widely seen as the development community's most prestigious recognition.

Corporate Avenue

Located on the bustling Hubin Road at the north end of Taipingqiao Lake, this project features Grade A office buildings and a commercial and entertainment complex, covering a total gross floor area of 560,000 square metres. Offering the latest "smart" building services and facilities, Corporate Avenue is developed for multinational companies in Shanghai and is destined to become the core of the Luwan business district in downtown Shanghai.

The first phase comprises Corporate Avenue One and Two which recall the Art Deco style that is characteristic of Shanghai's architecture in the 1930s. Completed at the end of 2003, this phase has a total gross floor area of 78,000 square metres.

Luxury Residential Developments

Located on the southern side of Taipingqiao Lake, the extensive lakeside luxury residential developments cover a total gross floor area of 614,000 square metres and are within walking distance of the renowned shopping and entertainment area Shanghai Xintiandi.

The first phase, Lakeville, recalls the style of Old Shanghai Shikumen courtyard houses and features low-rise apartment buildings, high-rise buildings and individual villas. The second phase, which has a gross floor area of more than 137,000 square metres, will be put to the market at the end of 2004.





Rui Hong Xin Cheng (Rainbow City): Modern urban living

Rainbow City is an integrated residential development targeting the fast growing young, professional and upwardly mobile segment of the Shanghai market. Covering 40 hectares, the project transforms existing neighbourhoods into a modern residential community complete with full amenities.

Upon completion, it will comprise over 90 blocks of high-rise buildings with 12,000 units, underground car parks, shopping centres and clubhouses. Approximately 30% of the total site will be landscaped, open area.

Rainbow City is conveniently located in Hongkou district in Shanghai with strategic proximity to several leading universities, a new subway line and the central business district.



Xihu Tiandi

“XINTIANDI” BY THE WEST LAKE

A city core development focused on entertainment and recreation with a total gross floor area of 58,000 square metres, Xihu Tiandi is situated beside Hangzhou’s celebrated West Lake, one of China’s most famous and best-loved areas of natural beauty. The project features retail and dining facilities in restored historic buildings and an extensively re-landscaped lakeside public park, and will set both environmental and building standards that are only beginning to be adopted in some of the world’s most advanced development projects.

With the successful launch of the first phase of Xihu Tiandi in mid 2003, SOL is exploring larger development opportunities in Hangzhou.

Hualongqiao

MANUFACTURING SUPPORT CENTRE OF CHONGQING

Hualongqiao is a city core development project adjacent to the central business district in the Yuzhong District in Chongqing, the officially designated economic hub of Southwest China. As the manufacturing support centre of Chongqing, Hualongqiao will comprise business service facilities including an exhibition and merchandise mart, luxury hotels, intelligent office buildings as well as residential clusters and dining, shopping and entertainment amenities. A total gross floor area of 2.8 million square metres will be completed in phases within 10 years.





DIRECTORS

Executive Directors

Lo Hong Sui, Vincent GBS JP

Aged 56, has been the chairman of the Company since 1997. He is chairman and chief executive of the Shui On Group which he founded 33 years ago. He is also chairman of Shui On Land Limited, which he established in 2004. He is a member of The Tenth National Committee of Chinese People's Political Consultative Conference, the founding chairman and current president of the Business and Professionals Federation of Hong Kong, the president of Shanghai - Hong Kong Council for the Promotion and Development of Yangtze, a vice chairman of All-China Federation of Industry and Commerce, an economic advisor of the Chongqing Municipal Government, a vice chairman of the Chamber of International Commerce Shanghai, a member of the Greater Pearl River Delta Business Council, court member of the Hong Kong University of Science and Technology, a member of HK US Business Council - HK Section, an advisor to HK-Thailand Business Council, a director of The Real Estate Developers Association of Hong Kong, an advisor to Chinese Society of Macroeconomics, an advisor to Peking University China Center for Economic Research, a council member of the China Overseas Friendship Association, a director of Great Eagle Holdings Limited, a non-executive director of Hang Seng Bank Limited and New World China Land Limited, and an independent non-executive director of China Telecom Corporation Limited.

He was awarded the Gold Bauhinia Star in 1998 and appointed Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region. He was made an Honorary Citizen of Shanghai in 1999. He was named Businessman of the Year by the Hong Kong Business Awards in 2001 (sponsored by DHL and the South China Morning Post) and won the Director of the Year Award in the category of Listed Company Executive Directors from the Hong Kong Institute of Directors in 2002.

Wong Ying Wai, Wilfred JP

Aged 51, is currently vice-chairman of the Company and Shui On Holdings Limited. He was appointed as director of Shui On Land Limited in February 2004. He had been a non-executive director of the Company since 1997. In September 2000, he was re-designated as executive director of the Company and also appointed as managing director of Shui On Holdings Limited. He is a Deputy to The Tenth National People's Congress, chairman of HKSAR Social Welfare Advisory Committee, member of HKSAR Public Service Commission, trustee of the Business and Professionals Federation of Hong Kong, vice president of the Shanghai - Hong Kong Council for the Promotion and Development of Yangtze, Chairman of Hong Kong International Film Festival Society Limited, deputy chairman of the Court and Council of Hong Kong Baptist University and council member of the Hong Kong University of Science and Technology. He was educated at Harvard University, Oxford University, the University of Hong Kong and the Chinese University of Hong Kong.

Wong Yuet Leung, Frankie

Aged 55, was the vice-chairman of the Company from 1997 to 2004 and was appointed as Chief Executive Officer of the Company in July 2004. He joined the Shui On Group in 1981 and has been managing director of Shui On Holdings Limited since 1991. He was appointed as director of Shui On Land Limited in May 2004. Prior to joining the Shui On Group, he had many years of banking experience with several major international banks in Hong Kong. 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 50, has been the managing director of the Company from 1997 to 2004 and was appointed vice-chairman of the Company in July 2004. He has also been an executive director of the Shui On Group since 1990 and was appointed as director of Shui On Land Limited in May 2004. 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 is a member of the Standing Committee of the Ninth Guizhou Provincial Committee of the Chinese People's Political Consultative Conference. He joined the Shui On Group in 1973 and has over 30 years of experience in construction. He holds a Bachelor of Science degree in Engineering from the University of California, Berkeley.

Wong Hak Wood, Louis

Aged 53, has been an executive director of the Company since 1997 and was appointed the managing director of Shui On Properties Limited and executive director of Shui On Holdings Limited in November 2002. He was also appointed as director of Shui On Land Limited in May 2004. He joined the Shui On Group in 1981 and has been directors of various major operations in the construction and construction materials divisions of the Group since 1993. 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 a member of Chinese People's Political Consultative Conference Committee of Luwan District of Shanghai, a council member of the Hong Kong Construction Association, director of the Real Estate Developers Association of Hong Kong, governing council member of Construction Industry Institute Hong Kong, a member of the Occupational Safety and Health Council, honorary president of the Hong Kong Institution of Construction Engineers, chairman of the Departmental Advisory Committee for Department of Building and Construction of the City University of Hong Kong. He has also served as a member of the Construction Industry Training Authority, 1st vice president of the Hong Kong Construction Association, a member of the Construction Advisory Board of the Works Bureau, a member of the Provisional Construction Industry Co-ordination Board and a member of the Corruption Prevention Advisory Committee of Independent Commission Against Corruption.

Wong Fook Lam, Raymond

Aged 49, has been an executive director of the Company since 1997. He joined the Shui On Group in 1989 and has been an executive director of Shui On (Contractors) Limited since 1993. 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.

Lowe Hoh Wai Wan, Vivien

Aged 55, has been an executive director of the Company since 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**Griffiths, Anthony**

Aged 60, has been an independent non-executive director of the Company since 1997. He is also a non-executive director of Crystal International Limited and the independent non-executive director of Manulife Provident Trust Funds Company Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Institute of Management Consultants (Hong Kong Branch) and the Hong Kong Institute of Directors. He is the Chairman of the Audit and Remuneration Committees of the Company. He was also appointed as director of Shui On Land Limited in May 2004.

Professor Enright, Michael John

Aged 45, has been an independent non-executive director of the Company since 2000. He is an expert on business strategy and international competition. He joined the faculty of the University of Hong Kong in 1996 where he is the Sun Hung Kai Professor of Business Administration and Director of the Asia-Pacific Competitiveness Programme at the Hong Kong Institute for Economics and Business Strategy. Professor Enright received his Bachelor's degree in Chemistry, Master's degree in Business Administration and Doctor of Philosophy degree in Business Economics from Harvard University. Before coming to Hong Kong, Professor Enright spent six years as a professor at the Harvard Business School. Professor Enright is also an independent non-executive director of Johnson Electric Holdings Limited. He was also appointed as director of Shui On Land Limited in May 2004.



Cheung Kin Tung, Marvin

Aged 56, was appointed as independent non-executive director of the Company in July 2004. He is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Society of Accountants. He joined KPMG Hong Kong in 1969 and was admitted into the partnership in 1974. He was elected the chairman and chief executive officer of KPMG Hong Kong on 1 October 1996 and retired on 31 March 2003. Mr. Cheung is chairman of the Listing Committee of the Main Board and GEM of the Stock Exchange of Hong Kong Limited. He is also a board member of the Airport Authority, a non-executive director of Hang Seng Bank Limited, vice-chairman of the Council of Hong Kong University of Science and Technology and a council member of the Open University of Hong Kong. Mr. Cheung was formerly the chairman of the Hong Kong Society of Accountants.

SENIOR MANAGEMENT

Chan Cheu Hung, William

Aged 56, is an executive director of Shui On Building Materials Limited, Ken On Concrete Company Limited and Lamma Rock Products Limited. He has been working in the Shui On Group for over 20 years. He holds a Master's degree in Business Administration and is a Fellow of the Institute of Quarrying.

Leich, John

Aged 53, is an executive director of Ken On Concrete Company Limited, Lamma Rock Products Limited, Instant Mortars Limited and Shui On Cement Limited. He joined the Shui On Group in 1992 and has over 25 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 51, is the executive director of Shui On Building Contractors Limited and Shui On Construction Company Limited. He has been working in the Shui On Group since 1985 and has over 25 years of experience in construction. He is currently the deputy honorary treasurer of the Hong Kong Construction Association and the 1st vice chairman of its Building Committee. He holds a Bachelor of Science degree in Civil Engineering and is a chartered civil engineer.

Leung Kam Woon, Barnabas

Aged 57, is the business development director of the construction materials division. He joined the Shui On Group in 1978 and is currently involved in the cement business in Chongqing. He holds Master's degrees in Management Science and 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 58, 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.

Li Chun Ki, Stephen

Aged 51, is the general manager – projects of Shui On Building Contractors Limited and Shui On Construction Company Limited. He joined the Shui On Group in 1985 and has over 25 years of experience in construction. He holds a Bachelor of Applied Science degree in Civil Engineering and is a chartered civil engineer.

Kong Hon Ling, Frank

Aged 52, is the general manager of Shui On Cement (Guizhou) Limited and is responsible for the management and development of the cement business in Guizhou. He joined the Shui On Group in 1982 and has ample experience in

quarrying and management of cement operations in the Chinese Mainland. 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.

Wong Leung Bing, Tony

Aged 53, is the technical director of the construction materials division. He has worked in the Shui On Group for over 20 years. He has over 25 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.

Chan Ngai Shing, David

Aged 49, is the deputy general manager – projects of Shui On Building Contractors Limited. He joined the Shui On Group in 1989 and has over 20 years of experience in construction. He holds a Bachelor's degree in Civil Engineering and a Master's degree in Civil Engineering both from the University of McMaster and is a chartered civil engineer.

Wong Kam Lor, Dennis

Aged 48, is the vice president of Asia Materials Limited and is primarily responsible for the company's business development and operations in the Chinese Mainland. He joined the Company in 2000 and has over 20 years of experience in corporate development, financial planning and accounting. He is a Fellow of the Hong Kong Society of Accountants and an Associate of the American Institute of Certified Public Accountants.

Li Chi Keung, Evans

Aged 43, is the financial controller of Asia Materials Limited. He joined the Shui On Group in 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.

Li Kai Man, Maximus

Aged 46, is the general manager – Chongqing of Shui On Building Materials Limited. He is responsible for coordinating the Company's cement interests as well as evaluating potential business opportunities in Chongqing. He joined the Shui On Group in 2002. He holds a Bachelor's degree in Social Science from the University of Hong Kong.

Lee Chun Kong, Freddy

Aged 42, is the general manager - projects & procurement of the Rui Hong Xin Cheng property development project in Shanghai. He joined the Shui On Group in 1986. He holds a Master's degree in Construction Management from the City University of Hong Kong and is an Associate of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors.

Tam Ching Wah, Janice

Aged 40, is the company secretary of the Company and has been with the Shui On Group since 1989. She holds a Bachelor's degree in Business and a Master of Science degree in Accountancy from The Hong Kong Polytechnic University. She is a Fellow of the Association of Chartered Certified Accountants and an Associate of the Hong Kong Society of Accountants.

Directors' Report

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

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 37, 38 and 39 to the financial statements respectively.

Results And Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 43.

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

Share Capital

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

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

Reserves

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

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 94.

Investment Property

The Group's investment property was revalued at 31 March, 2004, as set out in note 13 to the financial statements. The revaluation increase amounting to HK\$17.0 million has been credited directly to the consolidated income statement.

Property, Plant And Equipment

With the exception of certain land and buildings of insignificant carrying values where the Directors are of the opinion that their carrying values approximate their fair values, all of the Group's leasehold land and buildings were revalued at 31 March, 2004 with a revaluation increase of HK\$1.1 million, of which HK\$0.5 million and HK\$0.6 million have been credited directly to consolidated income statement and properties revaluation reserve respectively.

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

Major Properties

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

Directors

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

Executive Directors:

Mr. Lo Hong Sui, Vincent

Mr. Wong Ying Wai, Wilfred

Mr. Wong Yuet Leung, Frankie

Mr. Choi Yuk Keung, Lawrence

Mr. Wong Hak Wood, Louis

Mr. Wong Fook Lam, Raymond

Mrs. Lowe Hoh Wai Wan, Vivien

Non-executive Director:

Mr. Cheng Bing Chark, Henry (resigned on 2 September, 2003)

Independent Non-executive Directors:

Mr. Griffiths, Anthony

Professor Enright, Michael John

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

In accordance with the Company's Bye-laws, Mr. Wong Ying Wai, Wilfred, Professor Enright, Michael John and Mr. Cheung Kin Tung, Marvin, shall retire by rotation at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

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

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

Directors' Interests In Shares

As at 31 March, 2004, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Interests in the shares

| Name of Director | Number of ordinary shares in the Company | |
|------------------------------|---|--------------------|
| | Personal interests | Other interests |
| Mr. Lo Hong Sui, Vincent | - | 183,699,000 |
| Mr. Choi Yuk Keung, Lawrence | 602,000 | - |
| Mr. Wong Hak Wood, Louis | 184,000 | - |

Note: The 183,699,000 shares are held as to 166,148,000 shares and 17,551,000 shares by the ultimate holding company, Shui On Company Limited ("SOCL") and Shui On Finance Company Limited respectively, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust. The units of the Bosrich Unit Trust are the property of a discretionary trust of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary. Accordingly, Mr. Lo Hong Sui, Vincent is deemed to be interested in such shares.

