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瑞安建業有限公司*

SHUI ON CONSTRUCTION AND MATERIALS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 983)

MAJOR TRANSACTION

**THE ACQUISITION OF INTERESTS IN YUNNAN CEMENT,
AND**

**THE OPTION GRANTED TO LAFARGE TO ACQUIRE 50 PER CENT.
OF THE COMPANY'S INTERESTS IN YUNNAN JV**

Financial Adviser to Shui On Construction and Materials Limited

Deloitte.

德勤

Deloitte & Touche Corporate Finance Ltd.

A letter from the board of directors of Shui On Construction and Materials Limited is set out on pages 5 to 18 of this circular.

* For identification purpose only

6 April 2005

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
1. Introduction	5
2. Proposed investment in a joint venture	6
3. Potential continuing connected transactions	14
4. The subsequent disposal of interest in the joint venture	15
5. Impact on the Group and reasons for the Acquisition	17
6. Listing Rules Implications	18
7. Other Information	18
Appendix I — Financial Information on the Group	19
Appendix II — Accountants' Report of Yunnan Cement	82
Appendix III — Pro Forma Combined Statement of Assets and Liabilities of Yunnan Cement	113
Appendix IV — Valuation Report	117
Appendix V — General Information	132

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition by Prime Allied (Mauritius) in replacement of Prime Allied (BVI), of an 80% equity interest in Yunnan Cement with 100% equity interest in the PRC Subsidiaries
“associate(s)”	has the meaning as ascribed to the term under the Listing Rules
“Chuxiong Cement Factory”	雲南國資水泥楚雄有限公司 (Yunnan State Property Cement Chuxiong Company Limited), formerly known as 昆明水泥股份有限公司楚雄水泥廠 (Kunming Cement Joint Stock Limited Chuxiong Cement Factory), a company incorporated in the PRC with limited liability
“Consideration”	the effective consideration of the two-step approach for the Acquisition of about RMB409 million (about HK\$386 million) (as described under the paragraph headed “The two-step approach arrangement under the New Agreements” and “Consideration for the Acquisition” in the “Letter from the Board”)
“Director(s)”	the director(s) of SOCAM
“Dongjun Cement”	雲南東駿水泥有限公司 (Yunnan Dongjun Cement Co. Ltd.), a company incorporated in the PRC with limited liability
“Exercise Period”	the period starting from the date of the JO Agreement to 8 July 2005 during which time Lafarge may acquire 50% of the interest held or to be held by SOCAM in Yunnan Cement or Yunnan JV (as appropriate) at the discretion of Lafarge
“Group”	SOCAM and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Honghe Cement” or “Kaiyuan Cement”	雲南國資水泥紅河有限公司 (Yunnan State Property Cement Honghe Company Limited), formerly known as 雲南開遠水泥股份有限公司 (Yunnan Kaiyuan Cement Liability Co., Ltd.), a company incorporated in the PRC with limited liability
“Independent Third Party(ies)”	independent third party or parties who is or are not connected with any of the Directors, chief executive or substantial shareholders of SOCAM or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules)

DEFINITIONS

“JO Agreement”	the conditional joint operation agreement dated 18 June 2004 made between Prime Allied (BVI) and YNAOL in relation to the proposed co-investment in Yunnan JV
“Kunming Cement”	雲南國資水泥昆明有限公司 (Yunnan State Property Cement Kunming Company Limited), formerly known as 昆明水泥股份有限公司 (Kunming Cement Joint Stock Limited), a company incorporated in the PRC with limited liability
“Lafarge”	Lafarge S.A., a company incorporated in France which is listed on the Paris Stock Exchange and the New York Stock Exchange, and an Independent Third Party
“Lafarge Agreement”	the agreement dated 18 June 2004 entered into between SOCAM and Lafarge in relation to the Option and the Technical Assistance Agreement
“Latest Practicable Date”	4 April 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minority Interests”	attributable interests in the PRC Subsidiaries not owned by Yunnan Cement or any of its subsidiaries, i.e. 43.87%, 36.33%, 30.00%, 66.75% and 43.87% equity interests of Kunming Cement, Honghe Cement, Yunnan Kaixin, Dongjun Cement and Chuxiong Cement Factory respectively, but which YNAOL has agreed to procure such sale to Yunnan JV upon completion of the formation of Yunnan JV
“New Agreements”	the New JV Agreement, the New Transfer Agreement and the Tri-Party Agreement
“New JV Agreement”	the new joint venture agreement dated 1 February 2005 between Prime Allied (Mauritius) and YNAOL as further supplemented by the Tri-Party Agreement in relation to the establishment of and investment in Yunnan JV which supersedes any inconsistent provisions on the same matter in any previous documents executed by the same parties
“New Production Lines Agreement”	the agreement dated 1 February 2005 between Prime Allied (Mauritius), YNAOL, Kunming Cement and Kaiyuan Cement on YNAOL’s guarantee on cost overrun in respect of the construction cost of certain new production lines of the PRC Subsidiaries

DEFINITIONS

“New Transfer Agreement”	the new transfer and capital injection agreement dated 1 February 2005 between Prime Allied (Mauritius) and YNAOL as supplemented by the Tri-Party Agreement on the acquisition of 80% equity interest in Yunnan Cement and the further capital injection in Yunnan JV, as further supplemented from time to time, and which supersedes any inconsistent provisions on the same matter in any previous documents executed by the same parties
“Option”	the option granted by SOCAM to Lafarge to acquire 50% of the interest held or to be held by SOCAM in Yunnan Cement or Yunnan JV (as appropriate) over the Exercise Period at the discretion of Lafarge
“PRC”	the People’s Republic of China (excluding Hong Kong, Taiwan and Macau Special Administrative Region for the purpose of this circular)
“PRC Subsidiaries”	Kunming Cement, Chuxiong Cement Factory, Honghe Cement, Yunnan Kaixin and Dongjun Cement
“Prime Allied (BVI)”	Prime Allied Enterprises Limited, a wholly owned subsidiary of the Group established in the British Virgin Islands
“Prime Allied (Mauritius)”	Prime Allied Enterprises Limited, a wholly owned subsidiary of the Group incorporated in Mauritius on 30 August 2004
“Reorganisation”	the reorganisation to be procured by YNAOL whereby Yunnan Cement or Yunuan JV, as the case may be will acquire the entire equity interests in the PRC Subsidiaries and/or their respective relevant net assets, as appropriate
“RMB”	Renminbi, the lawful currency of the PRC
“S&P Agreement”	the conditional formal sale and purchase agreement dated 11 August 2004 entered into between Prime Allied (BVI) and YNAOL in relation to the Acquisition
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value HK\$1.00 each in the issued share capital of SOCAM
“SOCAM”	Shui On Construction and Materials Limited, a company incorporated in Bermuda and listed on the main board of the Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Technical Assistance Agreement”	the technical assistance agreement dated 2 July 2004 entered into between Lafarge and the Group in relation to the free technical assistance to be provided by Lafarge to the Group (or to Yunnan Cement or to Yunnan JV (as appropriate) on behalf of the Group)
“Tri-Party Agreement”	the tri-party agreement dated 28 February 2005 among YNAOL, Prime Allied (Mauritius) and Prime Allied (BVI) in relation to the legal effect of the JO Agreement and the S&P Agreement and of, and further supplements, the New JV Agreement and the New Transfer Agreement
“YNAOL”	雲南省國有資產經營有限責任公司 (Yunnan National Assets Operation Co. Ltd.), a state-owned company incorporated in the PRC with limited liability and an Independent Third Party
“Yunnan Cement”	雲南國資水泥有限公司 (Yunnan State Property Cement Company Limited), a company incorporated in the PRC and currently owned as to 100% by YNAOL
“Yunnan Kaixin”	雲南開新建材實業有限公司 (Yunnan Kaixin Building Materials Industries Co., Ltd.), a company incorporated in the PRC with limited liability
“Yunnan JV”	雲南瑞安建材投資有限公司 (Yunnan Shui On Construction Materials Investment Holding Co. Ltd.), a Sino-foreign joint venture company to be transformed from Yunnan Cement

For the purposes of this circular, unless otherwise indicated, Renminbi amounts have been translated into Hong Kong dollars using the rate of HK\$1.00: RMB1.06.

For ease of reference, the names of the PRC established companies or entities have been included in this circular in both Chinese and English languages. In the event of any inconsistency, the Chinese version shall prevail.

LETTER FROM THE BOARD



瑞安建業有限公司*

SHUI ON CONSTRUCTION AND MATERIALS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 983)

Executive Directors:

Mr. LO Hong Sui, Vincent (*Chairman*)
Mr. WONG Ying Wai, Wilfred (*Vice-chairman*)
Mr. CHOI Yuk Keung, Lawrence (*Vice-chairman*)
Mr. WONG Yuet Leung, Frankie (*Chief Executive Officer*)
Mr. WONG Fook Lam, Raymond
Mrs. LOWE Hoh Wai Wan, Vivien

Registered Office:

Clarendon House
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Hamilton
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Bermuda

Non-Executive Directors:

Mr. WONG Hak Wood, Louis
Professor ENRIGHT Michael John

Independent Non-Executive Directors:

Mr. GRIFFITHS Anthony
Mr. CHEUNG Kin Tung, Marvin
Mr. CHENG Mo Chi, Moses

6 April 2005

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION

THE ACQUISITION OF INTERESTS IN YUNNAN CEMENT, AND THE OPTION GRANTED TO LAFARGE TO ACQUIRE 50 PER CENT. OF THE COMPANY'S INTERESTS IN YUNNAN JV

1. INTRODUCTION

The purpose of this circular is to provide you with further information in relation to the captioned matter which has been disclosed in the announcements of the Company dated 25 June 2004, 19 July 2004, 2 August 2004, 11 August 2004, 23 August 2004, 6 September 2004, 28 September 2004, 6 October 2004, 19 November 2004, 7 January 2005, 2 March 2005 and 29 March 2005 respectively.

* For identification purpose only

2. PROPOSED INVESTMENT IN A JOINT VENTURE

Original mechanism for the Acquisition and the capital injection in Yunnan JV

On 25 June 2004, the Directors announced that Prime Allied (BVI) (a wholly-owned subsidiary of SOCAM) would invest in Yunnan JV by way of a one-step approach arrangement. Under this arrangement, Prime Allied (BVI) would acquire 80% of the equity interest in Yunnan Cement, a PRC state-owned enterprise, thereby transforming Yunnan Cement into a sino foreign joint venture company, Yunnan JV. Such Acquisition was supposed to be conducted after the Reorganisation (i.e. after Yunnan Cement has acquired the Minority Interests and thereby holds 100% equity interest in the PRC Subsidiaries). Yunnan JV was to be established with an initial registered capital of RMB511 million (about HK\$482 million). Prime Allied (BVI) would pay about RMB409 million (about HK\$386 million) to YNAOL for the Acquisition. Thereafter Prime Allied (BVI) and YNAOL would, in proportion to their equity interest in Yunnan JV, inject cash to bring the total registered capital of Yunnan JV to RMB600 million (about HK\$566 million) and thereafter to bring the registered capital up to RMB1 billion (about HK\$943 million) within 12 months of the setting up of Yunnan JV. Prime Allied (BVI) would inject cash totalling about RMB391 million (about HK\$369 million) into Yunnan JV in this respect.