Share Options

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

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

Share Options - continued

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

| Name or categories of eligible participants | Date of grant | Subscription price per share | Number of options | | | | | | Period during which options outstanding at 31.3.2004 are exercisable | Company's shares at exercise date of options | Price of |
|---|---------------|------------------------------|-------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------|--|--|----------|
| | | | At 1.4.2003 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | At 31.3.2004 | | | |
| | | | | | | | | | | | |
| Directors | | | | | | | | | | | |
| Mr. Wong Ying Wai, Wilfred | 27.8.2002 | 6.00 | 200,000 | - | - | - | - | 200,000 | 27.2.2003 to 26.8.2007 | | |
| | 27.8.2002 | 6.00 | 5,000,000 | - | - | - | - | 5,000,000* | 27.8.2005 to 26.8.2010 | | |
| Mr. Wong Yuet Leung, Frankie | 7.7.1999 | 11.21 | 200,000 | - | - | - | - | 200,000 | 7.1.2000 to 6.7.2004 | - | |
| | 4.7.2000 | 9.56 | 200,000 | - | - | - | - | 200,000 | 4.1.2001 to 3.7.2005 | - | |
| | 17.7.2001 | 9.30 | 200,000 | - | - | - | - | 200,000 | 17.1.2002 to 16.7.2006 | - | |
| | 27.8.2002 | 6.00 | 160,000 | - | - | - | - | 160,000 | 27.2.2003 to 26.8.2007 | - | |
| | 27.8.2002 | 6.00 | 2,000,000 | - | - | - | - | 2,000,000* | 27.8.2005 to 26.8.2010 | - | |
| Mr. Choi Yuk Keung, Lawrence | 15.7.1998 | 4.14 | 44,000 | - | - | - | (44,000) | - | 15.1.1999 to 14.7.2003 | - | |
| | 7.7.1999 | 11.21 | 280,000 | - | - | - | - | 280,000 | 7.1.2000 to 6.7.2004 | - | |
| | 4.7.2000 | 9.56 | 350,000 | - | (280,000) | - | - | 70,000 | 4.1.2001 to 3.7.2005 | 11.05 | |
| | 17.7.2001 | 9.30 | 350,000 | - | (210,000) | - | - | 140,000 | 17.1.2002 to 16.7.2006 | 11.05 | |
| | 27.8.2002 | 6.00 | 280,000 | - | (112,000) | - | - | 168,000 | 27.2.2003 to 26.8.2007 | 11.05 | |
| | 27.8.2002 | 6.00 | 5,000,000 | - | - | - | - | 5,000,000* | 27.8.2005 to 26.8.2010 | - | |
| Mr. Wong Hak Wood, Louis | 15.7.1998 | 4.14 | 30,000 | - | (30,000) | - | - | - | 15.1.1999 to 14.7.2003 | 4.9 | |
| | 7.7.1999 | 11.21 | 250,000 | - | - | - | - | 250,000 | 7.1.2000 to 6.7.2004 | - | |
| | 4.7.2000 | 9.56 | 280,000 | - | - | - | - | 280,000 | 4.1.2001 to 3.7.2005 | - | |
| | 17.7.2001 | 9.30 | 280,000 | - | - | - | - | 280,000 | 17.1.2002 to 16.7.2006 | - | |
| | 27.8.2002 | 6.00 | 220,000 | - | (88,000) | - | - | 132,000 | 27.2.2003 to 26.8.2007 | 10.6 | |
| | 27.8.2002 | 6.00 | 2,000,000 | - | - | - | - | 2,000,000* | 27.8.2005 to 26.8.2010 | - | |
| Mr. Wong Fook Lam, Raymond | 15.7.1998 | 4.14 | 24,000 | - | - | - | (24,000) | - | 15.1.1999 to 14.7.2003 | - | |
| | 7.7.1999 | 11.21 | 150,000 | - | - | - | - | 150,000 | 7.1.2000 to 6.7.2004 | - | |
| | 4.7.2000 | 9.56 | 160,000 | - | - | - | - | 160,000 | 4.1.2001 to 3.7.2005 | - | |
| | 17.7.2001 | 9.30 | 160,000 | - | - | - | - | 160,000 | 17.1.2002 to 16.7.2006 | - | |
| | 27.8.2002 | 6.00 | 110,000 | - | - | - | - | 110,000 | 27.2.2003 to 26.8.2007 | - | |
| | 27.8.2002 | 6.00 | 2,000,000 | - | - | - | - | 2,000,000* | 27.8.2005 to 26.8.2010 | - | |
| Mrs. Lowe Hoh Wai Wan, Vivien | 15.7.1998 | 4.14 | 24,000 | - | (24,000) | - | - | - | 15.1.1999 to 14.7.2003 | 4.8 | |
| | 7.7.1999 | 11.21 | 150,000 | - | - | - | - | 150,000 | 7.1.2000 to 6.7.2004 | - | |
| | 4.7.2000 | 9.56 | 160,000 | - | - | - | - | 160,000 | 4.1.2001 to 3.7.2005 | - | |
| | 17.7.2001 | 9.30 | 160,000 | - | - | - | - | 160,000 | 17.1.2002 to 16.7.2006 | - | |
| | 27.8.2002 | 6.00 | 110,000 | - | (44,000) | - | - | 66,000 | 27.2.2003 to 26.8.2007 | 8.2 | |
| | 27.8.2002 | 6.00 | 2,000,000 | - | - | - | - | 2,000,000* | 27.8.2005 to 26.8.2010 | - | |
| Sub-total | | | 22,532,000 | - | (788,000) | - | (68,000) | 21,676,000 | | | |
| Other employees | | | | | | | | | | | |
| (in aggregate) | 15.7.1998 | 4.14 | 310,000 | - | (106,000) | (6,000) | (198,000) | - | 15.1.1999 to 14.7.2003 | 4.8 | |
| | 7.7.1999 | 11.21 | 2,090,000 | - | - | (50,000) | - | 2,040,000 | 7.1.2000 to 6.7.2004 | - | |
| | 4.7.2000 | 9.56 | 2,302,000 | - | (828,000) | (80,000) | - | 1,394,000 | 4.1.2001 to 3.7.2005 | 11.5 | |
| | 17.7.2001 | 9.30 | 2,410,000 | - | (838,000) | (100,000) | - | 1,472,000 | 17.1.2002 to 16.7.2006 | 11.4 | |
| | 27.8.2002 | 6.00 | 2,150,000 | - | (694,000) | (100,000) | - | 1,356,000 | 27.2.2003 to 26.8.2007 | 11.3 | |
| | 27.8.2002 | 6.00 | 4,000,000 | - | - | - | - | 4,000,000* | 27.8.2005 to 26.8.2010 | - | |
| | 4.8.2003 | 5.80 | - | 780,000 | (66,000) | - | - | 714,000 | 4.2.2004 to 3.8.2008 | 9.1 | |
| Sub-total | | | 13,262,000 | 780,000 | (2,532,000) | (336,000) | (198,000) | 10,976,000 | | | |
| | | | 35,794,000 | 780,000 | (3,320,000) | (336,000) | (266,000) | 32,652,000 | | | |

As at 13 July, 2004, 32,446,000 shares may be issued upon exercise of all outstanding options granted. This represents approximately 12.1% of the shares in issue.

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

Notes:

- The closing price of the Company's shares preceding the date on which the options were granted was HK\$5.7.
- The price of the Company's shares as disclosed is the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year for each category of eligible participants.

Share Options - continued

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

Apart from the aforesaid, during the year, none of the Directors or the chief executives of the Company or their associates had any interests or short position in any shares, underlying shares or debenture equity of the Company or any of its associated corporations as at 31 March, 2004.

Substantial Shareholders' Interests In Shares

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at 31 March, 2004, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Number of ordinary shares in the Company | Percentage of shareholding in the Company |
|-----------------|--|---|
| Cheah Cheng Hye | 16,666,000 | 6.22% |

Of the 16,666,000 shares, 16,204,000 shares are held by Value Partners Limited which is controlled by Mr. Cheah Cheng Hye.

Arrangement To Purchase Shares Or Debentures

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

Connected Transactions

- a. The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, to use the trademark, trade name "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.
- b. During the year, the Company provided management information systems services to Shui On Investment Company Limited, Shui On Properties Management Limited, Shui On Properties Limited and Centre Top Limited, wholly-owned subsidiaries of SOCL. The services were charged at rates designed to recover the costs and expenses incurred by the Company on a reasonable basis. The aggregate amount charged by the Company for such services for the year was approximately HK\$0.4 million.
- c. The Group occupied an office in Shanghai, the People's Republic of China ("PRC"), which was owned by Shanghai Jiu Hai Rimmer Properties Co. Ltd., a subsidiary of SOCL. The rentals paid during the year amounted to HK\$0.9 million.
- d. The Group paid building management fees of HK\$0.1 million during the year to Shui On Properties Management Limited, a wholly-owned subsidiary of SOCL, in relation to the Group's properties held for sale in Tseung Kwan O.
- e. Pursuant to a relinquishment agreement entered into between Hollyfield Holdings Limited ("Hollyfield"), a wholly-owned subsidiary of the Company, and Shanghai Ruichen Property Company Limited ("Shanghai Ruichen"), a subsidiary of SOCL, on 2 May, 2001 (as supplemented by an agreement dated 22 May, 2001 between these parties), Shanghai Ruichen has agreed, amongst others, to relinquish and surrender the development rights and title of a residential property development in the Hongkou District of Shanghai to Shanghai Rui Hong Xin Cheng Company Limited ("Rui Hong"), a 99% indirectly owned subsidiary of the Company. In consideration of the above, Rui Hong had paid Shanghai Ruichen a sum of RMB184.5 million (approximately HK\$172.4 million). Construction of the superstructure for the project began in July 2002.

On 4 February, 2002, Rui Hong entered into a management agreement with Shanghai Ruichen in relation to the provision of project management, maintenance and sales and marketing services for a residential property development project which is 100% held by Shanghai Ruichen. Under the management agreement, Rui Hong received fees of HK\$5.5 million from Shanghai Ruichen during the year.

- f. On 18 February, 2004, the Group entered into the Rainbow Sale and Purchase Agreement and the Subscription and Shareholders' Agreement (the "Agreements") for co-investment in Shui On Land Limited ("SOL") with the Company's ultimate holding company, SOCL. The Agreements involved the sale to SOL the entire issue share capital of Foresight Profits Limited ("Foresight") and the benefit of the debt owed by Hollyfield (a wholly owned subsidiary of Foresight) to the Company, for an initial consideration (subject to adjustment) of US\$130 million which will be satisfied by the allotment and issue of 130 million ordinary shares in SOL credited as fully paid to the Group. Foresight is the holding company of Hollyfield and Rui Hong, which develops the Rui Hong Xin Cheng project (also known as Rainbow City) in Shanghai. Together with an additional cash injection of up to US\$50 million to be made by the Group of which US\$25 million was paid on 31 May, 2004 for the subscription of the preference convertible shares, the Group shall hold more than 20% interest in SOL upon completion of the Agreements. Details of the transactions are set out in a circular issued to the shareholders dated 23 March, 2004. The Agreements were approved by independent shareholders in a Special General Meeting on 15 April, 2004.

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

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

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

Directors' Interests In Contracts Of Significance

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

Provident And Retirement Fund Schemes

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

Major Suppliers And Major Customers

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

The five largest customers of the Group accounted for approximately 36% of the total turnover of the Group in the year with the largest customer, the Hong Kong Housing Authority, accounting for approximately 30% of the turnover of the Group.

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

Donations

During the year, the Company and its subsidiaries made donations of HK\$0.7 million to business associations and institutions related to the Group's activities.

Pre-Emptive Rights

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

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

(i) Financial assistance and guarantees to affiliated companies

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

| Affiliated companies | Balance as at 31 March, 2004 | | | | |
|---|--|--|--|--|-----------------------|
| | Unsecured loan | | | | |
| | Effective percentage of interest | Interest | Interest | Guarantee given HK\$ million (Note b) | Total HK\$ million |
| | | free with | bearing with | | |
| | | no fixed repayment terms HK\$ million (Note a) | no fixed repayment terms HK\$ million (Note a) | | |
| Allied Well Investment Limited | 50% | 8.4 | - | - | 8.4 |
| Brisfull Limited | 50% | 0.1 | 32.9 | - | 33.0 |
| Guangzhou On Track Construction Precast Products Company Ltd. | 40% | 2.7 | - | - | 2.7 |
| Guizhou Bijie Shui On Cement Co. Ltd. | 79% | 1.4 | - | - | 1.4 |
| Guizhou Dingxiao Shui On Cement Co. Ltd. | 89% | 1.4 | 36.4 | - | 37.8 |
| Guizhou Kaili Ken On Concrete Co. Ltd. | 74% | 1.2 | 1.9 | - | 3.1 |
| Guizhou Kaili Shui On Cement Co. Ltd. | 89% | 5.6 | 20.0 | - | 25.6 |
| Guizhou Xipu Shui On Cement Co. Ltd. | 79% | 3.9 | 67.9 | - | 71.8 |
| Guizhou Yuqing Shui On Cement Co. Ltd. | 79% | 0.2 | - | - | 0.2 |
| Guizhou Zunyi Ken On Concrete Co. Ltd. | 74% | 0.2 | - | - | 0.2 |
| Guizhou Zunyi Shui On Cement Co. Ltd. | 79% | 14.2 | - | - | 14.2 |
| Lamma Yue Jie Company Limited | 60% | 7.9 | - | - | 7.9 |
| Nanjing Jiangnan Cement Company Ltd. | 60% | 89.1 | - | - | 89.1 |
| Shenzhen Lamma Yue Jie Concrete Products Co. Ltd. | 60% | - | - | 10.0 | 10.0 |
| Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited | 50% | 0.2 | - | - | 0.2 |
| Sichuan Hejiang T.H. Cement Co. Ltd. | 89% | 0.5 | 10.7 | - | 11.2 |
| Super Race Limited | 50% | - | - | 5.0 | 5.0 |
| TH Industrial Management Limited | 50% | 253.9 | - | 300.0 | 553.9 |
| The Yangtze Ventures II Limited | 75% | 37.7 | - | - | 37.7 |
| | | 428.6 | 169.8 | 315.0 | 913.4 |

Disclosure Under Rule 13.22 The Listing Rules ("Rule 13.22") - continued

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

Note:

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

| <u>Affiliated companies</u> | <u>Interest rate per annum</u> |
|--|--|
| Brisfull Limited | Hong Kong prime rate |
| Guizhou Dingxiao Shui On Cement Co. Ltd. | Hong Kong interbank offered rate plus 2% |
| Guizhou Kaili Shui On Cement Co. Ltd. | Hong Kong interbank offered rate plus 2% |
| Guizhou Xinpu Shui On Cement Co. Ltd. | London interbank offered rate plus 2% |
| Guizhou Kaili Ken On Concrete Co. Ltd. | Hong Kong interbank offered rate plus 2% |
| Sichuan Hejiang T.H. Cement Co. Ltd. | Hong Kong interbank offered rate plus 2% |

- b. The guarantees given by the Group to Shenzhen Lamma Yue Jie Concrete Products Co. Ltd., Super Race Limited and TH Industrial Management Limited were in favour of certain financial institutions for granting credit and loan facilities to these companies.
- c. All affiliated companies are accounted for as jointly controlled entities of the Group.

Loans to the aforesaid affiliated companies, funded by internal resources and bank borrowings, were made for the purposes of investment and/or working capital.

Additionally, the Company is required under Rule 13.22 to include in its annual report a proforma combined balance sheet of the affiliated companies which should include significant balance sheet classifications and state the attributable interest of the Company in the affiliated companies. By reason of the accounting year-end dates of certain of these affiliated companies not being co-terminus with that of the Company, the Company is of the opinion that it is misleading and not practical to show the proforma combined balance sheet as at 31 March, 2004. Pursuant to Rule 13.22, the Company had made an application to the Stock Exchange of Hong Kong Limited and obtained a waiver of such disclosure by providing the following statement as an alternative:

As at 31 March, 2004, the total exposure on the combined indebtedness (including amounts owing to the Group) and capital commitments reported on by the affiliated companies amounted to approximately HK\$2,132.4 million and HK\$7.8 million respectively. Such affiliated companies reported no contingent liabilities as at 31 March, 2004.