Revised mechanism for the Acquisition and the capital injection in Yunnan JV

On 2 March 2005, the Directors announced that on 1 February 2005 and 28 February 2005, Prime Allied (Mauritius), a wholly owned subsidiary of the Group nominated by the Company to replace Prime Allied (BVI) as the foreign investor in Yunnan JV, entered into the New Agreements to revise the mechanism for conducting the Acquisition from the one-step approach to a two-step approach (details of which are discussed below) to speed up and to facilitate the Reorganisation, which was originally intended to be one of the conditions to the Acquisition under the one step approach arrangement. Consequential amendments to the original contractual terms were made. The Directors also announced that Prime Allied (Mauritius) entered into the New Production Lines Agreement whereby YNAOL agreed to provide to Prime Allied (Mauritius) guarantee on cost overrun in respect of certain new production lines of the PRC Subsidiaries.

New Agreements

Dates

- | | |
|-----------------------------|------------------|
| (1) New JV Agreement: | 1 February 2005 |
| (2) New Transfer Agreement: | 1 February 2005 |
| (3) Tri-Party Agreement: | 28 February 2005 |

LETTER FROM THE BOARD

Parties

- | | |
|-----------------------------|--|
| (1) New JV Agreement: | Prime Allied (Mauritius) and YNAOL. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, YNAOL and its ultimate beneficial owners are Independent Third Parties. The substantial shareholder of Yunnan Cement is not and will not become a controller (as defined in rule 14A.10 of the Listing Rules) or its associate as a result of the Acquisition. |
| (2) New Transfer Agreement: | same parties as above |
| (3) Tri-Party Agreement: | Prime Allied (BVI)
Prime Allied (Mauritius)
YNAOL |

The two-step approach arrangement under the New Agreements

Prime Allied (Mauritius) has replaced Prime Allied (BVI), and will invest in Yunnan JV by way of a two-step approach as opposed to the original one-step approach:

Step One

- (a) Prime Allied (Mauritius) would acquire 80% equity interest in Yunnan Cement from YNAOL based on its initial registered capital of about RMB361 million (about HK\$341 million), which comprises the 56.13%, 63.67%, 70.0%, 33.25% and 56.13% attributable interests that Yunnan Cement has in Kunming Cement, Honghe Cement, Yunnan Kaixin, Dongjun Cement and Chuxiong Cement Factory respectively. Thereafter, Yunnan Cement will be transformed into Yunnan JV;
- (b) The consideration for the 80% equity interest in Yunnan Cement is about RMB289 million (about HK\$273 million); and
- (c) The consideration will be paid to YNAOL after obtaining the PRC governmental approvals for the New Agreements and within 10 working days after YNAOL has proved its ownership in the Minority Interests and has executed agreements to sell the Minority Interests to Yunnan JV.

Step Two

- (i) Yunnan JV will acquire the Minority Interests from YNAOL at the consideration of about RMB330 million (about HK\$311 million) of which RMB180 million (about HK\$170

LETTER FROM THE BOARD

million) will be subjected to deferral term and be settled over 10 years by equal annual instalments. This is a concession on the part of YNAOL which will help to improve the investment return of Prime Allied (Mauritius). This amount of RMB180 million (about HK\$170 million) will be treated in the books and records of Yunnan JV as account payable by Yunnan JV to YNAOL. The remaining consideration of about RMB150 million (about HK\$141 million) will be paid in cash; and

- (ii) The registered capital of Yunnan JV will be increased from about RMB361 million (about HK\$341 million) to RMB1 billion (about HK\$943 million). Prime Allied (Mauritius) and YNAOL will inject cash in proportion to their equity interest in Yunnan JV in stages, firstly to increase the paid up capital of Yunnan JV from about RMB361 million (about HK\$341 million) to RMB600 million (about HK\$566 million) to enable Yunnan JV to acquire the Minority Interests from YNAOL (as discussed in Step Two (i) above), and thereafter to RMB1 billion (about HK\$943 million) within 12 months of the setting up of Yunnan JV. Prime Allied (Mauritius) will pay its proportional share of the cash injection totalling about RMB511 million (about HK\$482 million).

The two-step approach is presented as follows:

		Prime Allied (Mauritius)'s 80% share	YNAOL's 20% share	Yunnan JV
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Step One	361	289	72	361
	-----	-----	-----	-----
Step Two	330			
Less: Equal annual instalments to be settled over 10 years	(180)			

	150	120	30	150
	-----	-----	-----	-----
Consideration	691	409	102	511
	=====			
Cash injection as working capital		71	18	89
		-----	-----	-----
		480	120	600
Cash injection within 12 months		320	80	400
		-----	-----	-----
Total contribution		800	200	1,000
		=====	=====	=====

LETTER FROM THE BOARD

If YNAOL fails to sell the Minority Interests to Yunnan JV such that Yunnan JV is unable to acquire 100% equity interests in the PRC Subsidiaries within 3 months of its establishment, Prime Allied (Mauritius) may terminate the New Agreements unilaterally, and YNAOL shall compensate Prime Allied (Mauritius) for all losses arising therefrom.

Owing to the complexity of the Reorganisation that requires the approval of relevant PRC authority including the Ministry of Commerce, which would take further time to complete, the Directors have not made any projection as to the expected date for completing the Acquisition and the cash injection. Further announcement will be made when the requisite PRC approvals have been obtained by the Company.

Consideration for the Acquisition

The Consideration (i.e. the effective consideration of the two-step approach of the Acquisition as explained above) of about RMB409 million (about HK\$386 million) was arrived at after a series of arm's length negotiations between the parties, taking into account the future earnings potential of Yunnan Cement based on certain factors including management analysis of the capacity of the kilns (being the major assets of Yunnan Cement), costs and quality of the cement produced as compared against the market, the anticipated market growth of the cement business in the Yunnan Province in view of the "Go West" policy, and the Central Government's policy to develop the vast energy resources in the inland regions as described in the paragraph headed "Impact on the Group and reasons for the Acquisition". The Consideration was regarded as reasonable and supported by due diligence work performed by the management of SOCAM for the purpose of the Acquisition.

The Consideration is equivalent to 80% of the final price of RMB691 million (about HK\$652 million) for Yunnan Cement, after making the deduction of RMB180 million (about HK\$170 million) (as described in Step Two (i) under the paragraph headed "The two-step approach arrangement under the New Agreements" above) and is to be settled in cash and funded by internal resources and unutilised banking facilities of the Group. Further adjustments on profits or losses from 31 December 2003 to the date of completion of the Reorganisation, and on other material items, if any, which may be revealed by various technical assessments and the completion audit, will be made to the Consideration. The completion audit will be performed by an independent firm of accountants.

Out of the Consideration, a deposit of RMB80 million (about HK\$76 million) has been paid. Such deposit is fully refundable within 10 business days if the establishment of Yunnan JV cannot be achieved.

The aggregate of the remuneration payable to and benefits in kind receivable by the director of Yunnan Cement will not be varied as a result of the Acquisition.

LETTER FROM THE BOARD

Terms of Yunnan JV

Upon the establishment of Yunnan JV, the detailed terms of Yunnan JV will be as follows:

Scope of business:	Yunnan JV will be an investment holding company. It will manage and control its subsidiaries in Yunnan which are engaged in cement businesses.
Board composition and management:	Prime Allied (Mauritius) and YNAOL will have the right to appoint eight and two directors to Yunnan JV, respectively. Prime Allied (Mauritius) will have the right to appoint the chairman of the board, general manager, financial controller, and internal auditor of Yunnan JV, and YNAOL will have the right to appoint the deputy chairman of the board, a deputy general manager and an assistant internal auditor.
Term of operation:	50 years
Profit sharing ratio:	in proportion to the respective equity interest of the equity owners.

New Production Lines Agreement

Date

1 February 2005

Parties

Prime Allied (Mauritius)
YNAOL
Kunming Cement
Kaiyuan Cement

Subject

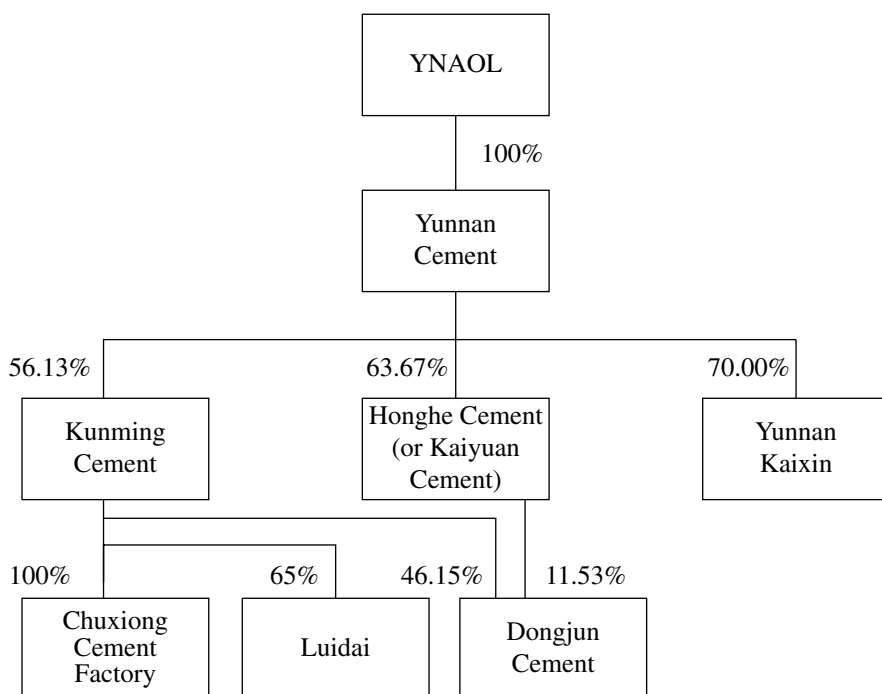
To further safeguard the interest of the Company, the exact mechanism for enforcing the guarantees with respect to the new production lines of Dongjun Cement and Kaiyuan Cement are detailed in the New Production Lines Agreement. YNAOL shall guarantee that the construction costs of the new production lines of Dongjun Cement and Kaiyuan Cement with an annual production capacity of 1,500,000 tonnes and 750,000 tonnes respectively will not exceed the total lump sum costs of RMB680 million and RMB190 million respectively (about HK\$642 million and HK\$179 million) and pay for the cost overrun in the manner set out in the agreement.

LETTER FROM THE BOARD

Information on Yunnan Cement and the PRC Subsidiaries

Yunnan Cement was established on 8 May 2004. Based on the audited accounts of Yunnan Cement as set out in Appendix II of this circular, the audited combined net assets value of Yunnan Cement were about RMB214 million (about HK\$202 million), about RMB168 million (about HK\$158 million), and about RMB170 million (about HK\$160 million) as at 31 December 2002, 31 December 2003 and 31 December 2004, respectively. For the two years ended 31 December 2003, the audited combined net losses of Yunnan Cement were about RMB17 million (about HK\$16 million), and about RMB46 million (about HK\$44 million) respectively. The audited combined net profit of Yunnan Cement for the year ended 31 December 2004 was about RMB4 million (about HK\$3.8 million).

The current shareholding structure of Yunnan Cement and the PRC Subsidiaries is set out as follows:



Kunming Cement and its subsidiaries

Kunming Cement was established in December 1995 and has a registered capital of about RMB190 million (about HK\$179 million). Located in Kunming, it manufactures and sells cement under the “Shilin” brandname. Kunming Cement has an annual production capacity of 1,200,000 tonnes and also operates a grinding mill with an annual grinding capacity of 80,000 tonnes through a wholly-owned subsidiary, Chuxiong Cement Factory. For the year ended 31 December 2004, Kunming Cement produced 820,000 tonnes and ground 16,000 tonnes through Chuxiong Cement Factory.