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

The Company has been granted three 3-year term and revolving loan facilities, each amounting to HK\$200.0 million and totalling HK\$600.0 million, in September 2001 and a 3-year term loan facility of HK\$200.0 million in January 2003 which require SOCL and the Chairman of the Group, Mr. Lo Hong Sui, Vincent and his associates (as defined in the Listing Rules) to retain controlling interests of not less than 50% in the Company throughout the tenure of the loan agreements. Breach of this obligation will create a default in respect of these loan facilities.

Post Balance Sheet Events

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

Auditors

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

On behalf of the Board

Lo Hong Sui, Vincent

CHAIRMAN

13 July, 2004



To the shareholders of Shui On Construction and Materials Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 43 to 92 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 circumstances of the Company and the Group, 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, 2004 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

13 July, 2004

Consolidated Income Statement

For The Year Ended 31 March, 2004

| | NOTES | 2004 HK\$ million | 2003 HK\$ million (Restated) |
|---|-------|----------------------|------------------------------------|
| Turnover | | | |
| The Company and its subsidiaries | | 3,590.9 | 2,311.3 |
| Share of jointly controlled entities | | 725.1 | 526.8 |
| | | 4,316.0 | 2,838.1 |
| Group turnover | 4 | 3,590.9 | 2,311.3 |
| Other operating income | 5 | 25.4 | 28.4 |
| Changes in inventories of finished goods, work in progress, contract work in progress, properties held for sale and property under development | | (31.4) | 30.0 |
| Raw materials and consumables used | | (563.7) | (483.9) |
| Staff costs | | (360.4) | (364.2) |
| Depreciation and amortisation expenses | | (42.0) | (45.3) |
| Subcontracting, external labour costs and other operating expenses | | (2,501.0) | (1,500.4) |
| Revaluation increase (decrease) on investment property | | 17.0 | (14.0) |
| Revaluation increase (decrease) on land and buildings | | 0.5 | (2.3) |
| Net realised gain (loss) on disposal of other investments | | 37.9 | (0.1) |
| Net unrealised holding gain (loss) on other investments | | 2.9 | (28.8) |
| Profit (loss) from operations | 6 | 176.1 | (69.3) |
| Finance costs | 7 | (10.3) | (5.9) |
| Share of results of jointly controlled entities | | 34.2 | 30.6 |
| Profit (loss) before taxation | | 200.0 | (44.6) |
| Taxation | 10 | (49.4) | 0.1 |
| Profit (loss) before minority interests | | 150.6 | (44.5) |
| Minority interests | | (2.9) | 0.2 |
| Profit (loss) attributable to shareholders | | 147.7 | (44.3) |
| Dividends | 11 | | |
| Paid | | - | 39.7 |
| Proposed | | 73.7 | - |
| Earnings (loss) per share | 12 | | |
| Basic | | HK\$0.55 | HK\$(0.17) |
| Diluted | | HK\$0.54 | HK\$(0.17) |

Balance Sheets

As At 31 March, 2004

| | | THE GROUP | | THE COMPANY | |
|--|-------|--------------|----------------------------|--------------|--------------|
| | NOTES | 2004 | 2003 | 2004 | 2003 |
| | | HK\$ million | HK\$ million (Restated) | HK\$ million | HK\$ million |
| Non-Current Assets | | | | | |
| Investment property | 13 | 140.0 | 123.0 | - | - |
| Property, plant and equipment | 14 | 168.2 | 197.5 | 0.9 | 1.7 |
| Property under development | 15 | 591.2 | 706.0 | - | - |
| Negative goodwill | 16 | (0.6) | (0.7) | - | - |
| Investments in subsidiaries | 17 | - | - | 291.7 | 291.7 |
| Interests in jointly controlled entities | 18 | 806.1 | 682.8 | - | - |
| Investments in securities | 19 | 25.6 | 135.6 | - | - |
| Club debenture | 20 | 1.2 | 1.2 | 1.2 | 1.2 |
| Site establishment expenditure | 21 | 17.8 | 13.9 | - | - |
| | | 1,749.5 | 1,859.3 | 293.8 | 294.6 |
| Current Assets | | | | | |
| Inventories | 22 | 44.1 | 39.7 | - | - |
| Properties held for sale | | 58.0 | 56.1 | - | - |
| Property under development | 15 | 218.0 | - | - | - |
| Debtors, deposits and prepayments | 23 | 584.3 | 596.8 | 4.0 | 4.8 |
| Amounts due from customers for contract work | 22 | 98.4 | 221.2 | - | - |
| Amounts due from subsidiaries | | - | - | 2,243.4 | 2,071.0 |
| Amounts due from related companies | | 0.2 | 0.4 | 0.2 | 0.4 |
| Amount due from an associate | | 0.1 | 0.6 | - | - |
| Amounts due from jointly controlled entities | | 339.7 | 375.6 | 3.2 | 3.2 |
| Taxation recoverable | | 7.2 | 4.9 | - | - |
| Pledged bank deposit | | 527.8 | - | - | - |
| Bank balances, deposits and cash | | 111.0 | 89.5 | 1.6 | 0.4 |
| | | 1,988.8 | 1,384.8 | 2,252.4 | 2,079.8 |
| Current Liabilities | | | | | |
| Creditors and accrued charges | 24 | 728.9 | 630.0 | 13.8 | 15.5 |
| Amounts due to customers for contract work | 22 | 99.7 | 81.1 | - | - |
| Amounts due to subsidiaries | | - | - | 538.8 | 334.8 |
| Amounts due to jointly controlled entities | | 19.4 | 23.0 | 5.0 | 7.0 |
| Amounts due to related companies | | 0.1 | 0.1 | 0.1 | - |
| Taxation payable | | 46.2 | - | - | - |
| Bank borrowings, due within one year | 25 | 932.5 | 68.9 | 860.0 | - |
| | | 1,826.8 | 803.1 | 1,417.7 | 357.3 |
| Net Current Assets | | 162.0 | 581.7 | 834.7 | 1,722.5 |
| | | 1,911.5 | 2,441.0 | 1,128.5 | 2,017.1 |

Balance Sheets

As At 31 March, 2004

| | NOTES | THE GROUP | | THE COMPANY | |
|--------------------------------|-------|--------------|----------------------------|--------------|--------------|
| | | 2004 | 2003 | 2004 | 2003 |
| | | HK\$ million | HK\$ million (Restated) | HK\$ million | HK\$ million |
| Capital and Reserves | | | | | |
| Share capital | 26 | 268.0 | 264.7 | 268.0 | 264.7 |
| Reserves | 27 | 1,119.2 | 945.3 | 679.3 | 690.4 |
| | | 1,387.2 | 1,210.0 | 947.3 | 955.1 |
| Minority Interests | | 28.6 | 26.1 | - | - |
| Non-Current Liabilities | | | | | |
| Bank borrowings | 25 | 486.0 | 1,194.8 | 180.0 | 1,061.0 |
| Deferred tax liabilities | 28 | 5.6 | 5.0 | - | - |
| Defined benefit liabilities | 29 | 4.1 | 5.1 | 1.2 | 1.0 |
| | | 495.7 | 1,204.9 | 181.2 | 1,062.0 |
| | | 1,911.5 | 2,441.0 | 1,128.5 | 2,017.1 |

The financial statements on pages 43 to 92 were approved and authorised for issue by the Board of Directors on 13 July, 2004 and are signed on its behalf by:

Choi Yuk Keung, Lawrence

VICE-CHAIRMAN

Wong Fook Lam, Raymond

EXECUTIVE DIRECTOR

Consolidated Statement Of Changes In Equity

For The Year Ended 31 March, 2004

| | 2004 HK\$ million | 2003 HK\$ million (Restated) |
|--|----------------------|------------------------------------|
| At the beginning of the year | | |
| - as originally stated | 1,213.4 | 1,306.2 |
| - adjustment on adoption of SSAP 12 (Revised) (note 2) | (3.4) | (8.2) |
| - as restated | 1,210.0 | 1,298.0 |
| Revaluation increase (decrease) on land and buildings | 0.6 | (13.8) |
| Reversal of deferred tax liability arising on revaluation of properties (note 2) | - | 2.0 |
| Exchange differences arising on translation of financial statements | | |
| of operations outside Hong Kong | 1.9 | 6.9 |
| Net profit (loss) not recognised in the consolidated income statement | 2.5 | (4.9) |
| Profit (loss) attributable to shareholders | 147.7 | (44.3) |
| Dividends paid | - | (39.7) |
| Shares issued at premium upon exercise of share options | 27.0 | 0.9 |
| At the end of the year | 1,387.2 | 1,210.0 |

Consolidated Cash Flow Statement

For The Year Ended 31 March, 2004

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| OPERATING ACTIVITIES | | |
| Profit (loss) from operations | 176.1 | (69.3) |
| Adjustments for: | | |
| Interest income | (8.7) | (10.0) |
| Dividends from unlisted investments | (1.9) | - |
| Dividends from listed investments | (1.0) | (6.2) |
| Revaluation (increase) decrease on investment property | (17.0) | 14.0 |
| Revaluation (increase) decrease on property, plant and equipment | (0.5) | 2.3 |
| Net unrealised holding (gain) loss on other investments | (2.9) | 28.8 |
| Depreciation on property, plant and equipment | 38.2 | 41.9 |
| Amortisation of site establishment expenditure | 3.8 | 3.4 |
| (Gain) loss on disposal of property, plant and equipment | (2.4) | 0.9 |
| Write-off of site establishment expenditure | 0.4 | - |
| Gain on dissolution of a jointly controlled entity | - | (2.5) |
| Net realised (gain) loss on disposal of listed investments | (37.9) | 0.1 |
| Release of negative goodwill | (0.2) | (0.2) |
| Decrease in defined benefit liabilities | (1.0) | (3.4) |
| Operating cash flows before movements in working capital | 145.0 | (0.2) |
| Increase in inventories | (4.4) | (6.7) |
| (Increase) decrease in properties held for sale | (1.9) | 1.0 |
| Decrease in debtors, deposits and prepayments | 12.5 | 95.6 |
| Decrease in amounts due from customers for contract work | 122.8 | 44.8 |
| Decrease (increase) in amounts due from related companies | 0.2 | (0.2) |
| Decrease (increase) in amount due from an associate | 0.5 | (0.5) |
| Decrease (increase) in amounts due from jointly controlled entities | 35.9 | (202.3) |
| Increase (decrease) in creditors and accrued charges | 98.9 | (304.4) |
| Increase (decrease) in amounts due to customers for contract work | 18.6 | (66.5) |
| Decrease in amounts due to jointly controlled entities | (3.6) | (0.4) |
| Decrease in amounts due to related companies | - | (0.8) |
| Decrease in property under development | 452.8 | - |
| Cash from (used in) operations | 877.3 | (440.6) |
| Hong Kong Profits Tax paid | (2.9) | (0.1) |
| Hong Kong Profits Tax refunded | 0.2 | - |
| Income tax of other regions in the PRC refunded | 0.1 | 0.3 |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 874.7 | (440.4) |
| INVESTING ACTIVITIES | | |
| Increase in pledged bank deposit | (527.8) | - |
| Additions to property under development | (547.1) | (322.4) |
| Investments in jointly controlled entities | (112.4) | (83.8) |
| Advance to a jointly controlled entity | (8.6) | - |
| Purchase of property, plant and equipment | (16.7) | (28.9) |
| Site establishment costs expended | (5.5) | (0.4) |
| Proceeds on disposal of investments in securities | 150.8 | 34.0 |
| Proceeds from sale of property, plant and equipment | 8.7 | 11.0 |
| Interest received | 8.7 | 10.0 |
| Dividends received from jointly controlled entities | 29.7 | 1.0 |
| Dividends received from unlisted investments | 1.9 | - |
| Dividends received from listed investments | 1.0 | 6.2 |
| Capital distribution from dissolution of a jointly controlled entity | - | 15.3 |
| Purchase of investments in securities | - | (19.5) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,017.3) | (377.5) |

| | 2004 | 2003 |
|--|--------------|--------------|
| | HK\$ million | HK\$ million |
| FINANCING ACTIVITIES | | |
| New secured and unsecured bank loans raised | 293.8 | 886.5 |
| Net proceeds received on issue of shares | 27.0 | 0.9 |
| Repayments of secured and unsecured bank loans | (122.7) | - |
| Interest paid | (18.4) | (19.1) |
| Other borrowing costs paid | (0.8) | (3.4) |
| Net cash (outflow) inflow from minority interests | (0.4) | 1.3 |
| Dividends paid | - | (39.7) |
| Dividends paid to minority shareholders | - | (1.1) |
| NET CASH FROM FINANCING ACTIVITIES | 178.5 | 825.4 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 35.9 | 7.5 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 72.3 | 58.5 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 1.9 | 6.3 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 110.1 | 72.3 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances, deposits and cash | 111.0 | 89.5 |
| Bank overdrafts | (0.9) | (17.2) |
| | 110.1 | 72.3 |

1. General

The Company is 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 ("SOCL"), a private limited liability company incorporated in the British Virgin Islands.

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

2. Adoption Of Hong Kong Financial Reporting Standards

In the current year, the Group has adopted for the first time the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised) - Income Taxes

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly. As a result of this change in policy, the balance of the Group's retained profits at 1 April, 2002 has been decreased by HK\$2.4 million which is the cumulative effect of the change in policy on the results for periods prior to 1 April, 2002. The balance of the Group's properties revaluation reserve at 1 April, 2002 has been decreased by HK\$5.8 million, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group's properties at that date. The effect of the change for the current year is a decrease in profit of HK\$0.6 million (2003: decrease in loss of HK\$2.8 million and increase in properties revaluation reserve of HK\$2.0 million).

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, certain land and buildings and investments in securities.

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

The principal accounting policies adopted are as follows:

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 income statement from the effective date of acquisition or made up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April, 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On the disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill/ goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 April, 2001 continues to be held in reserves and will be credited to the consolidated income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

3. Significant Accounting Policies - continued

Negative goodwill - continued

Negative goodwill arising on acquisitions on or after 1 April, 2001 is presented as a deduction from assets and will be released to the consolidated income statement based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the acquired identifiable depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Revenue recognition

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Development properties

Income from properties developed for sale, where there are no pre-sales prior to completion of the development, is recognised on the execution of a binding sales agreement entered into subsequent to the completion of the development.

Income from properties under pre-sale arrangement prior to completion of the development is recognised on the execution of a binding sales agreement or when the relevant completion certificates are issued by the respective government authorities, whichever is the later. Payments received from the purchasers prior to this stage are recorded as customer's deposits received on sale of properties and presented as current liabilities.

Others

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the Group's right to receive the relevant payment has been established.

3. Significant Accounting Policies - continued

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. They are valued at intervals of not more than three years by independent professional valuers. In each of the intervening years, valuations are undertaken by professionally qualified executives of the Group. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the consolidated income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment, other than certain land and buildings in Hong Kong with significant carrying values and plant under construction, are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than plant under construction, over their estimated useful lives on a straight-line basis at the following rates per annum and after taking into account their estimated residual value, if applicable:

Land and buildings in Hong Kong and other regions
of the People's Republic of China (the "PRC") held
under medium-term leases

| Leasehold land | Over the term of the lease |
|---|----------------------------|
| Buildings | 2.5% |
| Plant and machinery | 10 - 25% |
| Motor vehicles, equipment, furniture and other assets | 20 - 33% |

No depreciation is provided on plant under construction until the assets are completed and put into operation.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

3. Significant Accounting Policies - continued

Property, plant and equipment - continued

Certain 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.

Any increase arising on the revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense 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.

Properties under development

Properties under development are stated at cost less any identified impairment loss.

Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets.

Properties under development which are due for completion within one year from the balance sheet date and are intended to be held for the long term for their investment potential are shown as non-current assets.

Properties under development which are due for completion within one year from the balance sheet date and are intended to be held for sale are shown as current assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss.

Interests in associates

An associate is an enterprise, other than a subsidiary or a jointly controlled entity, over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

3. Significant Accounting Policies - continued

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially recorded at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Club debentures

Club debentures represent membership rights in recreational clubs and are stated at cost less impairment losses recognised.

Site establishment expenditure

Site establishment expenditure for quarrying rights or leased sites is stated at cost less amortisation. Amortisation is provided to write off the cost of site establishment expenditure based on the quarrying capacity or over the duration of the relevant site leases.

3. Significant Accounting Policies - continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure incurred and, where appropriate, financial expenses capitalised. Net realisable value is determined by management based on prevailing market conditions.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts billed for work performed but not yet paid by the customers are included in the balance sheet under debtors, deposits and prepayments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. Significant Accounting Policies - continued

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that other accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. Significant Accounting Policies - continued

Leases

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of operations outside Hong Kong are translated into Hong Kong dollars at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to the translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (the 'MPF Scheme') are charged as an expense as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets.

4. Business And Geographical Segments

Business segments

For management reporting purposes, the Group is currently organised into five operating divisions - construction and building maintenance, sale of construction materials, trading of building materials, property development and property investment and others. These divisions are the basis on which the Group reports its primary segment information.

Turnover represents the revenue arising on construction contracts and building maintenance, net amounts received and receivable for goods sold by the Group to third party customers, less returns and allowances, revenue from property development projects, and rental and leasing income for the year.

4. Business And Geographical Segments - continued

Segment information about these businesses is presented below.

| 2004 | Construction and building maintenance HK\$ million | Sale of construction materials HK\$ million | Trading of building materials HK\$ million | Property development HK\$ million | Property investment and others HK\$ million | Eliminations HK\$ million | Consolidated HK\$ million |
|--------------------------------------|---|--|---|--------------------------------------|--|------------------------------|------------------------------|
| TURNOVER | | | | | | | |
| External sales | 2,439.7 | 305.9 | 150.6 | 679.5 | 15.2 | - | 3,590.9 |
| Inter-segment sales | - | 125.4 | 7.7 | - | 0.3 | (133.4) | - |
| Group turnover | 2,439.7 | 431.3 | 158.3 | 679.5 | 15.5 | (133.4) | 3,590.9 |
| Share of jointly controlled entities | 48.7 | 676.4* | - | - | - | - | 725.1 |
| Total | 2,488.4 | 1,107.7 | 158.3 | 679.5 | 15.5 | (133.4) | 4,316.0 |

Inter-segment sales are charged at mutually agreed prices.

* This represents mainly the Group's effective share of turnover of jointly controlled entities in respect of the cement operations in Chongqing and Guizhou (HK\$570.4 million) and Nanjing (HK\$73.5 million).

RESULTS

| | | | | | | | |
|---|-----|---------|-------|-------|--------|--|--------|
| Segment results | 5.7 | (102.0) | (8.2) | 211.5 | 60.4** | | 167.4 |
| Interest income | | | | | | | 8.7 |
| Profit from operations | | | | | | | 176.1 |
| Finance costs | | | | | | | (10.3) |
| Share of results of jointly controlled entities | | | | | | | |
| • Cement operations in | | | | | | | |
| - Chongqing and Guizhou | - | 41.9 | - | - | - | | 41.9 |
| - Nanjing | - | (7.0) | - | - | - | | (7.0) |
| • Others | 0.8 | (3.2) | - | - | 1.7 | | (0.7) |
| | | | | | | | 34.2 |
| Profit before taxation | | | | | | | 200.0 |
| Taxation | | | | | | | (49.4) |
| Profit before minority interests | | | | | | | 150.6 |

** This comprises mainly profit on disposal of other investments (HK\$37.9 million), revaluation increase on an investment property (HK\$17.0 million) and profit from letting of the investment property (HK\$6.6 million).

BALANCE SHEET

| | Construction and building maintenance HK\$ million | Sale of construction materials HK\$ million | Trading of building materials HK\$ million | Property development HK\$ million | Property investment and others HK\$ million | Eliminations HK\$ million | Consolidated HK\$ million |
|--|---|--|---|--------------------------------------|--|------------------------------|------------------------------|
| ASSETS | | | | | | | |
| Segment assets | 490.7 | 403.0 | 52.0 | 1,461.9 | 177.6 | - | 2,585.2 |
| Amounts due from jointly controlled entities/associate | 28.1 | 270.7 | - | - | 41.0 | - | 339.8 |
| Interests in jointly controlled entities/associates | 16.5 | 720.8 | - | - | 68.8 | - | 806.1 |
| Inter-segment receivables | 812.9 | 56.9 | 8.6 | - | 2,027.3 | (2,905.7) | - |
| Unallocated assets | | | | | | | 7.2 |
| Consolidated total assets | | | | | | | 3,738.3 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 586.4 | 108.1 | 7.4 | 112.3 | 18.6 | - | 832.8 |
| Amounts due to jointly controlled entities | 10.0 | 4.4 | - | - | 5.0 | - | 19.4 |
| Inter-segment payables | 176.9 | 1,229.8 | 119.5 | 849.4 | 530.1 | (2,905.7) | - |
| Unallocated liabilities | | | | | | | 1,470.3 |
| Consolidated total liabilities | | | | | | | 2,322.5 |

OTHER INFORMATION

| | Construction and building maintenance HK\$ million | Sale of construction materials HK\$ million | Trading of building materials HK\$ million | Property development HK\$ million | Property investment and others HK\$ million | Total HK\$ million |
|-------------------------------|---|--|---|--------------------------------------|--|-----------------------|
| Capital expenditure | 0.7 | 20.4 | - | 0.8 | 0.3 | 22.2 |
| Depreciation and amortisation | 1.0 | 35.8 | 2.9 | 0.3 | 2.0 | 42.0 |
| Release of negative goodwill | - | (0.1) | - | - | - | (0.1) |
| Other non-cash expenses | - | 0.4 | - | - | - | 0.4 |

4. Business And Geographical Segments - continued

| 2003 | Construction and building maintenance HK\$ million | Sale of construction materials HK\$ million | Trading of building materials HK\$ million | Property development HK\$ million | Property investment and others HK\$ million | Eliminations HK\$ million | Consolidated HK\$ million (Restated) |
|---|---|--|---|---|--|------------------------------|--|
| TURNOVER | | | | | | | |
| External sales | 1,773.2 | 466.1 | 53.4 | 2.3 | 16.3 | - | 2,311.3 |
| Inter-segment sales | - | 150.4 | 3.9 | - | 0.4 | (154.7) | - |
| Group turnover | 1,773.2 | 616.5 | 57.3 | 2.3 | 16.7 | (154.7) | 2,311.3 |
| Share of jointly controlled entities | 48.3 | 478.5* | - | - | - | - | 526.8 |
| Total | 1,821.5 | 1,095.0 | 57.3 | 2.3 | 16.7 | (154.7) | 2,838.1 |

Inter-segment sales are charged at mutually agreed prices.

* This represents mainly the Group's effective share of turnover of jointly controlled entities in respect of the cement operations in Chongqing and Guizhou (HK\$389.5 million) and Nanjing (HK\$73.2 million).

| | | | | | | | |
|---|------|--------|--------|-------|----------|--|--------|
| RESULTS | | | | | | | |
| Segment results | 27.0 | (42.5) | (30.3) | (1.7) | (31.8)** | | (79.3) |
| Interest income | | | | | | | 10.0 |
| Loss from operations | | | | | | | (69.3) |
| Finance costs | | | | | | | (5.9) |
| Share of results of jointly controlled entities | | | | | | | |
| • Cement operations in | | | | | | | |
| - Chongqing and Guizhou | - | 42.4 | - | - | - | | 42.4 |
| - Nanjing | - | (8.3) | - | - | - | | (8.3) |
| • Others | 1.1 | (3.4) | - | - | (1.2) | | (3.5) |
| | | | | | | | 30.6 |
| Loss before taxation | | | | | | | (44.6) |
| Taxation | | | | | | | 0.1 |
| Loss before minority interests | | | | | | | (44.5) |

** This comprises mainly unrealised holding loss of listed securities (HK\$24.6 million), revaluation decrease on an investment property (HK\$14.0 million) and profit from letting of the investment property (HK\$7.1 million).

| | | | | | | | |
|---|---|--|---|---|--|------------------------------|--|
| BALANCE SHEET | | | | | | | |
| | Construction and building maintenance HK\$ million | Sale of construction materials HK\$ million | Trading of building materials HK\$ million | Property development HK\$ million | Property investment and others HK\$ million | Eliminations HK\$ million | Consolidated HK\$ million (Restated) |
| ASSETS | | | | | | | |
| Segment assets | 571.2 | 457.4 | 33.8 | 839.4 | 278.4 | - | 2,180.2 |
| Amounts due from jointly controlled entities/associate | 21.0 | 352.0 | - | - | 3.2 | - | 376.2 |
| Interests in jointly controlled entities/associates | 17.9 | 597.8 | - | - | 67.1 | - | 682.8 |
| Inter-segment receivables | 775.5 | 90.8 | 9.7 | - | 1,859.6 | (2,735.6) | - |
| Unallocated assets | | | | | | | 4.9 |
| Consolidated total assets | | | | | | | 3,244.1 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 563.7 | 117.8 | 7.4 | 7.5 | 19.9 | - | 716.3 |
| Amounts due to jointly controlled entities | 15.3 | 0.7 | - | - | 7.0 | - | 23.0 |
| Inter-segment payables | 215.1 | 1,203.3 | 110.7 | 724.4 | 482.1 | (2,735.6) | - |
| Unallocated liabilities | | | | | | | 1,268.7 |
| Consolidated total liabilities | | | | | | | 2,008.0 |

| | | | | | | | |
|-------------------------------|---|--|---|---|--|--|-----------------------|
| OTHER INFORMATION | | | | | | | |
| | Construction and building maintenance HK\$ million | Sale of construction materials HK\$ million | Trading of building materials HK\$ million | Property development HK\$ million | Property investment and others HK\$ million | | Total HK\$ million |
| Capital expenditure | 1.2 | 25.5 | 1.1 | 0.7 | 0.8 | | 29.3 |
| Negative goodwill | - | (0.8) | - | - | - | | (0.8) |
| Depreciation and amortisation | 1.2 | 38.6 | 3.2 | 0.3 | 2.2 | | 45.5 |
| Release of negative goodwill | - | (0.1) | - | - | - | | (0.1) |
| Other non-cash expenses | - | 2.6 | 0.6 | - | 42.9 | | 46.1 |

4. Business And Geographical Segments - continued

Geographical segments

The Group's operations are located in Hong Kong and other regions in the PRC.

Analysis of the Group's turnover and contribution by geographical markets, irrespective of the origin of the goods/services, are as follows:

| | Turnover by geographical markets | | Contribution to profit (loss) from operations | |
|-------------------------------|-------------------------------------|----------------------|--|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million | 2004 HK\$ million | 2003 HK\$ million |
| Hong Kong | 2,694.0 | 2,166.8 | (20.1) | (68.1) |
| Other regions in the PRC | 896.9 | 144.5 | 187.5 | (11.2) |
| | 3,590.9 | 2,311.3 | 167.4 | (79.3) |
| Interest income | | | 8.7 | 10.0 |
| Profit (loss) from operations | | | 176.1 | (69.3) |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and site establishment expenditure analysed by the geographical areas in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment and site establishment expenditure | |
|--------------------------|---|----------------------|---|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million | 2004 HK\$ million | 2003 HK\$ million |
| Hong Kong | 1,071.1 | 1,281.4 | 14.4 | 21.0 |
| Other regions in the PRC | 2,667.2 | 1,962.7 | 7.8 | 8.3 |
| | 3,738.3 | 3,244.1 | 22.2 | 29.3 |

5. Other Operating Income

Included in other operating income is net investment income as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Interest income | 8.7 | 10.0 |
| Dividends received from investments in securities | | |
| - listed | 1.0 | 6.2 |
| - unlisted | 1.9 | - |
| Gain on dissolution of a jointly controlled entity | - | 2.5 |
| Gain on disposal of property, plant and equipment | 2.4 | - |

6. Profit (Loss) From Operations

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Profit (loss) from operations has been arrived at after charging (crediting): | | |
| Depreciation and amortisation: | | |
| Property, plant and equipment | 38.2 | 42.1 |
| Site establishment expenditure | 3.8 | 3.4 |
| | 42.0 | 45.5 |
| Less: Amount capitalised to property under development | - | (0.2) |
| | 42.0 | 45.3 |
| Auditors' remuneration | 2.2 | 2.1 |
| Operating lease payments in respect of rented premises | 30.6 | 37.3 |
| Loss on disposal of property, plant and equipment | - | 0.9 |
| Staff costs (including directors' emoluments): | | |
| Salaries and allowances | 337.4 | 354.3 |
| Retirement benefits cost | 25.8 | 19.1 |
| Less: Amount capitalised to property under development | (2.8) | (9.2) |
| | 360.4 | 364.2 |
| Release of negative goodwill (included in other expenses) | (0.1) | (0.1) |
| Gross rental revenue from an investment property and car park spaces | (14.2) | (14.9) |
| Less: Related outgoings | 3.0 | 2.1 |
| Net rental income | (11.2) | (12.8) |

7. Finance Costs

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Interest on bank loans and overdrafts and other loans | | |
| wholly repayable within 5 years | 18.4 | 18.7 |
| Other borrowing costs | 0.8 | 3.4 |
| | 19.2 | 22.1 |
| Less: Amount capitalised to property under development (note 15) | (8.9) | (16.2) |
| | 10.3 | 5.9 |

8. Director's Emoluments

| | 2004 HK\$ million | 2003 HK\$ million |
|-------------------------------------|----------------------|----------------------|
| Fees | | |
| Executive directors | 0.1 | 0.1 |
| Non-executive directors | - | - |
| Independent non-executive directors | 0.1 | 0.1 |
| Other emoluments | | |
| Salaries and allowances | 9.5 | 13.0 |
| Retirement benefits cost | 0.9 | 0.8 |
| Others | 0.5 | - |
| | 11.1 | 14.0 |

The emoluments of the directors were within the following bands:

| | 2004 Number of directors | 2003 Number of directors |
|-------------------------------|--------------------------------|--------------------------------|
| Emolument bands | | |
| HK\$0 - HK\$1,000,000 | 6 | 5 |
| HK\$1,500,001 - HK\$2,000,000 | 1 | 1 |
| HK\$2,000,001 - HK\$2,500,000 | 1 | 1 |
| HK\$2,500,001 - HK\$3,000,000 | 1 | 2 |
| HK\$3,000,001 - HK\$3,500,000 | 1 | - |
| HK\$4,500,001 - HK\$5,000,000 | - | 1 |
| | 10 | 10 |

9. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2003: four) are executive directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining two (2003: one) individuals in 2004 were as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--------------------------|----------------------|----------------------|
| Salaries and allowances | 4.0 | 2.1 |
| Retirement benefits cost | 0.3 | 0.1 |
| | 4.3 | 2.2 |

The emoluments of the highest paid employees were within the following bands:

| | 2004 Number of employees | 2003 Number of employees |
|-------------------------------|--------------------------------|--------------------------------|
| Emolument bands | | |
| HK\$2,000,001 - HK\$2,500,000 | 1 | 1 |
| HK\$2,500,001 - HK\$3,000,000 | 1 | - |
| | 2 | 1 |

10. Taxation

| | 2004 HK\$ million | 2003 HK\$ million (Restated) |
|---|----------------------|------------------------------------|
| The charge (credit) comprises: | | |
| Current taxation | | |
| Hong Kong Profits Tax | 0.3 | 1.8 |
| Income tax of other regions in the PRC | 46.2 | (0.3) |
| | 46.5 | 1.5 |
| Deferred taxation | 0.6 | (2.7) |
| Taxation attributable to the Company and its subsidiaries | 47.1 | (1.2) |
| Share of taxation attributable to jointly controlled entities | | |
| Hong Kong Profits Tax | 0.2 | 0.3 |
| Income tax of other regions in the PRC | 2.1 | 0.8 |
| | 2.3 | 1.1 |
| | 49.4 | (0.1) |

10. Taxation - continued

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profits for the year. In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the operations in Hong Kong for the fiscal year 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balance at 31 March, 2004 and 31 March, 2003.