LETTER FROM THE BOARD

Kunming Cement also currently holds a 65% interest in Yunnan Luidai Industrial Company Limited (“Luidai”), a company engaged in the production of chemical materials for cement and concrete. Luidai was established in April 1996 with a registered capital of about RMB1.4 million (about HK\$1.3 million). The Directors have confirmed that, as part of the Reorganisation, Kunming Cement will dispose of its interest in Luidai such that all the assets and liabilities relating to Luidai will be excluded from Yunnan Cement and the PRC Subsidiaries prior to the Acquisition.

Honghe Cement

Honghe Cement (formerly known as Kaiyuan Cement) was established in March 1997 and has a registered capital of about RMB150 million (about HK\$142 million). Honghe Cement operates one cement plant that has an annual cement production capacity of 1,500,000 tonnes and two grinding mills that have an aggregate grinding capacity of 480,000 tonnes per annum. The construction of a new dry rotary kiln (being part of the cement plant) with an annual production capacity of 750,000 tonnes was completed and commenced production in 2004. YNAOL has guaranteed to pay for any cost overrun for the construction of this dry rotary kiln over RMB190 million (approximately HK\$179 million), details of which are set out under the paragraph headed “New Production Lines Agreement”. For the year ended 31 December 2004, Honghe Cement produced 900,000 tonnes and the two grinding mills ground 450,000 tonnes.

Yunnan Kaixin

Yunnan Kaixin was established in 1993 with a registered capital of US\$5.26 million (about HK\$41 million). Yunnan Kaixin currently operates a cement plant with an annual production capacity of 200,000 tonnes. For the year ended 31 December 2004, Yunnan Kaixin produced 180,000 tonnes.

Dongjun Cement

Dongjun Cement was established in July 2000 with a registered capital of RMB260 million (about HK\$245 million). A modern dry rotary kiln with an annual production capacity of 1,500,000 tonnes is currently under construction at Dongjun Cement. YNAOL has guaranteed to pay for any cost overrun for the construction of this dry rotary kiln over RMB680 million (approximately HK\$642 million), details of which are set out under the paragraph headed “New Production Lines Agreement”.

LETTER FROM THE BOARD

Determination of goodwill arising from the Acquisition

Based on the audited accounts of Yunnan Cement, the audited combined net assets of Yunnan Cement was about RMB170 million (about HK\$160 million) as at 31 December 2004. The goodwill, i.e. the difference between the Consideration and the 80% equity interest in the fair value of the combined net assets of Yunnan Cement, is calculated as follows:

	<i>RMB million</i>	<i>HK\$ million</i>
Combined net assets of Yunnan Cement at 31 December 2004	170	160
Add: Increase in net assets value of Yunnan Cement resulting from the transfer of land use rights to Dongjun Cement subsequent to 31 December 2004 (<i>Note 1</i>)	62	59
Less: Net assets value of Luidai to be transferred out from Yunnan Cement	(1)	(1)
Add: Acquisition of minority interests in the PRC Subsidiaries	151	142
Less: The discounted value of the RMB180 million which will be treated in the books and records of Yunnan Cement as account payable of Yunnan Cement to YNAOL (<i>Note 2</i>)	<u>(140)</u>	<u>(132)</u>
The adjusted combined net assets value of Yunnan Cement (A) (as set out in Appendix III of this circular)	<u>242</u>	<u>228</u>
Estimated goodwill:		
Consideration	409	386
Estimated expenses to be incurred in connection with the Acquisition	9	8
Less: 80% of equity interest in the combined net assets value of Yunnan Cement ((A) x 80%)	<u>(194)</u>	<u>(183)</u>
Estimated goodwill arising on the Acquisition	<u>224</u>	<u>211</u>

Notes:

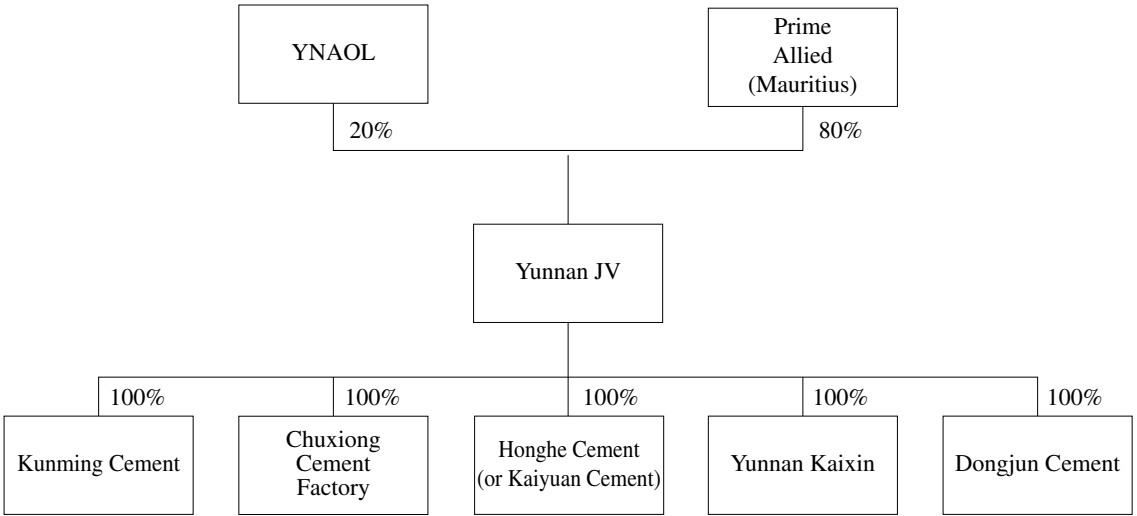
1. The land use rights are expected to be transferred to Dongjun Cement from one of the existing equity joint venture partners of Dongjun Cement in accordance with the joint venture agreement of Dongjun Cement prior to the completion of the New Agreements.
2. The amount represents the present value of the RMB180 million determined based on a discount rate of 6.12% per annum.

LETTER FROM THE BOARD

The goodwill arising on the Acquisition is estimated to be RMB224 million (about HK\$211 million) and is calculated by reference to the total cost of the Acquisition over the carrying value of the net assets acquired. The Directors consider that the amount of this goodwill is reasonable in the light of the expected future profits, cash flow to be generated from the acquired operations and the continuation of the current tax treatment.

Shareholding structure of Yunnan JV upon completion of the Acquisition, the capital injection and the Reorganisation

Upon completion of the Acquisition, the capital injection and the Reorganisation, the shareholding structure of Yunnan JV is set out as follows:



3. POTENTIAL CONTINUING CONNECTED TRANSACTIONS

YNAOL has agreed to compensate Yunnan JV if the operation of certain production lines of Kunming Cement are suspended or are otherwise removed due to governmental policy or reason, by among other things, repurchasing these production lines from Kunming Cement. In addition, YNAOL will procure the extension of the banking facilities currently available to Yunnan Cement and the PRC Subsidiaries to Yunnan JV and its subsidiaries, and will also continue to provide security to the relevant banks with its assets until they are substituted by security from Yunnan JV. In return, Yunnan JV will provide counter indemnity to YNAOL.

YNAOL has also undertaken to lease to Yunnan JV certain land at an annual rental of about RMB6 million (about HK\$6 million) for the entire term of operation of Yunnan JV, which is intended to be 50 years. Pursuant to rule 14A.35 of the Listing Rules, the period for each agreement in relation to continuing connected transactions, except in special circumstances, must not exceed three years. The Directors consider that it is necessary for the duration of the agreement to be the entire term of operation of Yunnan JV in order to ensure that such land would be available for use by

LETTER FROM THE BOARD

Yunnan JV during its entire term of operation. If the lease agreement is only of a duration of three years, costs for relocating the relevant premises and equipment as well as that arising from interruption to the operations would be very high if the agreement could not be renewed at the end of each three-year period. Under such special circumstances, upon entering into the relevant lease agreement, an independent financial adviser will be appointed to explain why a longer period for the agreement is required and to confirm that it is normal business practice for contracts of this type to be of such duration in accordance with Rule 14A.35. Upon the completion, YNAOL will become a substantial shareholder of Yunnan JV, a subsidiary of SOCAM. As such, YNAOL will become a connected person of SOCAM under the Listing Rules upon the completion. Accordingly, the lease agreement to be entered into between YNAOL and Yunnan JV (or its wholly owned subsidiary) will constitute a continuing connected transaction of SOCAM under the Listing Rules. The terms of the agreement have not yet been decided.

These future transactions and financial assistance which will constitute future and/or continuing connected transactions of the Company following completion of the Acquisition will be conducted in compliance with the applicable Listing Rules. The Company is reviewing these and other possible connected transactions with YNAOL following the completion, and further announcement(s) will be made as and when necessary in compliance with the Listing Rules.

4. THE SUBSEQUENT DISPOSAL OF INTEREST IN THE JOINT VENTURE

The option granted to Lafarge to acquire 50 per cent. of the Company's interests in Yunnan JV

On 25 June 2004, the Directors also announced that SOCAM and Lafarge entered into the Lafarge Agreement dated 18 June 2004 whereby SOCAM granted Lafarge an Option to purchase, at any time until the expiry date of 17 March 2005, 50% of the interest held or to be held by SOCAM in Yunnan Cement or Yunnan JV (as appropriate). Lafarge agreed to provide free technical assistance. The Directors further announced on 29 March 2005 that the Company has entered into an agreement on 23 March 2005 to extend the Exercise Period for the Option granted to Lafarge to 8 July 2005.

The Lafarge Agreement

Date

18 June 2004

Parties

SOCAM

Lafarge, which is a company incorporated in France and listed on the Paris Stock Exchange and the New York Stock Exchange, and is a world leader in building materials. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Lafarge and its ultimate beneficial owners are Independent Third Parties.

LETTER FROM THE BOARD

The Option

Pursuant to the Lafarge Agreement, SOCAM has granted to Lafarge an option to purchase 50% of the interest held or to be held by SOCAM in Yunnan Cement or Yunnan JV (as appropriate). The Option may be exercised at the discretion of Lafarge within the Exercise Period. The exercise price of the Option will be 50% of the total amount of the equity interest in Yunnan Cement or Yunnan JV (as appropriate) acquired or to be acquired by SOCAM up to the date on which Lafarge exercises the Option. The price of the Option will be at 5% premium over the price paid by SOCAM for 50% of its equity stake in Yunnan Cement or Yunnan JV (as appropriate), which was agreed based on arm's length negotiations between SOCAM and Lafarge. In the event that the Option is exercised on or before the end of the Exercise Period, the 5% premium will be 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 Exercise Period. Based on the Consideration of RMB409 million (about HK\$386 million), the amount received by the Group on disposal as a result of the exercise of the Option is estimated to be about RMB206 million (about HK\$194 million) assuming that the Option is exercised upon the formation of Yunnan JV. It is intended that the net proceeds of the Option will be applied as general working capital of the Group. Upon the exercise of the Option, the Group's shareholding in Yunnan Cement or Yunnan JV (as appropriate) will be reduced to 40%.

The Technical Assistance Agreement

Date

2 July 2004

Parties

SOCAM

Lafarge

Subject

Lafarge has also agreed to provide the Group (or Yunnan Cement or Yunnan JV (as appropriate) on behalf of the Group) with free technical assistance as defined in the Technical Assistance Agreement during the Exercise Period. The free technical assistance includes technical investigations in connection with the due diligence exercise to be carried out by SOCAM at the production plants of Kaiyuan Cement and Dongjun Cement, and the technical services in connection with (a) completion of the production plants of Dongjun Cement; (b) initial production of the production plants of both Kaiyuan Cement and Dongjun Cement; and (c) appraisal of works to be undertaken for compliance of wet lines and other production facilities of Yunnan Cement or Yunnan JV (as appropriate) with environmental regulations in the PRC. The Technical Assistance Agreement was terminated on 17 March 2005 as Lafarge had already provided such technical assistance to the Group.