Profits tax outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Details of the deferred taxation are set out in note 28.

The tax charge (credit) for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Profit (loss) before taxation | 200.0 | (44.6) |
| Tax at Hong Kong Profits Tax rate of 17.5% (2003: 16%) | 35.0 | (7.1) |
| Tax effect of expenses not deductible for tax purpose | 9.3 | 11.7 |
| Tax effect of income not taxable for tax purpose | (11.1) | (5.2) |
| Tax effect on tax losses not recognised | 15.3 | 12.8 |
| Tax effect on utilisation of tax losses previously not recognised | (0.2) | (0.7) |
| Effect of share of tax of jointly controlled entities | 2.3 | 1.1 |
| Effect of change in tax rate | - | 0.4 |
| Effect of different tax rates of operations in other jurisdictions | (0.1) | (4.9) |
| Others | (1.1) | (8.2) |
| Tax charge (credit) for the year | 49.4 | (0.1) |

11. Dividends

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Dividends, paid | | |
| Final dividend in respect of year 2002/2003: nil (2001/2002: HK\$0.15 per share on 264,514,000 shares) | - | 39.7 |
| Proposed final dividend in respect of year 2003/2004 at HK\$0.275 per share on 268,036,000 shares (2002/2003: nil) | 73.7 | - |

The final dividend in respect of 2003/2004 of HK\$0.275 per share has been proposed by the directors and is subject to approval by shareholders at the annual general meeting.

12. Earnings (Loss) Per Share

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Earnings (loss) for the purposes of basic and diluted earnings (loss) per share | 147.7 | (44.3) |
| | Million | Million |
| Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share | 266.2 | 264.6 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 5.0 | 0.2 |
| Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share | 271.2 | 264.8 |

The adjustment to the comparative basic and diluted loss per share, arising from the change in accounting policy shown in note 2 above, is as follows:

| | Basic HK\$ | Diluted HK\$ |
|--|---------------|-----------------|
| Reconciliation of loss per share for the year 2002/03: | | |
| Reported figures before adjustment | (0.18) | (0.18) |
| Adjustment on adoption of SSAP 12 (Revised) | 0.01 | 0.01 |
| Restated | (0.17) | (0.17) |

13. Investment Property

| | 2004 HK\$ million | 2003 HK\$ million |
|---------------------------------|----------------------|----------------------|
| THE GROUP | | |
| At the beginning of the year | 123.0 | 137.0 |
| Revaluation increase (decrease) | 17.0 | (14.0) |
| At the end of the year | 140.0 | 123.0 |

The Group's investment property is located in Hong Kong and held under a medium-term lease. It was revalued at 31 March, 2004 by Chesterton Petty Ltd, independent professional valuers, on an open market value basis. The revaluation increase (decrease) has been credited (charged) to the consolidated income statement.

The Group's investment property is rented out under operating leases.

14. Property, Plant And Equipment

| | Land and buildings in Hong Kong held under medium-term leases HK\$ million | Land and buildings in other regions of the PRC held under medium-term leases HK\$ million | Plant under construction HK\$ million | Plant and machinery HK\$ million | Motor vehicles HK\$ million | Equipment, furniture and other assets HK\$ million | Total HK\$ million |
|---------------------------------|---|--|--|-------------------------------------|--------------------------------|---|-----------------------|
| THE GROUP | | | | | | | |
| AT COST/VALUATION | | | | | | | |
| At 1 April, 2003 | 50.0 | 5.9 | 4.1 | 428.5 | 38.4 | 52.8 | 579.7 |
| Additions | - | - | 2.0 | 11.5 | 1.9 | 1.3 | 16.7 |
| Disposals | - | - | - | (113.8) | (3.9) | (3.9) | (121.6) |
| Transfer | - | - | (3.5) | 3.3 | 0.2 | - | - |
| Transfer to site establishment | - | - | (2.6) | - | - | - | (2.6) |
| At 31 March, 2004 | 50.0 | 5.9 | - | 329.5 | 36.6 | 50.2 | 472.2 |
| Comprising: | | | | | | | |
| At valuation - 2004 | 50.0 | - | - | - | - | - | 50.0 |
| At cost | - | 5.9 | - | 329.5 | 36.6 | 50.2 | 422.2 |
| | 50.0 | 5.9 | - | 329.5 | 36.6 | 50.2 | 472.2 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1 April, 2003 | - | 2.1 | - | 311.7 | 28.8 | 39.6 | 382.2 |
| Charge for the year | 1.1 | 0.3 | - | 28.5 | 2.9 | 5.4 | 38.2 |
| Eliminated on disposals | - | - | - | (110.2) | (3.2) | (1.9) | (115.3) |
| Adjustment upon valuation | (1.1) | - | - | - | - | - | (1.1) |
| At 31 March, 2004 | - | 2.4 | - | 230.0 | 28.5 | 43.1 | 304.0 |
| NET BOOK VALUES | | | | | | | |
| At 31 March, 2004 | 50.0 | 3.5 | - | 99.5 | 8.1 | 7.1 | 168.2 |
| At 31 March, 2003 | 50.0 | 3.8 | 4.1 | 116.8 | 9.6 | 13.2 | 197.5 |

Notes:

- (i) The land and buildings in Hong Kong held under medium-term leases have been revalued on 31 March, 2004 by Albert So Surveyors Ltd., independent professional valuers, on an open market value basis. No separate valuation was undertaken for land and buildings in other regions of the PRC under medium-term leases as its carrying value is insignificant and the directors are of the opinion that its carrying value approximates its fair value.
- (ii) Had the revalued land and buildings in Hong Kong held under medium-term leases been restated at cost less accumulated depreciation, their net book values as at the balance sheet date would have been stated at HK\$29.7 million (2003: HK\$30.4 million).

14. Property, Plant And Equipment - continued

| | Motor vehicles HK\$ million | Equipment, furniture and other assets HK\$ million | Total HK\$ million |
|--------------------------|-----------------------------------|--|-----------------------|
| THE COMPANY | | | |
| AT COST | | | |
| At 1 April, 2003 | 1.7 | 9.6 | 11.3 |
| Additions | 0.1 | 0.1 | 0.2 |
| At 31 March, 2004 | 1.8 | 9.7 | 11.5 |
| ACCUMULATED DEPRECIATION | | | |
| At 1 April, 2003 | 1.3 | 8.3 | 9.6 |
| Charge for the year | 0.2 | 0.8 | 1.0 |
| At 31 March, 2004 | 1.5 | 9.1 | 10.6 |
| NET BOOK VALUES | | | |
| At 31 March, 2004 | 0.3 | 0.6 | 0.9 |
| At 31 March, 2003 | 0.4 | 1.3 | 1.7 |

15. Property Under Development

| | Land costs HK\$ million | Development costs HK\$ million | Total HK\$ million |
|---|-------------------------------|--------------------------------------|-----------------------|
| THE GROUP | | | |
| At 1 April, 2003 | 514.3 | 191.7 | 706.0 |
| Additions | 180.2 | 375.8 | 556.0 |
| Less: Transfer to properties held for sale | (174.2) | (278.6) | (452.8) |
| At 31 March, 2004 | 520.3 | 288.9 | 809.2 |
| Carrying amount analysed for reporting purposes as: | | | |
| Non-current | | | 591.2 |
| Current | | | 218.0 |
| | | | 809.2 |

The property under development represents the property development project Rui Hong Xin Cheng (also known as the Rainbow City) situated in the Hongkou District, Shanghai, the PRC, held under a long term lease. Part of the amount was transferred to properties held for sale upon completion during the year. Included in property under development at 31 March, 2004 are borrowing costs and staff costs capitalised amounting to approximately HK\$28.1 million (2003: HK\$23.3 million) and HK\$17.1 million (2003: HK\$14.3 million) respectively. The effective interest rate for interest capitalised during the year was 1.55% per annum.

Details of the transaction relating to the disposal of the Group's interest in the property development project are set out in note 36(a).

16. Negative Goodwill

| | THE GROUP HK\$ million |
|-------------------------------------|---------------------------|
| GROSS AMOUNT | |
| At 1 April, 2003 and 31 March, 2004 | (0.8) |
| RELEASED TO INCOME | |
| At 1 April, 2003 | 0.1 |
| Released during the year | 0.1 |
| At 31 March, 2004 | 0.2 |
| CARRYING AMOUNT | |
| At 31 March, 2004 | (0.6) |
| At 31 March, 2003 | (0.7) |

The negative goodwill is released to income on a straight-line basis over 6 years, the remaining weighted average life of the depreciable assets acquired.

17. Investments In Subsidiaries

| | THE COMPANY | |
|--------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Unlisted shares, at cost | 291.7 | 291.7 |

Particulars of the principal subsidiaries are set out in note 37.

18. Interests In Jointly Controlled Entities

| | THE GROUP | |
|---|--------------|--------------|
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Share of net assets | 555.0 | 440.4 |
| Negative goodwill | (2.8) | (2.9) |
| | 552.2 | 437.5 |
| Amount due from a jointly controlled entity | 253.9 | 245.3 |
| | 806.1 | 682.8 |

Negative goodwill is recognised as income on a straight-line basis over 30 years. The amortisation of negative goodwill for the year is netted off in other operating expenses.

The amount due from a jointly controlled entity was unsecured, interest free and has no fixed terms of repayment. The Group will not demand for repayment within 12 months from the balance sheet date. Accordingly, the amount was classified as non-current.

Particulars of the principal jointly controlled entities are set out in note 39.

18. Interests In Jointly Controlled Entities - continued

The summary of aggregate financial information of the Group's significant jointly controlled entities engaged in manufacture and sale of cement in Chongqing, Guizhou and Nanjing, based on the adjusted financial statements prepared under the accounting principles generally accepted in Hong Kong for the years ended 31 December, 2003 and 2002, are as follows:

| | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|
| Results for the year ended 31 December | | |
| Turnover | 1,242.1 | 939.0 |
| Profit before taxation | 54.0 | 52.1 |
| Profit before taxation attributable to the Group | 33.8 | 34.1 |
| Financial positions as at 31 December | | |
| Non-current assets | 2,182.5 | 1,514.3 |
| Current assets | 867.5 | 917.6 |
| Current liabilities | (1,278.9) | (996.8) |
| Non-current liabilities | (1,086.3) | (843.5) |
| Minority interests | (155.0) | (145.3) |
| Net assets | 529.8 | 446.3 |
| Net assets attributable to the Group | 405.9 | 349.1 |

19. Investments In Securities

| | THE GROUP | |
|-----------------------------------|----------------------|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million |
| Other investments, at fair value: | | |
| equity securities | | |
| - unlisted overseas | 12.8 | 15.3 |
| - listed in Hong Kong | 12.8 | 120.3 |
| | 25.6 | 135.6 |
| Market value of listed securities | 12.8 | 120.3 |

20. Club Debenture

| | THE GROUP AND THE COMPANY | |
|---|---------------------------------|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million |
| Unlisted membership debenture in a recreational club, at cost | 1.2 | 1.2 |

21. Site Establishment Expenditure

| | THE GROUP | |
|---|----------------------|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million |
| At the beginning of the year | 13.9 | 16.9 |
| Additions | 5.5 | 0.4 |
| Transfer from property, plant and equipment | 2.6 | - |
| Written off during the year | (0.4) | - |
| Amortisation for the year | (3.8) | (3.4) |
| At the end of the year | 17.8 | 13.9 |

22. Inventories And Contracts In Progress

| | THE GROUP | |
|------------------|----------------------|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million |
| Inventories | | |
| Raw materials | 4.6 | 5.6 |
| Work-in-progress | 12.7 | 9.0 |
| Finished goods | 13.4 | 12.2 |
| Spare parts | 13.4 | 12.9 |
| | 44.1 | 39.7 |

Included above are raw materials of HK\$4.2 million (2003: HK\$2.3 million) which are carried at net realisable value.

22. Inventories And Contracts In Progress - continued

| | THE GROUP | |
|--|--------------|--------------|
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Contracts in progress | | |
| Costs incurred to date | 3,296.8 | 6,013.7 |
| Recognised profits less recognised losses | 26.3 | 261.1 |
| | 3,323.1 | 6,274.8 |
| Less: Progress billings | (3,324.4) | (6,134.7) |
| Net contract work | (1.3) | 140.1 |
| Represented by: | | |
| Amounts due from customers for contract work | 98.4 | 221.2 |
| Amounts due to customers for contract work | (99.7) | (81.1) |
| | (1.3) | 140.1 |

23. Debtors, Deposits And Prepayments

The Group maintains a defined credit policy. The general credit term ranges from 30 days to 90 days.

| | THE GROUP | |
|--|--------------|--------------|
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Debtors (net of allowance for bad and doubtful debts) aged analysis: | | |
| Within 90 days | 300.3 | 235.5 |
| 91 days to 180 days | 16.2 | 19.1 |
| 181 days to 360 days | 12.4 | 18.0 |
| Over 360 days | 19.9 | 4.7 |
| | 348.8 | 277.3 |
| Retentions receivable | 99.4 | 124.7 |
| Prepayments, deposits and other receivables | 136.1 | 194.8 |
| | 584.3 | 596.8 |

24. Creditors And Accrued Charges

| | THE GROUP | |
|-----------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Creditors aged analysis: | | |
| Within 30 days | 97.1 | 93.0 |
| 31 days to 90 days | 23.0 | 38.4 |
| 91 days to 180 days | 7.6 | 7.4 |
| Over 180 days | 11.0 | 5.7 |
| | 138.7 | 144.5 |
| Retentions payable | 124.0 | 136.5 |
| Accruals and other payables | 466.2 | 349.0 |
| | 728.9 | 630.0 |

25. Bank Borrowings

| | THE GROUP | | THE COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| Secured bank loan (note 32) | 284.4 | 107.3 | - | - |
| Unsecured bank loans and bank overdrafts | 1,134.1 | 1,156.4 | 1,040.0 | 1,061.0 |
| | 1,418.5 | 1,263.7 | 1,040.0 | 1,061.0 |
| Less: Amounts due within one year | (932.5) | (68.9) | (860.0) | - |
| | 486.0 | 1,194.8 | 180.0 | 1,061.0 |

The borrowings are repayable as follows:

| | | | | |
|--|---------|---------|---------|---------|
| Within one year | 932.5 | 68.9 | 860.0 | - |
| More than one year but not exceeding two years | 400.7 | 1,096.8 | 180.0 | 1,061.0 |
| More than two years but not exceeding five years | 85.3 | 98.0 | - | - |
| | 1,418.5 | 1,263.7 | 1,040.0 | 1,061.0 |