5. IMPACT ON THE GROUP AND REASONS FOR THE ACQUISITION

The Group is engaged in cement operations in the PRC, construction and construction materials in Hong Kong and the Pearl River Delta Region of the PRC and also property development and investment in the PRC.

It is the intention of the Directors to continue to expand its cement business in the Chinese Mainland to achieve or maintain a leadership position in its chosen markets. In this connection, the Group is constantly reviewing the form of its expansion plans including the possibility of entering into some form of co-operation with other third parties. The Group has established a leadership in the high grade cement industry in Chongqing Municipality and Guizhou Province and, as such, is already a leading producer of cement in central and western China. As stated previously in the Annual Report, the “Go West” policy, with full support from the Central Government, will continue to fund major infrastructure projects in the region, which in turn, will provide increased opportunities for the Group’s cement operations. The Group’s strategy is to enter a market at the point at which growth is about to accelerate and make acquisitions that are beneficial to the development of both the Group and the local economy.

The Directors believe the Acquisition provides an excellent opportunity for the Group to implement successfully its strategy referred to above. The Acquisition allows the Group to obtain a major market share in the eastern region of Yunnan Province. Yunnan Province and Chongqing Municipality are, in the opinion of the Directors, the points at which demand for high grade cement are about to accelerate sufficiently to benefit the Group. For example, one of the initiatives under the Central Government’s policy in Yunnan is to develop the vast energy resources in the inland regions and transfer the electricity produced to the more affluent coastal cities. With huge reserves of coal and an extensive river system, Yunnan is embarking on numerous thermal and hydroelectric power generation projects. Moreover, the Central Government’s strategy to foster a much closer link with the Asean countries is expected to further boost economic development in Yunnan, which is adjacent to Thailand, Myanmar (formerly Burma) and Laos and is close to other Asean countries. The Directors believe that many of these power generation projects and other projects will require high grade cement that can be produced by the Group.

In addition, the increasing number of substantial infrastructure projects and the strategy of the Central Government to replace small and environmentally unfriendly cement plants are conducive to the Group’s expansion in the cement business in the PRC. In recent years, the Group has accelerated acquisitions of strategic cement operations in targeted areas including Chongqing, Guizhou and now Yunnan where the Directors believe, with the Central Government’s modernisation of the central and western provinces, each area will have high potential for rapid economic growth in the years ahead.

The Group has invested actively in cement production facilities in the PRC since 1995. With solid experience in acquisitions and reforming state-owned plants, strong marketing and technological know-how, advanced operational management as well as an established reputation in the industry, the Group is systematically building a sizeable cement operation in the PRC. The Directors believe that the proposed investment in the cement operations in Yunnan Province, a major province in the southwestern region of the PRC, will further enhance the Group’s leading position among the top cement producers in the PRC. The Directors are of the view that the proposed investment will allow the Group to participate actively in the modernisation and restructuring of the cement industry in the PRC.

LETTER FROM THE BOARD

The Directors believe that the possible participation of Lafarge in Yunnan JV could mark the beginning of a long-term working relationship as both companies continue to expand their cement business in the PRC. The Directors also believe that the joint investment would create synergies by combining the expertise and know-how of both companies, thereby building in a planned manner, a platform to gain significant market share in the cement industry in the PRC. It is the intention of the Group to explore wider co-operation with Lafarge in the Chinese Mainland. In the event that Lafarge opts out, the Group may consider bringing in other suitable strategic partners.

Taking into consideration all of the above, the Directors are of the view that the terms of the New Agreements, the New Production Lines Agreement and the Lafarge Agreement are fair and reasonable and are on normal commercial terms and the transactions contemplated under the New Agreements, the New Production Lines Agreement and the Lafarge Agreement are in the interests of SOCAM and its shareholders as a whole.

6. LISTING RULES IMPLICATIONS

The New Agreements, the New Production Lines Agreement and the Lafarge Agreement constitute major transactions of SOCAM under the Listing Rules and are subject to shareholders' approval. Since none of the shareholders is required to abstain from voting, Shui On Company Limited, the controlling shareholder holding 166,148,000 Shares, and Shui On Finance Company Limited, a wholly owned subsidiary of Shui On Company Limited which has an interest in 19,035,000 Shares, together holding 185,183,000 Shares, representing about 69% of the issued share capital of SOCAM have approved the New Agreements, the New Production Lines Agreement and the Lafarge Agreement in lieu of a resolution to be passed at a shareholders' meeting pursuant to rule 14.44 of the Listing Rules.

7. OTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,

By order of the Board

Shui On Construction and Materials Limited

Wong Yuet Leung, Frankie

Chief Executive Officer

I. SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the last three financial years, as extracted from the audited financial statements is set out below:

	2004 <i>HK\$ million</i>	2003 <i>HK\$ million</i> <i>(Restated)</i>	2002 <i>HK\$ million</i>
Turnover			
The Company and its subsidiaries	3,590.9	2,311.3	3,757.2
Share of jointly controlled entities	725.1	526.8	292.8
	<u>4,316.0</u>	<u>2,838.1</u>	<u>4,050.0</u>
Group turnover	3,590.9	2,311.3	3,757.2
Other operating income	25.4	28.4	53.8
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	(58.3)
Raw materials and consumables used	(563.7)	(483.9)	(645.7)
Staff costs	(360.4)	(364.2)	(513.7)
Depreciation and amortisation expenses	(42.0)	(45.3)	(62.8)
Subcontracting, external labour costs and other operating expenses	(2,501.0)	(1,500.4)	(2,407.0)
Revaluation increase (decrease) on investment property	17.0	(14.0)	(3.0)
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	176.1	(69.3)	120.5
Finance costs	(10.3)	(5.9)	(3.1)
Share of results of jointly controlled entities	34.2	30.6	5.0
Profit (loss) before taxation	200.0	(44.6)	122.4
Taxation	(49.4)	0.1	(20.5)
Profit (loss) before minority interests	150.6	(44.5)	101.9
Minority interests	(2.9)	0.2	2.4
Profit (loss) attributable to shareholders	<u>147.7</u>	<u>(44.3)</u>	<u>104.3</u>
Dividends			
Paid	—	39.7	357.1
Proposed	73.7	—	39.7
Earnings (loss) per share			
Basic	<u>HK\$0.55</u>	<u>HK\$(0.17)</u>	<u>HK\$0.39</u>
Diluted	<u>HK\$0.54</u>	<u>HK\$(0.17)</u>	<u>HK\$0.39</u>

II. SUMMARY OF FINANCIAL INFORMATION FOR THE TWO YEARS ENDED 31 MARCH 2004

Set out below is a summary of the consolidated income statements, the consolidated statements of changes in equity, the consolidated cash flow statements for each of the two years ended 31 March 2004 and the consolidated balance sheets as at 31 March 2004 and 2003 of the Group together with the relevant notes as extracted from the audited financial statements of the Group for the year ended 31 March 2004.

Consolidated Income Statement

For The Year Ended 31 March 2004

	<i>Notes</i>	2004 <i>HK\$ million</i>	2003 <i>HK\$ million</i> <i>(Restated)</i>
Turnover			
The Company and its subsidiaries		3,590.9	2,311.3
Share of jointly controlled entities		<u>725.1</u>	<u>526.8</u>
		<u>4,316.0</u>	<u>2,838.1</u>
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		<u>2.9</u>	<u>(28.8)</u>
Profit (loss) from operations	6	176.1	(69.3)
Finance costs	7	(10.3)	(5.9)
Share of results of jointly controlled entities		<u>34.2</u>	<u>30.6</u>
Profit (loss) before taxation		200.0	(44.6)
Taxation	10	<u>(49.4)</u>	<u>0.1</u>
Profit (loss) before minority interests		150.6	(44.5)
Minority interests		<u>(2.9)</u>	<u>0.2</u>
Profit (loss) attributable to shareholders		<u>147.7</u>	<u>(44.3)</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	<i>Notes</i>	2004 <i>HK\$ million</i>	2003 <i>HK\$ million</i> <i>(Restated)</i>
Dividends	11		
Paid		<u>—</u>	<u>39.7</u>
Proposed		<u>73.7</u>	<u>—</u>
Earnings (loss) per share	12		
Basic		<u>HK\$0.55</u>	<u>HK\$(0.17)</u>
Diluted		<u>HK\$0.54</u>	<u>HK\$(0.17)</u>

Balance Sheets

As At 31 March 2004

		THE GROUP		THE COMPANY	
	<i>Notes</i>	2004	2003	2004	2003
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
		<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
		<i>(Restated)</i>			
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	—	—
		<u>1,749.5</u>	<u>1,859.3</u>	<u>293.8</u>	<u>294.6</u>
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
		<u>1,988.8</u>	<u>1,384.8</u>	<u>2,252.4</u>	<u>2,079.8</u>

FINANCIAL INFORMATION ON THE GROUP

— 23 —

Consolidated Statement of Changes in Equity*For The Year Ended 31 March 2004*

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

Consolidated Cash Flow Statement*For The Year Ended 31 March 2004*

	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
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	<u>(1.0)</u>	<u>(3.4)</u>
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	<u>452.8</u>	<u>—</u>
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	<u>0.1</u>	<u>0.3</u>
Net cash from (used in) operating activities	<u>874.7</u>	<u>(440.4)</u>

	2004 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
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)
	<u>(1,017.3)</u>	<u>(377.5)</u>
Net cash used in investing activities	<u>(1,017.3)</u>	<u>(377.5)</u>
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)
	<u>178.5</u>	<u>825.4</u>
Net cash from financing activities	<u>178.5</u>	<u>825.4</u>
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	<u>1.9</u>	<u>6.3</u>
Cash and cash equivalents at the end of the year	<u>110.1</u>	<u>72.3</u>
Analysis of the balances of cash and cash equivalents		
Bank balances, deposits and cash	111.0	89.5
Bank overdrafts	(0.9)	(17.2)
	<u>110.1</u>	<u>72.3</u>

Notes to the Financial Statements*For The Year Ended 31 March 2004***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.

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.

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	Over the term of the lease
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.

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.

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.

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.

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.

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.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Segment information about these businesses is presented below.