26. Share Capital

| | 2004 HK\$ million | 2003 HK\$ million |
|----------------------------------|----------------------|----------------------|
| Authorised | | |
| 400,000,000 shares of HK\$1 each | 400.0 | 400.0 |
| Issued and fully paid | | |
| At the beginning of the year | 264.7 | 264.5 |
| Exercise of share options | 3.3 | 0.2 |
| At the end of the year | 268.0 | 264.7 |

27. Reserves

| | Properties revaluation reserve HK\$ million | Share premium account HK\$ million | Translation reserve HK\$ million | Contributed surplus HK\$ million | Goodwill HK\$ million | Negative goodwill HK\$ million | Retained profits HK\$ million | Reserve funds HK\$ million | Total HK\$ million |
|--|--|---|--|--|--------------------------|--------------------------------------|-------------------------------------|----------------------------------|-----------------------|
| THE GROUP | | | | | | | | | |
| At 1 April, 2002 | | | | | | | | | |
| - as originally stated | 37.0 | 532.3 | (6.7) | 197.6 | (2.7) | 0.5 | 282.9 | 0.8 | 1,041.7 |
| - adjustment on adoption of SSAP 12 (Revised) (note 2) | (5.8) | - | - | - | - | - | (2.4) | - | (8.2) |
| - as restated | 31.2 | 532.3 | (6.7) | 197.6 | (2.7) | 0.5 | 280.5 | 0.8 | 1,033.5 |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | - | - | 6.9 | - | - | - | - | - | 6.9 |
| Premium on issue of shares | - | 0.7 | - | - | - | - | - | - | 0.7 |
| Loss for the year | - | - | - | - | - | - | (44.3) | - | (44.3) |
| Dividends | - | - | - | - | - | - | (39.7) | - | (39.7) |
| Transfer | (0.8) | - | - | - | - | - | 0.8 | - | - |
| Revaluation decrease in the year | (13.8) | - | - | - | - | - | - | - | (13.8) |
| Reversal of deferred tax liability arising on revaluation of properties (note 2) | 2.0 | - | - | - | - | - | - | - | 2.0 |
| Transfer to reserve funds | - | - | - | - | - | - | (0.1) | 0.1 | - |
| At 31 March, 2003 | 18.6 | 533.0 | 0.2 | 197.6 | (2.7) | 0.5 | 197.2 | 0.9 | 945.3 |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | - | - | 1.9 | - | - | - | - | - | 1.9 |
| Premium on issue of shares | - | 23.7 | - | - | - | - | - | - | 23.7 |
| Profit for the year | - | - | - | - | - | - | 147.7 | - | 147.7 |
| Transfer | (0.5) | - | - | - | - | - | 0.5 | - | - |
| Revaluation increase in the year | 0.6 | - | - | - | - | - | - | - | 0.6 |
| Transfer to reserve funds | - | - | - | - | - | - | (0.1) | 0.1 | - |
| At 31 March, 2004 | 18.7 | 556.7 | 2.1 | 197.6 | (2.7) | 0.5 | 345.3 | 1.0 | 1,119.2 |
| THE COMPANY | | | | | | | | | |
| At 1 April, 2002 | - | 532.3 | - | 88.9 | - | - | 86.8 | - | 708.0 |
| Premium on issue of shares | - | 0.7 | - | - | - | - | - | - | 0.7 |
| Profit for the year | - | - | - | - | - | - | 21.4 | - | 21.4 |
| Dividends | - | - | - | - | - | - | (39.7) | - | (39.7) |
| At 31 March, 2003 | - | 533.0 | - | 88.9 | - | - | 68.5 | - | 690.4 |
| Premium on issue of shares | - | 23.7 | - | - | - | - | - | - | 23.7 |
| Loss for the year | - | - | - | - | - | - | (34.8) | - | (34.8) |
| At 31 March, 2004 | - | 556.7 | - | 88.9 | - | - | 33.7 | - | 679.3 |

27. Reserves - continued

Included in the above is the Group's share of post-acquisition profits of its jointly controlled entities, as follows:

| | Translation reserve | Goodwill | Negative goodwill | Retained profits | Total |
|---|------------------------|--------------|----------------------|---------------------|--------------|
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| At 1 April, 2002 | (0.2) | (2.0) | 0.3 | 2.0 | 0.1 |
| Released upon dissolution of a jointly controlled entity | - | - | - | (2.5) | (2.5) |
| Profit for the year | - | - | - | 29.5 | 29.5 |
| Dividends | - | - | - | (1.0) | (1.0) |
| At 31 March, 2003 | (0.2) | (2.0) | 0.3 | 28.0 | 26.1 |
| Profit for the year | - | - | - | 31.9 | 31.9 |
| Dividends | - | - | - | (29.7) | (29.7) |
| Addition of negative goodwill | - | - | 2.5 | - | 2.5 |
| Share of reserve | 0.2 | - | - | - | 0.2 |
| At 31 March, 2004 | - | (2.0) | 2.8 | 30.2 | 31.0 |

The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1997.

The contributed surplus of the Company arose when the Company issued shares in exchange for the equity in subsidiaries and associates pursuant to the group restructuring in January 1997.

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

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

As at the balance sheet date, the Company's reserves, including the contributed surplus, available for distribution to shareholders amounted to HK\$122.6 million (2003: HK\$157.4 million).

28. Deferred Taxation

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods:

| | Accelerated tax depreciation HK\$ million | Revaluation of properties HK\$ million | Tax losses HK\$ million | Other temporary differences HK\$ million | Total HK\$ million |
|--|--|---|-------------------------------|---|-----------------------|
| THE GROUP | | | | | |
| At 1 April, 2002 | | | | | |
| - as originally stated | (3.0) | - | 0.5 | 1.0 | (1.5) |
| - adjustment on adoption of SSAP 12 (Revised) | (9.2) | (5.8) | 6.4 | 0.4 | (8.2) |
| - as restated | (12.2) | (5.8) | 6.9 | 1.4 | (9.7) |
| Credit (charge) to consolidated income statement for the year | 4.3 | - | (0.7) | (0.5) | 3.1 |
| Credit to equity for the year | - | 2.5 | - | - | 2.5 |
| Effect of change in tax rate | | | | | |
| - (Charge) credit to consolidated income statement | (1.1) | - | 0.6 | 0.1 | (0.4) |
| - Charge to equity | - | (0.5) | - | - | (0.5) |
| At 31 March, 2003 | (9.0) | (3.8) | 6.8 | 1.0 | (5.0) |
| (Charge) credit to consolidated income statement for the year | (1.3) | - | 0.2 | 0.5 | (0.6) |
| At 31 March, 2004 | (10.3) | (3.8) | 7.0 | 1.5 | (5.6) |

For the purposes of balance sheet presentation certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised).

At 31 March, 2004, the Group has unused tax losses of HK\$214.8 million (2003: HK\$140.8 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK\$39.9 million (2003: HK\$38.5 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$174.9 million (2003: HK\$102.3 million) due to the unpredictability of future profit streams.

29. Provident Fund Scheme And Defined Benefit Plan

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Plan prior to the establishment of MPF Scheme were offered a choice of staying within the Plan or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

Mandatory Provident Fund Scheme

For members of the MPF Scheme, contributions are made by the employees at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of service with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated income statement as staff cost during the year ended 31 March, 2004 amounted to HK\$5.3 million (2003: HK\$4.6 million). The amount of employer's voluntary contributions to MPF schemes forfeited for the year ended 31 March, 2004 were immaterial and had been used to reduce the existing level of contributions.

Defined Benefit Plan

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. The current employer contribution rate is 12.5% (2003: 7.4%) of the members' salaries. Under the Plan, a member is entitled to retirement benefits which comprise the sum of any benefits transferred from another scheme and the greater of the sum of employer's basic contribution plus the member's basic contribution accumulated with interest at a rate of no less than 6% per annum before 1 September, 2003 and 1% per annum in respect of contributions made on or after 1 September, 2003 or 1.8 times the final salary times the length of employment with the Group on the attainment of the retirement age of 60. For members who joined the Plan before 1997, the retirement age is 60 for male members and 55 for female members. No other post-retirement benefits are provided.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out at 31 March, 2004 by Ms. Elaine Hwang of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

29. Provident Fund Scheme And Defined Benefit Plan - continued

The principal actuarial assumptions as at the balance sheet dates used are as follows:

| | 2004 | 2003 |
|----------------------------------|--|---|
| Discount rate | 4.0% | 4.5% |
| Expected rate of salary increase | Nil for the next three years commencing from 1 April, 2004 and 3% thereafter | Nil for the next four years commencing from 1 April, 2003 and 3% thereafter |

The expected rate of return on plan asset for the year ended 31 March, 2004 is 5.5% per annum (2003: 5.5%).

The actuarial valuation showed that the fair value of the plan assets attributable to the Group was HK\$293.7 million at 31 March, 2004 (2003: HK\$226.4 million), representing 92% (2003: 72%) of the benefits that had accrued to members. The shortfall of the plan assets of HK\$26.2 million (2003: HK\$88.4 million) is to be cleared over the estimated remaining service period of the current membership of 15 years (2003: 10 years).

Amounts recognised in the consolidated income statement for the year in respect of the defined benefit plan are as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Current service cost | 14.0 | 13.0 |
| Interest cost | 12.9 | 16.0 |
| Expected return on plan assets | (11.6) | (14.5) |
| Net actuarial losses recognised in current year | 5.2 | - |
| Net amount charged to consolidated income statement as staff costs | 20.5 | 14.5 |

The actual return on plan assets allocated to the Group for the year ended 31 March, 2004 was a gain of HK\$57.0 million (2003: loss of HK\$33.0 million).

The amounts included in the balance sheets arising from the Group's and the Company's obligations in respect of the Plan are as follows:

| | THE GROUP | | THE COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2004 HK\$ million | 2003 HK\$ million | 2004 HK\$ million | 2003 HK\$ million |
| Present value of defined benefit obligations | 318.9 | 314.8 | 44.0 | 44.6 |
| Unrecognised actuarial losses | (21.1) | (83.3) | (2.6) | (11.5) |
| Fair value of plan assets | (293.7) | (226.4) | (40.2) | (32.1) |
| Defined benefit liability included in the balance sheet | 4.1 | 5.1 | 1.2 | 1.0 |

Included within the fair value of plan assets is HK\$8.8 million (2003: HK\$5.6 million) in respect of the equity shares of the Company.

29. Provident Fund Scheme And Defined Benefit Plan - continued

Movements of the defined benefit liability in the balance sheets are as follows:

| | THE GROUP | | THE COMPANY | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| At the beginning of the year | 5.1 | 8.5 | 1.0 | 1.3 |
| Amounts charged to income statement | 20.5 | 14.5 | 2.6 | 1.6 |
| Employers' contributions | (21.5) | (17.9) | (2.4) | (1.9) |
| At the end of the year | 4.1 | 5.1 | 1.2 | 1.0 |

30. Lease Arrangements

As lessor

Property rental income in respect of the investment property and car park spaces earned during the year was HK\$14.2 million (2003: HK\$14.9 million). The investment property held has committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

| | THE GROUP | |
|--|--------------|--------------|
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Within one year | 6.0 | 7.9 |
| In the second to fifth years inclusive | 2.1 | 5.9 |
| | 8.1 | 13.8 |

As lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | | THE COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| Within one year | 12.3 | 13.3 | 4.0 | 4.2 |
| In the second to fifth years inclusive | 6.8 | 9.9 | 0.3 | 4.6 |
| Over five years | - | 0.1 | - | - |
| | 19.1 | 23.3 | 4.3 | 8.8 |

Operating lease payments represent rentals payable by the Group and the Company for certain of its office properties. Leases are negotiated for lease terms ranging from one to ten years with options to terminate the lease with six months notice in advance.

31. Capital Commitments

- (a) As at 31 March, 2004, the Group had commitments in respect of the development costs of property under development contracted but not provided for in the financial statements amounting to approximately HK\$576.6 million (2003: HK\$621.7 million) and authorised but not contracted for amounting to approximately HK\$85.3 million (2003: nil).
- (b) As at 31 March, 2004, the Group's share of the capital commitments of its jointly controlled entities are as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|-----------------------------------|----------------------|----------------------|
| Authorised but not contracted for | 51.6 | 117.2 |
| Contracted but not provided for | 7.8 | 61.0 |

- (c) On 18 February, 2004, the Group entered into an agreement with Shui On Land Limited, a subsidiary of SOCL, to subscribe for convertible redeemable preference shares to be issued by Shui On Land Limited for consideration up to an amount of US\$50 million.
- (d) As at 31 March, 2004, the Group had commitments in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statements amounting to approximately HK\$0.3 million (2003: HK\$1.4 million).

The Company had no significant capital commitments at the balance sheet date.

32. Pledge Of Assets

At 31 March, 2004, the Group's interest in property under development with a total carrying value of approximately HK\$809.2 million (2003: HK\$706.0 million) and bank deposits of HK\$527.8 million (2003: nil) were pledged to secure certain syndicated bank loan facilities granted to a subsidiary of the Company.

33. Share Option Scheme

Following the amendments of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange on 1 September 2001, the Employee Share Option Scheme of the Company adopted on 20 January 1997 (the "Old Scheme") has been terminated and replaced by a new share option scheme on 27 August 2002 (the "New Scheme"). Since then, no further option can be granted under the Old Scheme, but all options granted prior to such termination shall continue to be valid and exercisable.

Under the Old Scheme, the Board of Directors may offer the eligible participants 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 quoted 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 grant is HK\$1. The maximum entitlement of each eligible participant shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under existing option schemes. Options granted are exercisable in stages within 5 years from the date of grant.

On 27 August, 2002, the Company has adopted the New Scheme which shall continue in force until the 10th anniversary of such date. The principal terms of the New Scheme are summarised as below:

1. Purpose

- (a) The New Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions which the eligible participants have made or may make to the Group.
- (b) The New Scheme will provide the eligible participants an opportunity to have a personal stake in the Company with a view to achieving the following objectives:
 - (i) motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group; and
 - (ii) attract and retain or otherwise maintain on-going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Group.

2. Eligible participants

- (a) The Board may at its discretion invite anyone belonging to any of the following classes of persons to take up options to subscribe for shares of the Company, subject to such conditions as the Board may think fit: any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any invested entity and for the purpose of the New Scheme, the options may be granted to any corporation wholly-owned by any person mentioned in this paragraph.
- (b) The eligibility of any of the above persons to the grant of any option shall be determined by the Board from time to time on the basis of his contribution to the development and growth of the Group. The Company shall be entitled to cancel any option granted to a grantee but not exercised if such grantee fails to meet the eligibility criteria determined by the Board after an option is granted but before it is exercised.

33. Share Option Scheme - continued

3. Total number of shares available for issue under the New Scheme

(a) 10% limit

Subject to the following paragraphs, the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the shares in issue as at the date of approval of the New Scheme (excluding options which have lapsed) (the "Scheme Mandate Limit").

The Company may, from time to time, refresh the Scheme Mandate Limit by obtaining the approval of the shareholders in general meeting. The Company may also seek separate approval of the shareholders in general meeting for granting options beyond the Scheme Mandate Limit or the refreshed limit, provided the options in excess of such limit are granted only to eligible participants specifically identified by the Company before such approval is sought.

(b) 30% limit

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time.

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the shares in issue. Where any further grant of options to a grantee would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such grantee and his associates abstaining from voting.

5. Performance target

The New Scheme allows the Board, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable.