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

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	<u>5.7</u>	<u>(102.0)</u>	<u>(8.2)</u>	<u>211.5</u>	<u>60.4**</u>		167.4
Interest income							<u>8.7</u>
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)
							<u>34.2</u>
Profit before taxation							200.0
Taxation							<u>(49.4)</u>
Profit before minority interests							<u>150.6</u>

** 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).

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

BALANCE SHEET

	Construction and building maintenance	Sale of construction materials	Trading of building materials	Property development	Property investment and others	Eliminations	Consolidated
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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							<u>7.2</u>
Consolidated total assets							<u><u>3,738.3</u></u>
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							<u>1,470.3</u>
Consolidated total liabilities							<u><u>2,322.5</u></u>

OTHER INFORMATION

	Construction and building maintenance	Sale of construction materials	Trading of building materials	Property development	Property investment and others	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

2003	Construction and building maintenance <i>HK\$ million</i>	Sale of construction materials <i>HK\$ million</i>	Trading of building materials <i>HK\$ million</i>	Property development <i>HK\$ million</i>	Property investment and others <i>HK\$ million</i>	Eliminations <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
							<i>(Restated)</i>

TURNOVER							
External sales	1,773.2	466.1	53.4	2.3	16.3	—	2,311.3
Inter-segment sales	<u>—</u>	<u>150.4</u>	<u>3.9</u>	<u>—</u>	<u>0.4</u>	<u>(154.7)</u>	<u>—</u>
Group turnover	1,773.2	616.5	57.3	2.3	16.7	(154.7)	2,311.3
Share of jointly controlled entities	<u>48.3</u>	<u>478.5*</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>526.8</u>
Total	<u>1,821.5</u>	<u>1,095.0</u>	<u>57.3</u>	<u>2.3</u>	<u>16.7</u>	<u>(154.7)</u>	<u>2,838.1</u>

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	<u>27.0</u>	<u>(42.5)</u>	<u>(30.3)</u>	<u>(1.7)</u>	<u>(31.8)**</u>		(79.3)
Interest income							<u>10.0</u>
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)
							<u>30.6</u>
Loss before taxation							(44.6)
Taxation							<u>0.1</u>
Loss before minority interests							<u>(44.5)</u>

** 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).

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

BALANCE SHEET

	Construction and building maintenance	Sale of construction materials	Trading of building materials	Property development	Property investment and others	Eliminations	Consolidated
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
							<i>(Restated)</i>
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	Sale of construction materials	Trading of building materials	Property development	Property investment and others	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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

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	2003	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Hong Kong	2,694.0	2,166.8	(20.1)	(68.1)
Other regions in the PRC	<u>896.9</u>	<u>144.5</u>	<u>187.5</u>	<u>(11.2)</u>
	<u>3,590.9</u>	<u>2,311.3</u>	167.4	(79.3)
Interest income			<u>8.7</u>	<u>10.0</u>
Profit (loss) from operations			<u>176.1</u>	<u>(69.3)</u>

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	2003	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Hong Kong	1,071.1	1,281.4	14.4	21.0
Other regions in the PRC	<u>2,667.2</u>	<u>1,962.7</u>	<u>7.8</u>	<u>8.3</u>
	<u>3,738.3</u>	<u>3,244.1</u>	<u>22.2</u>	<u>29.3</u>

5. OTHER OPERATING INCOME

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

	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
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	<u>2.4</u>	<u>—</u>

6. PROFIT (LOSS) FROM OPERATIONS

	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
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	<u>3.8</u>	<u>3.4</u>
	42.0	45.5
Less: Amount capitalised to property under development	<u>—</u>	<u>(0.2)</u>
	<u>42.0</u>	<u>45.3</u>
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	<u>(2.8)</u>	<u>(9.2)</u>
	<u>360.4</u>	<u>364.2</u>
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	<u>3.0</u>	<u>2.1</u>
Net rental income	<u>(11.2)</u>	<u>(12.8)</u>

7. FINANCE COSTS

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

8. DIRECTOR'S EMOLUMENTS

	2004 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
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	<u>0.5</u>	<u>—</u>
	<u><u>11.1</u></u>	<u><u>14.0</u></u>

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	<u>—</u>	<u>1</u>
	<u><u>10</u></u>	<u><u>10</u></u>

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 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
Salaries and allowances	4.0	2.1
Retirement benefits cost	<u>0.3</u>	<u>0.1</u>
	<u>4.3</u>	<u>2.2</u>

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	<u>1</u>	<u>—</u>
	<u>2</u>	<u>1</u>

10. TAXATION

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

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	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit (loss) before taxation	<u>200.0</u>	<u>(44.6)</u>
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	<u>(1.1)</u>	<u>(8.2)</u>
Tax charge (credit) for the year	<u><u>49.4</u></u>	<u><u>(0.1)</u></u>

11. DIVIDENDS

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

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 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>147.7</u>	<u>(44.3)</u>
	<i>Million</i>	<i>Million</i>
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	<u>5.0</u>	<u>0.2</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u><u>271.2</u></u>	<u><u>264.8</u></u>

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 <i>HK\$</i>	Diluted <i>HK\$</i>
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)	<u>0.01</u>	<u>0.01</u>
Restated	<u><u>(0.17)</u></u>	<u><u>(0.17)</u></u>

13. INVESTMENT PROPERTY

	2004 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
THE GROUP		
At the beginning of the year	123.0	137.0
Revaluation increase (decrease)	<u>17.0</u>	<u>(14.0)</u>
At the end of the year	<u><u>140.0</u></u>	<u><u>123.0</u></u>

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 <i>HK\$ million</i>	Land and buildings in other regions of the PRC held under medium-term leases <i>HK\$ million</i>	Plant under construction <i>HK\$ million</i>	Plant and machinery <i>HK\$ million</i>	Motor vehicles <i>HK\$ million</i>	Equipment, furniture and other assets <i>HK\$ million</i>	Total <i>HK\$ million</i>
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).

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

15. PROPERTY UNDER DEVELOPMENT

	Land costs <i>HK\$ million</i>	Development costs <i>HK\$ million</i>	Total <i>HK\$ million</i>
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	<u>(174.2)</u>	<u>(278.6)</u>	<u>(452.8)</u>
At 31 March 2004	<u><u>520.3</u></u>	<u><u>288.9</u></u>	<u><u>809.2</u></u>
Carrying amount analysed for reporting purposes as:			
Non-current			591.2
Current			<u>218.0</u>
			<u><u>809.2</u></u>

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 about HK\$28.1 million (2003: HK\$23.3 million) and HK17.1 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 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
Share of net assets	555.0	440.4
Negative goodwill	<u>(2.8)</u>	<u>(2.9)</u>
	552.2	437.5
Amount due from a jointly controlled entity	<u>253.9</u>	<u>245.3</u>
	<u>806.1</u>	<u>682.8</u>

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.

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 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
Results for the year ended 31 December		
Turnover	<u>1,242.1</u>	<u>939.0</u>
Profit before taxation	<u>54.0</u>	<u>52.1</u>
Profit before taxation attributable to the Group	<u>33.8</u>	<u>34.1</u>
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	<u>(155.0)</u>	<u>(145.3)</u>
Net assets	<u>529.8</u>	<u>446.3</u>
Net assets attributable to the Group	<u>405.9</u>	<u>349.1</u>

19. INVESTMENT IN SECURITIES

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

20. CLUB DEBENTURE

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$ million	HK\$ million
Unlisted membership debenture in a recreational club, at cost	<u>1.2</u>	<u>1.2</u>

21. SITE ESTABLISHMENT EXPENDITURE

	THE GROUP	
	2004	2003
	HK\$ million	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	<u>(3.8)</u>	<u>(3.4)</u>
At the end of the year	<u>17.8</u>	<u>13.9</u>

22. INVENTORIES AND CONTRACTS IN PROGRESS

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

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

	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	<u>26.3</u>	<u>261.1</u>
	3,323.1	6,274.8
Less: Progress billings	<u>(3,324.4)</u>	<u>(6,134.7)</u>
Net contract work	<u>(1.3)</u>	<u>140.1</u>
Represented by:		
Amounts due from customers for contract work	98.4	221.2
Amounts due to customers for contract work	<u>(99.7)</u>	<u>(81.1)</u>
	<u>(1.3)</u>	<u>140.1</u>

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	<u>1,134.1</u>	<u>1,156.4</u>	<u>1,040.0</u>	<u>1,061.0</u>
	1,418.5	1,263.7	1,040.0	1,061.0
Less: Amounts due within one year	<u>(932.5)</u>	<u>(68.9)</u>	<u>(860.0)</u>	<u>—</u>
	<u>486.0</u>	<u>1,194.8</u>	<u>180.0</u>	<u>1,061.0</u>
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	<u>85.3</u>	<u>98.0</u>	<u>—</u>	<u>—</u>
	<u>1,418.5</u>	<u>1,263.7</u>	<u>1,040.0</u>	<u>1,061.0</u>

26. SHARE CAPITAL

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

27. RESERVES

	Properties revaluation reserve	Share premium account	Translation reserve	Contributed surplus	Goodwill	Negative goodwill	Retained profits	Reserve funds	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	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

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

	Translation reserve <i>HK\$ million</i>	Goodwill <i>HK\$ million</i>	Negative goodwill <i>HK\$ million</i>	Retained profits <i>HK\$ million</i>	Total <i>HK\$ million</i>
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	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1.0)</u>	<u>(1.0)</u>
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	<u>0.2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.2</u>
At 31 March 2004	<u>—</u>	<u>(2.0)</u>	<u>2.8</u>	<u>30.2</u>	<u>31.0</u>

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 <i>HK\$ million</i>	Revaluation of properties <i>HK\$ million</i>	Tax losses <i>HK\$ million</i>	Other temporary differences <i>HK\$ million</i>	Total <i>HK\$ million</i>
THE GROUP					
At 1 April 2002					
- as originally stated	(3.0)	—	0.5	1.0	(1.5)
- adjustment on adoption of SSAP 12 (Revised)	<u>(9.2)</u>	<u>(5.8)</u>	<u>6.4</u>	<u>0.4</u>	<u>(8.2)</u>
- 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	<u>—</u>	<u>(0.5)</u>	<u>—</u>	<u>—</u>	<u>(0.5)</u>
At 31 March 2003	(9.0)	(3.8)	6.8	1.0	(5.0)
(Charge) credit to consolidated income statement for the year	<u>(1.3)</u>	<u>—</u>	<u>0.2</u>	<u>0.5</u>	<u>(0.6)</u>
At 31 March 2004	<u>(10.3)</u>	<u>(3.8)</u>	<u>7.0</u>	<u>1.5</u>	<u>(5.6)</u>

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 about 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.

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 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
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	<u>5.2</u>	<u>—</u>
Net amount charged to consolidated income statement as staff costs	<u><u>20.5</u></u>	<u><u>14.5</u></u>

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	2003	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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	<u>(293.7)</u>	<u>(226.4)</u>	<u>(40.2)</u>	<u>(32.1)</u>
Defined benefit liability included in the balance sheet	<u><u>4.1</u></u>	<u><u>5.1</u></u>	<u><u>1.2</u></u>	<u><u>1.0</u></u>

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.

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

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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	<u>(21.5)</u>	<u>(17.9)</u>	<u>(2.4)</u>	<u>(1.9)</u>
At the end of the year	<u><u>4.1</u></u>	<u><u>5.1</u></u>	<u><u>1.2</u></u>	<u><u>1.0</u></u>

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	<u>2.1</u>	<u>5.9</u>
	<u>8.1</u>	<u>13.8</u>

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	<u>—</u>	<u>0.1</u>	<u>—</u>	<u>—</u>
	<u>19.1</u>	<u>23.3</u>	<u>4.3</u>	<u>8.8</u>

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 about HK\$576.6 million (2003: HK\$621.7 million) and authorised but not contracted for amounting to about 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	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
Authorised but not contracted for	<u>51.6</u>	<u>117.2</u>
Contracted but not provided for	<u>7.8</u>	<u>61.0</u>

(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 about 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 about 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.

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.