6. Minimum period for which an option must be held

The Board may at its discretion when offering the grant of any option impose any minimum period for which an option must be held.

33. Share Option Scheme - continued

7. Price of shares

The exercise price shall be determined by the Board but shall be at least the highest of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant; and (b) the average closing price of the shares as shown on the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

8. Amount payable upon acceptance of option

HK\$1.00 is payable by each eligible participant to the Company on acceptance of an offer of an option, which shall be paid within 28 days from the date of the offer.

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year.

| | | Number of options | | | | | | | |
|---------------|-----------------------------------|-------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------|--|---|
| Date of grant | Subscription price per share HK\$ | At 1.4.2003 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | At 31.3.2004 | Period during which share options outstanding at 31.3.2004 are exercisable | Price of Company's shares at exercise date of options HK\$ (Note) |
| Old Scheme | | | | | | | | | |
| 15.7.1998 | 4.14 | 432,000 | - | (160,000) | (6,000) | (266,000) | - | 15.1.1999 to 14.7.2003 | 4.82 |
| 7.7.1999 | 11.21 | 3,120,000 | - | - | (50,000) | - | 3,070,000 | 7.1.2000 to 6.7.2004 | - |
| 4.7.2000 | 9.56 | 3,452,000 | - | (1,108,000) | (80,000) | - | 2,264,000 | 4.1.2001 to 3.7.2005 | 11.39 |
| 17.7.2001 | 9.30 | 3,560,000 | - | (1,048,000) | (100,000) | - | 2,412,000 | 17.1.2002 to 16.7.2006 | 11.39 |
| New Scheme | | | | | | | | | |
| 27.8.2002 | 6.00 | 3,230,000 | - | (938,000) | (100,000) | - | 2,192,000 | 27.2.2003 to 26.8.2007 | 11.06 |
| 27.8.2002 | 6.00 | 22,000,000 | - | - | - | - | 22,000,000 | 27.8.2005 to 26.8.2010 | - |
| 4.8.2003 | 5.80 | - | 780,000 | (66,000) | - | - | 714,000 | 4.2.2004 to 3.8.2008 | 9.10 |
| | | 35,794,000 | 780,000 | (3,320,000) | (336,000) | (266,000) | 32,652,000 | | |

| | | Number of options | | | | | | | |
|---------------|-----------------------------------|-------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------|--|---|
| Date of grant | Subscription price per share HK\$ | At 1.4.2002 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | At 31.3.2003 | Period during which share options outstanding at 31.3.2003 are exercisable | Price of Company's shares at exercise date of options HK\$ (Note) |
| Old Scheme | | | | | | | | | |
| 25.7.1997 | 7.50 | 158,000 | - | - | - | (158,000) | - | 25.1.1998 to 24.7.2002 | - |
| 15.7.1998 | 4.14 | 666,000 | - | (220,000) | (14,000) | - | 432,000 | 15.1.1999 to 14.7.2003 | 6.03 |
| 7.7.1999 | 11.21 | 3,190,000 | - | - | (70,000) | - | 3,120,000 | 7.1.2000 to 6.7.2004 | - |
| 4.7.2000 | 9.56 | 3,542,000 | - | - | (90,000) | - | 3,452,000 | 4.1.2001 to 3.7.2005 | - |
| 17.7.2001 | 9.30 | 3,670,000 | - | - | (110,000) | - | 3,560,000 | 17.1.2002 to 16.7.2006 | - |
| New Scheme | | | | | | | | | |
| 27.8.2002 | 6.00 | - | 3,240,000 | - | (10,000) | - | 3,230,000 | 27.2.2003 to 26.8.2007 | - |
| 27.8.2002 | 6.00 | - | 22,000,000 | - | - | - | 22,000,000 | 27.8.2005 to 26.8.2010 | - |
| | | 11,226,000 | 25,240,000 | (220,000) | (294,000) | (158,000) | 35,794,000 | | |

Note: The price of the Company's shares as disclosed is the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year for each category of eligible participants.

Total consideration received during the year from employees, including directors, for taking up the options granted was HK\$31 (2003: HK\$94).

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

34. Contingent Liabilities

At the balance sheet date, the Group had contingent liabilities not provided for in the financial statements as follows:

- (a) performance bonds established amounting to approximately HK\$164.4 million (2003: HK\$143.4 million);
- (b) Shanghai Rui Hong Xin Cheng Co. Ltd., a subsidiary of the Group, has given guarantees to banks in respect of mortgage facilities granted to the buyers of its residential properties of approximately HK\$299.4 million.

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries and jointly controlled entities for general facilities. The extent of such facilities utilised by the subsidiaries and jointly controlled entities at 31 March, 2004 amounted to approximately HK\$551.8 million (2003: HK\$367.4 million) and HK\$307.8 million (2003: HK\$159.0 million).

Pursuant to an agreement entered into with the district government (the "Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July, 2002, guarantees of no more than HK\$303 million will be granted by the Group to support bank borrowings arranged in the name of a company nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 March, 2004 and 31 March, 2003, no amount has been drawn down under this arrangement.

35. Related Party Transactions

- (a) During the year, the Group had the following transactions with SOCL and its subsidiaries and associates other than those of the Group ("SOCL Group"). These transactions were to reimburse the costs and expenses incurred, or were carried out on terms similar to those applicable to transactions with unrelated parties or as mutually agreed between the parties.

| Nature of transactions | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Income received: | | |
| Management and information system services | 0.4 | 0.5 |
| Project management services | 4.1 | 11.8 |
| Sales and marketing services | 1.4 | 3.7 |
| Cost and expenses paid: | | |
| Rental expenses | 0.9 | 0.6 |
| Building management fee | 0.1 | 0.1 |
| Balance as at 31 March | | |
| Amounts due from SOCL Group | 0.2 | 0.4 |
| Amounts due to SOCL Group | 0.1 | 0.1 |

35. Related Party Transactions - continued

- (b) During the year, the Group had the following transactions with jointly controlled entities of the Group on terms meant to reimburse costs and expenses incurred and on terms similar to those applicable to transactions with unrelated parties or as mutually agreed between the parties.

| Nature of transactions | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Income received: | | |
| Interest income | 5.4 | 7.6 |
| Management fee | - | 0.8 |
| Rental income | 0.2 | - |
| Sales of construction materials | 2.4 | 0.2 |
| Capital distribution from dissolution of a jointly controlled entity | - | 15.3 |
| Dividend income | 29.7 | 1.0 |
| Cost and expenses paid: | | |
| Construction/subcontracting work | 71.4 | 82.2 |
| Supply of construction materials | 20.8 | 13.0 |
| Management and information system services | - | 0.3 |
| Consultancy fee | 0.4 | - |
| Sales proceeds from disposal of property, plant and equipment | 0.9 | - |
| Balances as at 31 March | | |
| Amounts due from jointly controlled entities* | 593.6 | 620.9 |
| Amounts due to jointly controlled entities | 19.4 | 23.0 |

* Included in the amounts due from jointly controlled entities are amounts of approximately HK\$169.8 million (2003: HK\$268.6 million), which are interest bearing and with no fixed repayment terms.

- (c) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, to use the trademark, trade name "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.
- (d) Pursuant to a relinquishment agreement (the "Relinquishment Agreement") entered into between Hollyfield Holdings Limited, a wholly-owned subsidiary of the Company, and Shanghai Ruichen Property Company Limited ("Shanghai Ruichen"), a subsidiary of SOCL, on 2 May, 2001 (as supplemented by an agreement dated 22 May, 2001 between these parties), Shanghai Ruichen agreed, among others, to relinquish and surrender the development rights and title of a residential property development at Hongkou District of Shanghai to Shanghai Rui Hong Xin Cheng Company Limited ("Rui Hong"), a 99% owned subsidiary of Hollyfield Holdings Limited. In consideration of the above, Rui Hong had paid Shanghai Ruichen a sum of RMB184.5 million (approximately HK\$172.4 million).
- (e) Details of a related party transaction entered into on 18 February, 2004 are set out in note 36(a).

36. Post Balance Sheet Events

- (a) On 18 February, 2004, the Group entered into the Rainbow Sale and Purchase Agreement and the Subscription and Shareholders' Agreement (the "Agreements") for co-investment in Shui On Land Limited ("SOL") with the Company's ultimate holding company, SOCL. The Agreements involved the sale to SOL the entire issue share capital of Foresight Profits Limited ("Foresight") and the benefit of the debt owed by Hollyfield (a wholly owned subsidiary of Foresight) to the Company, for an initial consideration (subject to adjustment) of US\$130 million which will be satisfied by the allotment and issue of 130 million ordinary shares in SOL credited as fully paid to the Group. Foresight is the holding company of Hollyfield and Rui Hong, which develops the Rui Hong Xin Cheng project (also known as Rainbow City) in Shanghai. Together with an additional cash injection of up to US\$50 million to be made by the Group of which US\$25 million was paid on 31 May, 2004 for the subscription of the preference convertible shares, the Group shall hold more than 20% interest in SOL upon completion of the Agreements. Details of the transactions are set out in a circular issued to the shareholders dated 23 March, 2004. The Agreements were approved by independent shareholders in a Special General Meeting on 15 April, 2004.

In connection with the above, an agreement was entered into by Shanghai Ruichen and Hollyfield on 29 April, 2004 to terminate the Relinquishment Agreement (as set out in note 35(d)) which provided for, among others, revenue sharing arrangements between Shanghai Ruichen and Hollyfield relating to the sale and lease of the development in Rainbow City as disclosed in the Company's announcement dated 2 May, 2001.

Another agreement was entered into by Shanghai Ruichen and Rui Hong on 29 April, 2004 to terminate the management agreement dated 4 February, 2002 which provided for, among others, the reimbursement to the Group by Shanghai Ruichen for staff costs related to works performed for the benefit of Shanghai Ruichen as disclosed in the Company's announcement dated 4 February, 2002, since the Group would no longer be required to perform any work for Shanghai Ruichen.

- (b) On 18 June, 2004, Prime Allied Enterprises Limited ("Prime Allied", a wholly-owned subsidiary of the Company) entered into a conditional joint operation agreement with Yunnan National Assets Operation Co. Ltd. ("YNAOL"), a PRC state-owned company, in relation to the proposed co-investment in Yunnan State-owned Cement Company Limited ("Yunnan Cement"), a wholly-owned subsidiary of YNAOL, after its reorganisation. Upon completion of the reorganisation, Prime Allied and YNAOL will enter into a formal sale and purchase agreement whereby Prime Allied will acquire 80% equity interest in Yunnan Cement. Application will then be made to the relevant PRC regulatory authorities to transform Yunnan Cement into a Sino-foreign joint venture company, Yunnan Shui On Cement Company Limited ("Yunnan JV").

According to the preliminary valuation by an independent firm of PRC valuers, the total net asset value of Yunnan Cement is valued at RMB691 million. The consideration is approximately RMB409 million, which represents 80% of the total net asset value of Yunnan Cement after deducting the account payable granted by YNAOL to Yunnan Cement of an amount of RMB180 million. A deposit of RMB80 million is payable by Prime Allied within 10 business days upon the signing of the conditional joint operation agreement, and the remaining amount of the consideration of RMB329 million will be settled within 10 business days upon the date of entering into the sale and purchase agreement.

On 18 June 2004, the Company and Lafarge S. A. ("Lafarge") entered into an agreement whereby (i) the Company has granted to Lafarge an option to purchase 50% of the interest held or to be held by the Company in Yunnan Cement or Yunnan JV (as appropriate); and (ii) Lafarge has agreed to provide certain free technical assistance to the Group (or Yunnan JV on behalf of the Group).

The option may be exercised at the discretion of Lafarge within an exercise period of nine months starting from the date of the conditional joint operation agreement. The exercise price will be at 5% premium over the price paid by the Company for its equity stake in Yunnan Cement or Yunnan JV (as appropriate), calculated by reference to the number of days elapsed since the start of the exercise period up to the exercise date, over the total number of days during this nine-month period.

37. 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 as otherwise indicated.

| Name of subsidiary | Issued and fully paid share capital/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities |
|---|--|---|------------|---|
| | | Directly | Indirectly | |
| Construction and building maintenance business | | | | |
| P.D. (Contractors) Limited | 1,000,000 ordinary shares of HK\$1 each | - | 94% | Renovation work |
| Pacific Extend Limited | 10,000 ordinary shares of HK\$1 each | - | 67% | Maintenance contractor |
| Pat Davie Limited | 9,400,100 ordinary shares of HK\$1 each | - | 94% | Interior decoration, fitting out, design and contracting |
| | 100,000 non-voting deferred shares of HK\$10 each | | | |
| Pat Davie (China) Limited | 2 ordinary shares of HK\$1 each | - | 94% | Investment holding |
| Shui On Building Contractors Limited | 117,000,100 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 | - | 100% | Building construction and maintenance |
| Shui On Construction Company Limited | 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 | - | 100% | Building construction |
| Shui On Contractors Limited* | 1 share of US\$1 | 100% | - | Investment holding |

37. Particulars of Principal Subsidiaries - continued

| Name of subsidiary | Issued and fully paid share capital/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities |
|--|--|---|------------|--|
| | | Directly | Indirectly | |
| Sale of construction materials business | | | | |
| Asia No.1 Material Supply Limited | 100 ordinary shares of HK\$100 each 1,000 non-voting deferred shares of HK\$100 each | - | 100% | Holding of a quarry right |
| Billion Centre Company Limited | 100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each | - | 100% | Holding of a land lease |
| Dynamic Mark Limited | 100 ordinary shares of HK\$1 each 3,000,000 non-voting deferred shares of HK\$1 each | - | 80% | Supply of metal gates |
| First Direction Limited | 100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each | - | 100% | Property holding |
| Great Market Limited | 100 ordinary shares of HK\$1 each 5 non-voting deferred shares of HK\$1 each | - | 100% | Investment holding |
| Guangdong Kenon Concrete Co., Ltd. **+ | Registered and paid up capital HK\$10,500,000 | - | 100% | Supply of ready-mixed concrete |
| Guangzhou Ken On Concrete Co., Ltd. **+ | Registered and paid up capital HK\$18,393,943 | - | 100% | Supply of ready- mixed concrete |
| Guangdong Lamma Concrete Products Limited **@ | Registered and paid up capital RMB5,000,000 | - | 60% | Manufacture of precast concrete facade |
| Guang Rui Construction Materials (Panyu) Ltd. **@ | Registered and paid up capital HK\$2,100,000 | - | 70% | Manufacture of panel walls |
| Instant Mortars Limited | 2 ordinary shares of HK\$1 each | - | 100% | Supply of ready- mixed mortars |
| Kenon Concrete Company Limited | 11,000,000 ordinary shares of HK\$1 each | - | 100% | Supply of ready-mixed concrete |
| Lamma Concrete Products Limited | 10 ordinary shares of HK\$1 each | - | 60% | Investment holding |
| Lamma Rock Products Limited | 100 ordinary shares of HK\$10 each 3,500,000 non-voting deferred shares of HK\$10 each | - | 100% | Investment holding |
| Panyu Dynamic Mark Steel & Aluminium Engineering Co. Ltd. **@ | Registered and paid up capital HK\$4,000,000 | - | 64% | Steel fabrication |
| Panyu Shui Fai Metal Works Engineering Company Limited **@ | Registered and paid up capital HK\$9,000,000 | - | 55% | Manufacture of wallform and other metal works |
| Project Way Limited | 2 ordinary shares of HK\$1 each | - | 100% | Investment holding |

37. Particulars of Principal Subsidiaries - continued

| Name of subsidiary | Issued and fully paid share capital/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities |
|--|--|---|------------|--|
| | | Directly | Indirectly | |
| Sale of construction materials business | | | | |
| Shui Fai Metal Works Engineering Company Limited | 10,000 ordinary shares of HK\$1 each | - | 55% | Sales and installation of wallform and other metal works |
| Shui On Building Materials Limited | 100 ordinary shares of HK\$1 each 1,000,000 non-voting deferred shares of HK\$1 each | - | 100% | Investment holding and sale of construction materials |
| Shui On Cement (Guizhou) Limited * | 100,000 shares of US\$1 each | - | 99% | Investment holding |
| Shui On Materials Limited * | 1 share of US\$1 | 100% | - | Investment holding |
| Shui On Plant & Equipment Services Limited | 1,611,000 ordinary shares of HK\$1 each 45,389,000 non-voting deferred shares of HK\$1 each | | 100% | Owning and leasing of plant and machinery and structural steel construction work |
| Shui On Rock Products Limited | 2 ordinary shares of HK\$1 each | - | 100% | Site formation |
| Silver Limited | 2 ordinary shares of HK\$1 each | - | 100% | Holding of a land lease |
| Xinhui Longkoushan Rock Products Limited **+ | Registered and paid up capital US\$1,785,700 | - | 100% | Quarrying |
| Trading of building materials business | | | | |
| Asia Materials Limited | 2 ordinary shares of HK\$1 each | - | 100% | Trading |
| Asia Materials International Trading (Shenzhen) Co., Ltd. **+ | Registered and paid up capital HK\$1,000,000 | - | 100% | Trading |
| Asia Materials Holdings Limited # | 1,000,000 shares of US\$1 each | 100% | - | Investment holding |
| Asia Materials Technologies (Beijing) Co., Ltd. **+ | Registered and paid up capital US\$150,000 | - | 100% | Trading |
| Asia Materials Technologies (Hangzhou) Co., Ltd. **+ | Registered and paid up capital US\$200,000 | - | 100% | Trading |
| Asia Materials Technologies (Shenzhen) Co., Ltd. **+ | Registered and paid up capital HK\$3,000,000 | - | 100% | Provision of technology services |
| Asia Materials Trading (Shanghai) Co., Ltd. **+ | Registered and paid up capital US\$200,000 | - | 100% | Trading |
| Property development business | | | | |
| Hollyfield Holdings Limited *** | 2 ordinary shares of US\$1 each | - | 100% | Investment holding |
| Jade City International Limited | 2 ordinary shares of HK\$1 each | - | 100% | Property holding |
| Shanghai Rui Hong Xin Cheng Co. Ltd. **@ | Registered and paid up capital RMB467,000,000 | - | 99% | Property development |
| New Rainbow Investments Co. Ltd. | Registered and paid up capital US\$1 | 100% | - | Investment holding |

37. Particulars of Principal Subsidiaries - continued

| Name of subsidiary | Issued and fully paid share capital/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities |
|---|--|---|------------|--|
| | | Directly | Indirectly | |
| Property investment and others business - continued | | | | |
| Asia Trend Development Limited | 2 ordinary shares of HK\$1 each | 100% | - | Investment in securities |
| Billion Century Limited | 2 ordinary shares of HK\$1 each | - | 100% | Investment in securities |
| Casa Growth Limited * | 1 share of US\$1 | 100% | - | Investment holding |
| Eventful Time Investments Limited * | 1 share of US\$1 | - | 100% | Investment holding |
| Goldcrest Development Limited * | 1 share of US\$1 | 100% | - | Investment holding |
| Jesca Limited | 2 ordinary shares of HK\$1 each | 100% | - | Investment holding |
| Kotemax Limited | 2 ordinary shares of HK\$1 each | - | 100% | Property holding |
| Kroner Investments Limited * | 1 share of US\$1 | 100% | - | Investment holding |
| Landstar Development Limited | 2 ordinary shares of HK\$1 each | - | 100% | Investment holding |
| Guizhou Shui On Cement Development Management Co. Ltd. | Registered and paid up capital US\$420,000 | - | 99% | Provision of consultancy services |
| Middleton Investments Limited *** | 2 ordinary shares of US\$1 each | - | 99% | Investment holding |
| Shui On Corporate Services Limited | 2 ordinary shares of HK\$1 each | 100% | - | Provision of secretarial services |
| Shui On Granpex Limited | 2 ordinary shares of HK\$1 each | - | 100% | Investment holding |
| Shui On Graceton Limited | 2 ordinary shares of HK\$1 each | - | 100% | Investment holding |
| Smartway Investment Limited*** | 2 ordinary shares of US\$1 each | - | 99% | Investment holding |
| SOCAM.com Limited | 2 ordinary shares of HK\$1 each | - | 100% | Provision of on-line services for internal procurement and project management |
| Sommerset Investments Limited *** | 2 ordinary shares of US\$1 each | - | 99% | Investment holding |
| Tinsley Holdings Limited *** | 2 ordinary shares of US\$1 each | - | 99% | Investment holding |
| Total Trend Investments Limited * | 1 share of US\$1 | 100% | - | Investment holding |
| Top Bright Investment Limited*** | 2 ordinary shares of US\$1 each | - | 99% | Investment holding |
| Winway Holdings Limited *** | 2 ordinary shares of US\$1 each | - | 99% | Investment holding |

None of the subsidiaries had any debt securities subsisting at 31 March, 2004 or at any time during the year.

* Incorporated in the British Virgin Islands

** Registered and operated in other regions of the PRC

*** Incorporated in Mauritius

Incorporated in the Cayman Islands

+ Wholly foreign owned enterprises

@ Equity joint venture

38. Particulars of Associate

The Group has no significant associate.

39. Particulars of Principal Jointly Controlled Entities

The Directors are of the opinion that a complete list of the particulars of all jointly controlled entities will be of excessive length and therefore the following list contains only the particulars of principal jointly controlled entities of the Group. All the companies listed below were incorporated and are operating in Hong Kong except otherwise indicated.

| Indirect jointly controlled entities | Issued and paid-up share capital/ registered capital | Effective percentage of issued capital held by the Group | Principal activities | Notes |
|---|---|--|--|---------|
| Construction and building maintenance business | | | | |
| Brisfull Limited | 5,000,000 ordinary shares of HK\$1 each | 50% | Sale and installation of aluminium window products | |
| City Engineering Limited | 10,000 ordinary shares of HK\$1 each | 50% | Installation of mould work | |
| Super Race Limited | 420,000 ordinary shares HK\$1 each | 50% | Supply of sink units and cooking benches | |
| Kaiping Biaofu Metal Products Company Limited **# | Registered and paid up capital US\$800,000 | 50% | Manufacture of aluminium window products | |
| 鶴山超合預制件有限公司 **# | Registered and paid up capital US\$284,600 | 50% | Manufacture of sink units and cooking benches | 1 |
| Sale of construction materials business | | | | |
| Biella Enterprises Limited | 5 ordinary shares of HK\$1 each | 20% | Holding of a land lease | |
| Chongqing T.H. Cement Co. Ltd. **# | Registered and paid up capital RMB50,000,000 | 40% | Manufacture and sale of cement | 2 |
| Chongqing T.H. Diwei Cement Co. Ltd. **# | Registered and paid up capital RMB61,680,000 | 40% | Manufacture and sale of cement | 2 |
| Chongqing T.H. Special Cement Co. Ltd. **# | Registered and paid up capital RMB160,000,000 | 40% | Manufacture and sale of cement | 2 |
| Guang On T.H. Cement Co. Ltd. **# | Registered and paid up capital RMB110,000,000 | 50% | Manufacture and sale of cement | 2 |
| Chongqing T.H. White Cement Co. Ltd. **# | Registered and paid up capital US\$1,506,000 | 30% | Manufacture and sale of cement | 2 |
| Guizhou Bijie Shui On Cement Co. Ltd. **# | Registered and paid up capital RMB48,000,000 | 79% | Manufacture and sale of cement | 1 and 2 |
| Guizhou Changda Shui On Cement Co. Ltd. **# | Registered and paid up capital RMB106,000,000 | 50.5% | Manufacture and sale of cement | 1 and 2 |
| Guizhou Dingxiao Shui On Cement Co. Ltd. **# | Registered and paid up capital RMB56,000,000 | 89% | Manufacture and sale of cement | 1 and 2 |

39. Particulars Of Principal Jointly Controlled Entities - continued

| Indirect jointly controlled entities | Issued and paid-up share capital/ registered capital | Effective percentage of issued capital held by the Group | Principal activities | Notes |
|--|---|--|---|------------|
| Sale of construction materials business - continued | | | | |
| Guizhou Kaili Ken On Concrete Co. Ltd. **# | Registered and paid up capital RMB10,000,000 | 74% | Supply of ready mixed concrete | 1 and 2 |
| Guizhou Kaili Shui On Cement Co. Ltd. **# | Registered and paid up capital RMB60,000,000 | 89% | Manufacture and sale of cement | 1 and 2 |
| Guizhou Xipu Shui On Cement Co. Ltd. **# | Registered and paid up capital RMB60,000,000 | 79% | Manufacture and sale of cement | 1 and 2 |
| Guizhou Xishui Shui On Cement Co. Ltd. | Registered and paid up capital RMB42,800,000 | 89% | Manufacture and sale of cement | 1 and 2 |
| Guizhou Zunyi Ken On Concrete Co. Ltd. **# | Registered and paid up capital RMB12,000,000 | 74% | Supply of ready mixed concrete | 1 and 2 |
| Guizhou Yuqing Shui On Cement Ltd. (formerly known as Guizhou Yuqing T. H. Cement Co. Ltd.) **# | Registered and paid up capital RMB12,500,000 | 79% | Manufacture and sale of cement | 1 and 2 |
| Guizhou Zunyi Shui On Cement Co. Ltd. **# | Registered and paid up capital RMB92,000,000 | 79% | Manufacture and sale of cement | 1, 2 and 3 |
| Lamma Yue Jie Company Limited | 10,000 ordinary shares of HK\$1 each | 60% | Trading of construction materials | |
| Nanjing Jiangnan Cement Company Ltd. **# | Registered and paid up capital RMB120,000,000 | 60% | Manufacture and trading of cement | 1 and 2 |
| Shenzhen Lamma Yue Jie Concrete Products Co. Ltd. **# | Registered capital RMB5,000,000 Paid up capital RMB3,000,000 | 60% | Manufacture of precast concrete facade | 1 |
| Shui On (Panyu) Stainless Steel & Aluminium Products Company Limited **# | Registered and paid up capital HK\$2,000,000 | 50% | Manufacture and trading of stainless steel and aluminium products | 2 |
| Shui On Sumicem Consulting Limited | 100,000 ordinary shares of HK\$1 each | 50% | Consultancy services | |
| Sichuan Hejiang T. H. Cement Co. Ltd. **# | Registered and paid up capital RMB12,500,000 | 89% | Plant under construction | 1 and 2 |
| TH Industrial Management Limited *# | 2,740 ordinary shares of US\$1 each | 50% | Investment holding | 2 |
| Other business | | | | |
| The Yangtze Ventures Limited *** | 1,000 ordinary shares of HK\$0.1 each | 65.5% | Investment fund | 2 |
| The Yangtze Ventures II Limited *** | 1,000 ordinary shares of HK\$0.1 each | 75.4% | Investment fund | 2 |

* Incorporated in the Bahamas

** Registered and operated in other regions of the PRC

*** Incorporated in the Cayman Islands

Equity joint venture

39. Particulars Of Principal Jointly Controlled Entities - continued

Notes:

1. The Group is under contractual arrangements to jointly control these entities with PRC partners. Accordingly, the Directors consider they are jointly controlled entities.
2. The results of these jointly controlled entities are accounted for by the Group based on their financial statements made up to 31 December, 2003.
3. The Group's effective shareholding in Guizhou Zunyi Shui On Cement Co. Ltd. ("Guizhou Zunyi") is 79%, but the Group was entitled to a share of 59% of Guizhou Zunyi's profit for the period up to 31 December, 2003.

Particulars Of Properties

Properties held by the Group as at 31 March, 2004 are as follows:

| Location | Use | Approx. floor area (Sq. metres) | Lease term | Group's interest | Stage of completion | Anticipated completion |
|---|-----------------------------------|---------------------------------|------------|------------------|-----------------------------|------------------------|
| (A) PROPERTIES HELD AS PROPERTY, PLANT AND EQUIPMENT | | | | | | |
| 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 | 2,599 | Medium | 100% | N/A | N/A |
| Section B and the Remaining Portion of Lot No.1477 in Demarcation District No.77, Ping Che, Fanling, New Territories | Workshop and storage | 1,796 | Medium | 100% | N/A | N/A |
| (B) INVESTMENT PROPERTY | | | | | | |
| Kwun Tong Inland Lot No.43 54 - 56 Tsun Yip Street Kwun Tong, Kowloon | Industrial/ godown | 19,723 | Medium | 100% | N/A | N/A |
| (C) PROPERTIES HELD FOR SALE | | | | | | |
| Tseung Kwan O Town Lot No. 62, Area 65A Bauhinia Garden 11 Tong Chun Street Tseung Kwan O Sai Kung New Territories | Carparking | 3,538 | Medium | 100% | N/A | N/A |
| Land No. 149/1, Xin Gang Road, Hong Kou District, Shanghai, PRC* | Residential Carparking | 369 17,608 | Long | 99% | N/A | N/A |
| (D) PROPERTY UNDER DEVELOPMENT | | | | | | |
| Land No. 149/1, Xin Gang Road, Hong Kou District, Shanghai, PRC* | Residential Commercial Club house | 95,847 32,216 2,901 | Long | 99% | Super-structure in progress | Stage 2 February 2005 |

* This property was disposed of subsequent to the balance sheet date as set out in note 36(a) to the financial statement.

Group Financial Summary

1. Results

| | For the year ended 31 March, | | | | |
|--|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2000 HK\$ million | 2001 HK\$ million | 2002 HK\$ million | 2003 HK\$ million | 2004 HK\$ million |
| Turnover | 5,985.2 | 5,556.1 | 3,757.2 | 2,311.3 | 3,590.9 |
| Profit (loss) from operations | 577.6 | 568.4 | 120.5 | (69.3) | 176.1 |
| Finance costs | (1.0) | (1.1) | (3.1) | (5.9) | (10.3) |
| Share of results of associates/jointly controlled entities | 35.2 | 30.8 | 5.0 | 30.6 | 34.2 |
| Profit (loss) before taxation | 611.8 | 598.1 | 122.4 | (44.6) | 200.0 |
| Taxation | (102.1) | (80.7) | (20.5) | 0.1 | (49.4) |
| Profit (loss) before minority interests | 509.7 | 517.4 | 101.9 | (44.5) | 150.6 |
| Minority interests | (6.6) | (9.1) | 2.4 | 0.2 | (2.9) |
| Profit (loss) attributable to shareholders | 503.1 | 508.3 | 104.3 | (44.3) | 147.7 |

2. Assets And Liabilities

| | As at 31 March, | | | | |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2000 HK\$ million | 2001 HK\$ million | 2002 HK\$ million | 2003 HK\$ million | 2004 HK\$ million |
| Total assets | 4,288.6 | 5,163.5 | 2,825.9 | 3,244.1 | 3,738.3 |
| Total liabilities | (2,710.0) | (3,553.4) | (1,467.9) | (2,008.0) | (2,322.5) |
| Minority interests | (23.4) | (28.0) | (27.4) | (26.1) | (28.6) |
| Shareholders' funds | 1,555.2 | 1,582.1 | 1,330.6 | 1,210.0 | 1,387.2 |

Note: The above financial summary prior to 2003 has not been adjusted to take into account the effect on the adoption of SSAP 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants as the directors considered that it is not practicable to do so.