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.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

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

Date of grant	Subscription price per share <i>HK\$</i>	Number of options						Period during which share options outstanding at 31.3.2004 are exercisable	Price of Company's shares at exercise date of options <i>HK\$</i> (Note 1)
		At 1.4.2003	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31.3.2004		
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
		<u>35,794,000</u>	<u>780,000</u>	<u>(3,320,000)</u>	<u>(336,000)</u>	<u>(266,000)</u>	<u>32,652,000</u>		

Date of grant	Subscription price per share	Number of options						Period during which share options outstanding at 31.3.2003 are exercisable	Price of Company's shares at exercise date of options
		At 1.4.2002	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31.3.2003		
	HK\$								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 about 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 about 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 about 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 <i>HK\$ million</i>	2003 <i>HK\$ million</i>
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

- (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 about 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 (about 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 (BVI) and YNAOL will enter into a formal sale and purchase agreement whereby Prime Allied (BVI) 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 about 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 (BVI) 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 Yunna 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 100,000 non-voting deferred shares of HK\$10 each	—	94%	Interior decoration, fitting out, design and contracting
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
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

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
Dynamic Mark Limited	100 ordinary shares of HK\$1 each	—	80%	Supply of metal gates
	3,000,000 non-voting deferred shares of HK\$1 each			
First Direction Limited	100 ordinary shares of HK\$1 each	—	100%	Property holding
	2 non-voting deferred shares of HK\$1 each			
Great Market Limited	100 ordinary shares of HK\$1 each	—	100%	Investment holding
	5 non-voting deferred shares of HK\$1 each			
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	—	100%	Investment holding
	3,500,000 non-voting deferred shares of HK\$10 each			
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
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

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
Shui On Building Materials Limited	100 ordinary shares of HK\$1 each	—	100%	Investment holding and sale of construction materials
	1,000,000 non-voting deferred shares of HK\$1 each			
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	—	100%	Owning and leasing of plant and machinery and structural steel construction work
	45,389,000 non-voting deferred shares of HK\$1 each			
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

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
New Rainbow Investments Co. Ltd.	Registered and paid up capital US\$1	100%	—	Investment holding
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

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				
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
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 Xinpū 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	

Indirect jointly controlled entities	Issued and paid-up share capital/ registered capital	Effective percentage of issued capital held by the Group	Principal activities	Notes
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

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.

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.

III. PRO FORMA FINANCIAL INFORMATION UPON COMPLETION OF THE ACQUISITION AND THE EXERCISE OF THE OPTION

The information set out below is for information purposes only and does not form part of the accountants' report prepared by the reporting accountants of Yunnan Cement, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix II to this circular.

The SOCAM combined group will be formed after completion of the Acquisition and the subsequent exercise of Option by Lafarge to purchase 50% equity interest held or to be held by SOCAM in Yunnan Cement or Yunnan JV, details of which are set out in section headed "Letter from the Board" in this circular. The business combination of Yunnan JV will be accounted for under acquisition accounting in its first set of financial statements prepared immediately after completion of the Acquisition as the effective shareholding interest in Yunnan Cement or Yunnan JV of its ultimate shareholders will be different after completion of the Acquisition.

To provide additional financial information, the pro forma combined statement of net assets and liabilities of the SOCAM combined group as at 31 March 2004 have been prepared as if the Acquisition and exercise of the Option had been undertaken by SOCAM as at 31 March 2004.

The pro forma combined financial information of the combined group presented below do not purport to present what the financial information would actually have been if Yunnan Cement or Yunnan JV had been held by SOCAM as at 31 March 2004, or to project the financial information for any future period and are included for information purposes only.

The pro forma combined financial information should be read in conjunction with the historical financial information of the group, the acquired companies and other financial information included elsewhere in this circular.

Pro forma Combined Statement of Assets and Liabilities

Set out below is the pro forma combined statement of assets and liabilities of the SOCAM combined group after the completion of the Acquisition and exercise of the option granted by SOCAM to Lafarge to acquire 50% of the interest held or to be held by SOCAM in Yunnan Cement or Yunnan JV at the discretion of Lafarge (the “Option”). The pro forma combined statement of assets and liabilities has been prepared based on the consolidated net assets of SOCAM as at 31 March 2004, and after making certain pro forma combination adjustments in respect of the share of the net assets of Yunnan JV, including Kunming Cement, Kaiyuan Cement, Yunnan Kaixin and Dongjun Cement, plus goodwill arising on the Acquisition and the exercise of Option:

	Consolidated net assets of SOCAM as at 31 March 2004 <i>HK\$ million</i>	Share of net assets of Yunnan JV, plus goodwill arising on the Acquisition <i>HK\$ million</i>	Unaudited proforma combined statement of assets and liabilities after the Acquisition <i>HK\$ million</i>	(Note 1) Exercise of Option <i>HK\$ million</i>	Unaudited proforma combined statement of assets and liabilities after the Acquisition and Exercise of Option <i>HK\$ million</i>
Non-Current Assets					
Investment property	140.0	—	140.0	—	140.0
Property, plant and equipment	168.2	—	168.2	—	168.2
Property under development	591.2	—	591.2	—	591.2
Negative goodwill	(0.6)	—	(0.6)	—	(0.6)
Interests in jointly controlled entities	806.1	393.6	1,199.7	(196.8)	1,002.9
Investments in securities	25.6	—	25.6	—	25.6
Club debenture	1.2	—	1.2	—	1.2
Site establishment expenditure	17.8	—	17.8	—	17.8
	<u>1,749.5</u>	<u>393.6</u>	<u>2,143.1</u>	<u>(196.8)</u>	<u>1,946.3</u>

	Consolidated net assets of SOCAM as at 31 March 2004 <i>HK\$ million</i>	Share of net assets of Yunnan JV, plus goodwill arising on the Acquisition <i>HK\$ million</i>	Unaudited proforma combined statement of assets and liabilities after the Acquisition <i>HK\$ million</i>	(Note 1) Exercise of Option <i>HK\$ million</i>	Unaudited proforma combined statement of assets and liabilities after the Acquisition and Exercise of Option <i>HK\$ million</i>
Current Assets					
Inventories	44.1	—	44.1	—	44.1
Properties held for sale	58.0	—	58.0	—	58.0
Property under development	218.0	—	218.0	—	218.0
Debtors, deposits and prepayments	584.3	—	584.3	—	584.3
Amounts due from customers for contract work	98.4	—	98.4	—	98.4
Amounts due from related companies	0.2	—	0.2	—	0.2
Amount due from an associate	0.1	—	0.1	—	0.1
Amounts due from jointly controlled entities	339.7	—	339.7	—	339.7
Taxation recoverable	7.2	—	7.2	—	7.2
Pledged bank deposit	527.8	—	527.8	—	527.8
Bank balances, deposits and cash	<u>111.0</u>	<u>—</u>	<u>111.0</u>	<u>—</u>	<u>111.0</u>
	<u>1,988.8</u>	<u>—</u>	<u>1,988.8</u>	<u>—</u>	<u>1,988.8</u>
Current Liabilities					
Creditors and accrued charges	728.9	—	728.9	—	728.9
Amounts due to customers for contract work	99.7	—	99.7	—	99.7
Amounts due to jointly controlled entities	19.4	—	19.4	—	19.4
Amounts due to related companies	0.1	—	0.1	—	0.1
Taxation payable	46.2	—	46.2	—	46.2
Bank borrowings, due within one year	<u>932.5</u>	<u>—</u>	<u>932.5</u>	<u>—</u>	<u>932.5</u>
	<u>1,826.8</u>	<u>—</u>	<u>1,826.8</u>	<u>—</u>	<u>1,826.8</u>

	Consolidated net assets of SOCAM as at 31 March 2004 <i>HK\$ million</i>	Share of net assets of Yunnan JV, plus goodwill arising on the Acquisition <i>HK\$ million</i>	Unaudited proforma combined statement of assets and liabilities after the Acquisition <i>HK\$ million</i>	(<i>Note 1</i>) Exercise of Option <i>HK\$ million</i>	Unaudited proforma combined statement of assets and liabilities after the Acquisition and Exercise of Option <i>HK\$ million</i>
Net Current Assets	<u>162.0</u>	<u>—</u>	<u>162.0</u>	<u>—</u>	<u>162.0</u>
Minority Interests	<u>28.6</u>	<u>—</u>	<u>28.6</u>	<u>—</u>	<u>28.6</u>
Non-Current Liabilities					
Bank borrowings	486.0	393.6	879.6	(193.5)	686.1
Deferred tax liabilities	5.6	—	5.6	—	5.6
Defined benefit liabilities	<u>4.1</u>	<u>—</u>	<u>4.1</u>	<u>—</u>	<u>4.1</u>
	<u>495.7</u>	<u>393.6</u>	<u>889.3</u>	<u>(193.5)</u>	<u>695.8</u>
Net assets	<u><u>1,387.2</u></u>	<u><u>—</u></u>	<u><u>1,387.2</u></u>	<u><u>(3.3)</u></u>	<u><u>1,383.9</u></u>

Note 1: The decrease in net assets represents the loss on disposal of 50% equity interest in the Yunnan JV.

IV. LETTER FROM DELOITTE TOUCHE TOHMATSU



德勤·關黃陳方會計師行
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永安中心26樓

Deloitte Touche Tohmatsu
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111 Connaught Road Central
Hong Kong

6 April 2005

The Directors
Shui On Construction And Materials Limited

Dear Sirs,

We report on the pro forma financial information of Shui On Construction And Materials Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 74 to 77 under the heading “Pro forma Financial Information Upon Completion of the Acquisition and the Exercise of the Option” of Appendix I to the circular of the Company dated 6 April 2005 (the “Circular”), in connection with major transaction in relation to the acquisition of interests in Yunnan Cement, and the Option granted to Lafarge to acquire 50 per cent. of the Company’s interests in Yunnan JV (the “Transactions”). The Pro forma Combined Statement of Assets and Liabilities has been prepared, for illustrative purposes only, to provide information about how the Transactions might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of Shui On Construction And Materials Limited to prepare the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of Shui On Construction And Materials Limited.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared on the basis set out on page 75 of the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group had the Transactions completed as at 31 March 2004, or any future date.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

V. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 January 2005, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of about HK\$1,250.0 million comprising unsecured bank loans and overdrafts of about HK\$1,221.9 million; amounts due to jointly controlled entities of about HK\$27.3 million and amount due to a related company of about HK\$0.8 million. In addition, the Group had contingent liabilities of about HK\$476.6 million, comprising guarantees relating to performance bonds issued by banks of about HK\$161.6 million and guarantees given to banks in respect of general facilities granted to jointly controlled entities of about HK\$315.0 million.

The Directors are not aware of any material change in the indebtedness and contingent liabilities of the Group since 1 February 2005.

Save as aforesaid and apart from intra-group liabilities, no companies within the Group had outstanding at the close of business on 31 January 2005 any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

VI. WORKING CAPITAL

The Directors are of the opinion that, based on the expected cash flows, and taking into account the internal resources of the Group, the consideration and the expected cash flows arising from the JO Agreement, and assuming that the banking facilities of the Group will not be withdrawn, the Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

VII. FINANCIAL AND TRADING POSITION

The Group has seen a significant growth in the central and western regions of the PRC in the past financial 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 as overbuilding by speculative investors as well as weaker competitors without sufficient financial resources will be halted, thus reducing unhealthy competition.

With the expectation of a tighter control on the cement industry, the Group's investment in Yunnan JV will further strengthen the Group's leading position in the cement market in southwestern China. 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 the presence of the Company in central and western China.

As at 31 March 2004, the Group's bank borrowings, net of bank balances, deposits and cash, amounted to HK\$779.7 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, was about 56% at 31 March 2004.

Bank borrowings are mainly denominated 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 PRC 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 PRC are denominated in Renminbi, the 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.

At 31 March 2004, the number of salaried staff of the Group was about 1,290 in Hong Kong and 12,250 in subsidiaries and jointly controlled entities in the PRC. 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 PRC, staff benefits are commensurate with market levels, with an emphasis on provision of training and development programmes and resources.

The Directors are not aware of any other material change in the financial or trading position or prospects of the Group since 31 March 2004, being the date of the latest published audited accounts of the Group.



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Deloitte Touche Tohmatsu
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111 Connaught Road Central
Hong Kong

6 April 2005

The Directors
Shui On Construction and Materials Limited

Dear Sirs,

We set out below our report on the financial information regarding 雲南國資水泥有限公司 Yunnan State Property Cement Co. Ltd. (“Yunnan Cement”) and its subsidiaries (hereinafter collectively referred to as the “Yunnan Group”) for each of the three years ended 31 December 2004 (the “Relevant Periods”), for inclusion in the circular of Shui On Construction and Materials Limited (“SOCAM”) dated 6 April 2005 (the “Circular”) in relation to the major transaction in relation to the acquisition of interests in Yunnan Cement, and the option granted to Lafarge to acquire 50 per cent. of the SOCAM’s interests in Yunnan JV.

Yunnan Cement was established on 8 May 2004 and currently owned as to 100% by 雲南省國有資產經營有限公司 (Yunnan National Assets Operation Co. Ltd.) (“YNAOL”).

On 18 June 2004, Prime Allied Enterprises Limited (“Prime Allied (BVI)”), a wholly-owned subsidiary established in the British Virgin Islands of SOCAM, entered into a joint operation agreement (“JO Agreement”) with YNAOL in respect of the proposed co-investment in Yunnan Cement. Pursuant to the JO Agreement, YNAOL procured that Yunnan Cement will acquire the entire equity interests in 雲南國資水泥昆明有限公司 (Yunnan State Property Cement Kunming Company Limited) (formerly known as 昆明水泥股份有限公司 (Kunming Cement Joint Stock Limited)) and its subsidiary, 雲南國資水泥楚雄有限公司 (Yunnan State Property Cement Chuxiong Company Limited) (formerly known as 昆明水泥股份有限公司楚雄水泥廠 (Kunming Cement Joint Stock Limited Chuxiong Cement Factory)), 雲南國資水泥紅河有限公司 (Yunnan State Property Cement Honghe Company Limited) (formerly known as 雲南開遠水泥股份有限公司 (Yunnan Kaiyuan Cement Liability Co. Ltd.)), 雲南開新建材實業有限公司 (Yunnan Kaixin Building Materials Industries Co, Ltd.) and 雲南東駿水泥有限公司 (Yunnan Dongjun Cement Co. Ltd.) (the “Reorganisation”). On 11 August 2004, Prime Allied (BVI) and YNAOL entered into a sales and purchase agreement in relation to the acquisition by Prime Allied (BVI) of an 80% equity interest in Yunnan Cement upon completion of the Reorganisation. Application has been made to the relevant PRC authorities to replace Yunnan Cement with 雲南瑞安建材投資有限公司 (Yunnan Shui On Construction Materials Investment Holding Co. Ltd.) (“Yunnan JV”).

On 1 February 2005, Prime Allied Enterprises Limited (“Prime Allied (Mauritius)”), a wholly-owned subsidiary established in Mauritius of SOCAM, nominated by SOCAM to replace Prime Allied (BVI) as the foreign investors in Yunnan JV, entered into the new joint venture agreement (“New JV Agreement”), the new transfer and capital injection agreement (“New Transfer Agreement”)

and the tri-party agreement (“Tri-Party Agreement”) (collectively referred to as “New Agreements”) to revise the mechanism for conducting the acquisition from a one step approach to a two step approach to speed up and to facilitate the Reorganisation, which was originally intended to be one of the conditions to the acquisition under the JO Agreement.

Upon the completion of step one of the New Agreements, Prime Allied (Mauritius) would acquire 80% equity interest in Yunnan Cement from YNAOL with the following shareholding in its subsidiaries.

As at the date of this report, the particulars of Yunnan Cement’s subsidiaries, all of which are companies with limited liabilities and established in the PRC, are as follows:

Name of subsidiary	Date of establishment	Issued and fully paid registered capital	Proportion of nominal value of registered capital effectively held by Yunnan Cement	Principal activities
雲南國資水泥昆明有限公司 (Yunnan State Property Cement Kunming Company Limited) (“Kunming Cement”) (Note 1)	25 December 1995	RMB189,909,132	56.13%	Production of cement and cement products
雲南國資水泥楚雄有限公司 (Yunnan State Property Cement Chuxiong Company Limited) (“Chuxiong Cement Factory”) (Notes 1 & 3)	6 January 1996	RMB8,400,000	56.13%	Production of cement and cement products
雲南磊大工貿有限公司 Yunnan Luidai Industrial Company Limited (“Yunnan Luidai”) (Notes 1 & 3)	5 April 1996	RMB1,428,000	36.48%	Production of chemical materials for cement and concrete
雲南國資水泥紅河有限公司 (Yunnan State Property Cement Honghe Company Limited) (“Honghe Cement” or “Kaiyuan Cement”) (Note 1)	10 March 1997	RMB150,000,000	63.67%	Production of cement and cement products
雲南開新建材實業有限公司 Yunnan Kaixin Building Materials Industries Co, Ltd) (“Yunnan Kaixin”) (Note 2)	27 March 1993	US\$5,255,000	70.00%	Production of cement and cement products
雲南東駿水泥有限公司 Yunnan Dongjun Cement Co. Ltd (“Dongjun Cement”) (Note 1)	14 July 2000	RMB198,125,300	(Note 4)	Production of cement and cement products

Notes:

1.

The subsidiaries are State-owned enterprises in the PRC.

2.

The subsidiary is Sino foreign equity joint venture in the PRC.

3. As at the date of this report, Chuxiong Cement Factory and Yunnan Luidai were directly held by Kunming Cement as to 100% and 65% respectively.
4. The registered capital of Dongjun Cement is RMB260,000,000. According to the latest capital verification report dated 28 August 2003 (the “Capital Verification Report”), the amount of registered capital which has been verified amounting to RMB260,000,000, of which the amount of the registered capital contributed by Kunming Cement and Honghe Cement were RMB120,000,000 and RMB30,000,000, respectively (represent about 46.15% and 11.54% of the registered capital).

According to the Capital Verification Report, the related supporting documents in respect of the legal title of the land use rights contributed by one of the existing joint venture partners of Dongjun Cement, which amounted to RMB61,874,700, has not yet been obtained by such shareholder and the related land use rights have also not been transferred to Dongjun Cement. Accordingly, such land use rights have not been accounted for by Dongjun Cement.

The statutory financial statements of Yunnan Cement and each of its subsidiaries were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. 雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd) are the statutory auditors of Yunnan Cement for the period from 8 May 2004 (date of establishment) to 31 December 2004. The statutory financial statements of Yunnan Cement’s subsidiaries for each of the three years ended 31 December 2004 were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	Financial period	Auditors
Kunming Cement	Each of the two years ended 31 December 2003	昆明亞太會計師事務所 (Kunming Yatai Certified Public Accountants)
	Year ended 31 December 2004	雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd)
Chuxiong Cement Factory	Each of the two years ended 31 December 2003	昆明亞太會計師事務所 (Kunming Yatai Certified Public Accountants)
	Year ended 31 December 2004	雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd)
Yunnan Luidai	Each of the two years ended 31 December 2003	昆明亞太會計師事務所 (Kunming Yatai Certified Public Accountants)
	Year ended 31 December 2004	雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd)
Honghe Cement	Each of the two years ended 31 December 2003	雲南雲嶺會計師事務所有限公司 (Yunnan Yunling Certified Public Accountants Limited)

Name of subsidiary	Financial period	Auditors
Yunnan Kaixin	Year ended 31 December 2004	雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd)
	Each of the two years ended 31 December 2003	雲南雲嶺會計師事務所有限公司 (Yunnan Yunling Certified Public Accountants Limited)
	Year ended 31 December 2004	雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd)
Dongjun Cement	Year ended 31 December 2002	雲南雲嶺會計師事務所有限公司 (Yunnan Yunling Certified Public Accountants Limited)
	Year ended 31 December 2003	昆明滙眾會計師事務所有限公司 (Kunming Hui Zhong Certified Public Accountants Limited)
	Year ended 31 December 2004	雲南天贏會計師事務所有限公司 (Yunnan Tianying Certified Public Accountants Co., Ltd)

For the purpose of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) in respect of the combined management accounts of the Yunnan Group prepared in accordance with accounting principles generally accepted in Hong Kong for the Relevant Periods.

We have examined the combined management accounts of the Yunnan Group in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountants” as recommended by the HKICPA.

The combined financial information for the Relevant Periods (the “Financial Information”) set out in this report has been prepared from the combined management accounts of the Yunnan Group, on the basis set out in note 1 to the Financial Information (the “Underlying Financial Information”), for the purpose of preparing our report for inclusion in the Circular.

The preparation of the Underlying Financial Information is the responsibility of the directors of Yunnan Cement. The directors of SOCAM are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Information, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis set out in note 1 to the Financial Information, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of the Yunnan Group as at 31 December 2002, 2003 and 2004 and of Yunnan Cement as at 31 December 2004 and of the combined results and cash flows of the Yunnan Group for each of the three years ended 31 December 2004.

A. FINANCIAL INFORMATION

Combined Income Statements

	<i>Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	382,604	372,060	419,134
Other operating income	3	16,335	27,283	42,038
Changes in inventories of finished goods and work in progress		351	(13,169)	9,191
Raw materials and consumables used		(96,076)	(96,716)	(94,475)
Staff costs		(78,402)	(85,630)	(90,563)
Depreciation and amortisation expenses		(35,967)	(30,989)	(30,171)
Allowance for bad and doubtful debts, net		(32,840)	(45,326)	(3,290)
Other operating expenses		<u>(180,346)</u>	<u>(193,517)</u>	<u>(221,294)</u>
 (Loss) profit from operations	4	 (24,341)	 (66,004)	 30,570
Finance costs	5	<u>(5,008)</u>	<u>(12,291)</u>	<u>(23,514)</u>
 (Loss) profit before taxation		 (29,349)	 (78,295)	 7,056
Income tax expense	7	<u>(3,261)</u>	<u>(1,648)</u>	<u>(4,137)</u>
 (Loss) profit before minority interests		 (32,610)	 (79,943)	 2,919
Minority interests		<u>15,214</u>	<u>33,868</u>	<u>922</u>
 (Loss) profit attributable to shareholders		 <u><u>(17,396)</u></u>	 <u><u>(46,075)</u></u>	 <u><u>3,841</u></u>
 Dividends	8	 <u><u>1,892</u></u>	 <u><u>3,867</u></u>	 <u><u>2,323</u></u>

Combined Balance Sheets

		At 31 December		
	<i>Notes</i>	2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-Current Assets				
Property, plant and equipment	10	233,738	478,174	911,796
Land use rights	11	2,881	2,796	2,711
Investments in securities	13	<u>7,000</u>	<u>5,000</u>	<u>—</u>
		<u>243,619</u>	<u>485,970</u>	<u>914,507</u>
Current Assets				
Inventories	14	82,914	73,249	107,677
Debtors, deposits and prepayments	15	97,869	146,869	179,873
Amounts due from related companies	16	1,924	2,001	2,115
Bank deposits, pledged	27	—	—	80,000
Bank balances, deposits and cash		<u>260,790</u>	<u>268,131</u>	<u>410,513</u>
		<u>443,497</u>	<u>490,250</u>	<u>780,178</u>
Current Liabilities				
Creditors and accrued charges	17	102,940	146,533	233,987
Amounts due to related companies	16	71,643	111,654	151,249
Amount due to ultimate holding company	19	—	—	66,944
Bank borrowings, due within one year	20	124,800	113,000	299,000
Loans from employees	21	—	21,331	—
Income tax payable		<u>620</u>	<u>977</u>	<u>3,250</u>
		<u>300,003</u>	<u>393,495</u>	<u>754,430</u>
Net Current Assets		<u>143,494</u>	<u>96,755</u>	<u>25,748</u>
		<u><u>387,113</u></u>	<u><u>582,725</u></u>	<u><u>940,255</u></u>

	<i>Notes</i>	At 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital and Reserves				
Paid-up capital	22	205,380	223,146	360,741
Reserves	23	<u>8,895</u>	<u>(55,260)</u>	<u>(190,337)</u>
		<u>214,275</u>	<u>167,886</u>	<u>170,404</u>
Minority Interests		<u>143,653</u>	<u>153,480</u>	<u>151,231</u>
Non-Current Liabilities				
Loan from a minority shareholder of a subsidiary	24	100	100	50
Bank borrowings, due after one year	20	—	170,000	527,000
Loans from employees	21	21,510	—	—
Deferred income	25	<u>7,575</u>	<u>91,259</u>	<u>91,570</u>
		<u>29,185</u>	<u>261,359</u>	<u>618,620</u>
		<u>387,113</u>	<u>582,725</u>	<u>940,255</u>

Balance Sheet of Yunnan Cement

	<i>Notes</i>	At 31 December 2004 RMB'000
Non-Current Assets		
Investments in subsidiaries	12	<u>359,741</u>
Current Assets		
Prepayments and other receivables	15	1,975
Bank deposits, pledged	27	80,000
Bank balances, deposits and cash		<u>76,951</u>
		<u>158,926</u>
Current Liabilities		
Amount due to a subsidiary	18	15,000
Amount due to ultimate holding company	19	66,944
Secured bank borrowings, due within one year	20	<u>76,000</u>
		<u>157,944</u>
Net Current Assets		<u>982</u>
		<u>360,723</u>
Capital and Reserves		
Paid-up capital	22	360,741
Reserves	23	<u>(18)</u>
		<u>360,723</u>

Combined Statements of Changes in Equity

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	233,563	214,275	167,886
(Loss)/profit attributable to shareholders	(17,396)	(46,075)	3,841
Dividends declared	(1,892)	(314)	(2,323)
Increase in registered capital	<u>—</u>	<u>—</u>	<u>1,000</u>
At end of the year	<u>214,275</u>	<u>167,886</u>	<u>170,404</u>

Combined Cash Flow Statements

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Operating Activities			
(Loss) profit from operations	(24,341)	(66,004)	30,570
Adjustments for:			
Interest income	(2,043)	(2,923)	(5,148)
Depreciation and amortisation	35,967	30,989	30,171
Allowance for bad and doubtful debts, net	32,840	45,326	3,290
Provision for rehabilitation of mining ores	2,581	2,772	4,238
Release of deferred income	(378)	(426)	(639)
Gain on disposal of property, plant and equipment	(111)	(1,313)	(592)
Gain on disposal of investment securities	<u>—</u>	<u>—</u>	<u>(5,570)</u>
Operating cash flows before movements in working capital	44,515	8,421	56,320
Decrease (increase) in inventories	3,226	9,665	(34,428)
Increase in debtors, deposits and prepayments	(12,158)	(94,326)	(36,294)
Decrease (increase) in amounts due from related companies	8,541	(77)	(114)
Increase in creditors and accrued charges	8,448	40,821	83,216
Increase in amounts due to related companies	<u>9,425</u>	<u>39,638</u>	<u>36,833</u>
Cash generated from operations	61,997	4,142	105,533
Interest received	2,043	2,923	5,148
PRC income tax paid	<u>(3,135)</u>	<u>(1,291)</u>	<u>(1,864)</u>
Net cash from operating activities	<u>60,905</u>	<u>5,774</u>	<u>108,817</u>
Investing activities			
Purchase of property, plant and equipment	(27,850)	(277,811)	(482,016)
Proceeds from sales of property, plant and equipment	8,864	4,803	28,038
Proceeds from sales of investment securities	18,400	2,000	10,570
Increase in pledged deposits	<u>—</u>	<u>—</u>	<u>(80,000)</u>
Net cash used in investing activities	<u>(586)</u>	<u>(271,008)</u>	<u>(523,408)</u>

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financing activities			
New bank loans raised	214,800	283,000	676,000
Increase in paid-up capital	—	—	1,000
Increase in amount due to ultimate holding company	—	—	66,944
Repayments of bank loans	(165,320)	(124,800)	(133,000)
Repayment of loan from a minority shareholder of a subsidiary	—	—	(50)
Dividend paid	(3,615)	(121)	(888)
Interest paid	(5,008)	(13,310)	(32,652)
Cash contributions from minority shareholders of a subsidiary	—	43,875	—
Repayments of loans from employees	(70)	(179)	(21,331)
Increase in deferred income	<u>6,004</u>	<u>84,110</u>	<u>950</u>
Net cash from financing activities	<u>46,791</u>	<u>272,575</u>	<u>556,973</u>
Net increase in cash and cash equivalents	107,110	7,341	142,382
Cash and cash equivalents at the beginning of the year	<u>153,680</u>	<u>260,790</u>	<u>268,131</u>
Cash and cash equivalents at the end of the year	<u>260,790</u>	<u>268,131</u>	<u>410,513</u>
Analysis of the balances of cash and cash equivalents			
Bank balances, deposits and cash	<u>260,790</u>	<u>268,131</u>	<u>410,513</u>

Basis of preparation of Financial Information

The combined income statements and cash flow statements include the results and cash flows of the companies comprising the Yunnan Group as if the current group structure of Yunnan Cement had been in existence throughout the Relevant Periods. Similarly the combined balance sheets of the Yunnan Group as at 31 December 2002, 2003 and 2004 have been prepared to present the assets and liabilities of the companies comprising the Yunnan Group as if the current group structure had been in existence.

The Financial Information has been prepared on a going concern basis as upon completion of the Reorganisation, Yunnan Cement will be replaced with Yunnan JV and thereafter, Prime Allied (Mauritius) and YNAOL will make cash contributions in accordance with its proportion of equity interest to increase the total registered capital to RMB1 million within 12 months upon the conversion to Yunnan JV. In the opinion of the directors of SOCAM, Prime Allied (Mauritius) and YNAOL are able to provide adequate funds to enable Yunnan Cement or Yunnan JV to meet in full its financial obligations as they fall due for the foreseeable future.

Notes to the Financial Information**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial information has been prepared under the historical cost convention and in accordance with accounting policies set out below which conform with accounting principles generally accepted in Hong Kong:

Basis of combination

The combined financial statements incorporate the financial statements of Yunnan Cement and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined income statements from the effective date of acquisition or made up to the effective date of disposal, as appropriate.

All significant intra-group transactions, cash flows and balances within the Yunnan Group have been eliminated on combination.

Revenue recognition

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of the assets, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, as follows:

Buildings	Over the shorter of 15 - 30 years or the operation period of the relevant company
Plant and machinery	7 - 11 years
Furniture, fixtures and equipment	5 - 14 years
Motor vehicles	6 - 10 years

Construction in progress is stated at cost less any identified impairment loss. No depreciation is provided on construction in progress until the relevant asset is ready for its intended use, at which time it is transferred to the appropriate categories of property, plant and equipment.

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

Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses.

Land use rights are amortised over the shorter of 15 - 30 years or the operation period of the relevant company.

Impairment

At each balance sheet date, the Yunnan Group reviews the carrying amounts of its 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.

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 year. A reversal of an impairment loss is recognised as income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in Yunnan Cement’s balance sheet at cost less any impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured 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 realised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

Operating leases

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

Borrowings 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 costs is deducted from the borrowing costs capitalised.

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

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 combined income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on 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, 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, except where the Yunnan 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 combined 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.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Yunnan Group’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the combined income statement and are reported separately as other operating income.

2. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to outside customers, less returns and allowances, and net of value added tax.

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover comprises the following:			
Sales of cement	365,508	351,734	390,054
Sales of clinker	6,868	7,969	13,761
Sales of chemical materials	2,892	4,917	8,392
Sales of raw meal	7,336	7,440	6,927
	<u>382,604</u>	<u>372,060</u>	<u>419,134</u>

3. OTHER OPERATING INCOME

Included in other operating income are:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interest income	2,043	2,923	5,148
Gain on disposal of property, plant and equipment	111	1,313	592
Gain on disposal of investment securities	—	—	5,570
Sales of by products and scrap materials	1,402	1,901	2,183
Value added tax refunded	11,024	19,732	24,751
Release of deferred income	378	426	639

Value added tax refund is recognised as other operating income when the right to receive has been established.

4. (LOSS) PROFIT FROM OPERATIONS

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
(Loss) profit from operations has been arrived at after charging (crediting):			
Allowance for bad and doubtful debts, net	32,840	45,326	3,290
Auditors' remuneration	131	353	66
Cost of sales recognised	263,375	267,735	291,146
Depreciation and amortisation:			
Property, plant and equipment	35,882	30,904	30,086
Land use rights	85	85	85
Provision for rehabilitation of mining ores	2,581	2,772	4,238
Operating lease rentals in respect of rented premises	2,930	2,292	6,024
Rental income	(23)	(95)	(193)
Staff costs:			
Salaries and allowances	66,356	69,656	74,182
Retirement benefit costs	12,046	15,974	16,381

5. FINANCE COSTS

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	5,000	13,304	32,647
Less: amounts capitalised to construction in progress	—	(1,019)	(9,138)
	5,000	12,285	23,509
Interest on loan from a minority shareholder of a subsidiary	8	6	5
	5,008	12,291	23,514

Borrowing costs capitalised during the years ended 31 December 2003 and 2004 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.7% for year ended 31 December 2004 (2003: 5.3%) to expenditure on qualifying assets.

6. REMUNERATION OF DIRECTORS AND EMPLOYEES

Directors

No remuneration was paid or payable to any directors of Yunnan Cement during the Relevant Periods.

Employees

Details of the emoluments paid by the Yunnan Group to the five highest paid employees are as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Salaries and other benefits	87	197	234
Performance related incentive payments	264	288	305
Retirement benefits scheme contributions	5	6	6
	356	491	545

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

	Year ended 31 December		
	2002	2003	2004
	Number of employees	Number of employees	Number of employees
Nil - HK\$1,000,000	5	5	5

During the Relevant Periods, no emoluments were paid by the Yunnan Group to the five highest paid individuals (included directors and employees) as an inducement to join or upon joining the Yunnan Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

7. INCOME TAX EXPENSE

The enterprise income tax in the PRC is calculated at 33% of the estimated taxable profit of Kunming Cement for the period from 1 January 2002 to 30 June 2002. Under the tax preferential rates granted by the relevant tax authority in the PRC, the income tax rate of Kunming Cement has been reduced to 15% with effect from 1 July 2002.

The enterprise income tax in the PRC is calculated at 33% of the estimated taxable profit of Kaiyuan Cement for 2002. Under the tax preferential rates granted by the relevant tax authority in the PRC, the income tax rate has been reduced to 15% with effect from the year 2003.

Pursuant to relevant laws and regulations in the PRC, Yunnan Kaixin is exempted from PRC enterprise income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. Yunnan Kaixin started its first profit-making year in 1998. No provision for PRC enterprise income tax has been made in the financial statements of Yunnan Kaixin as the taxable profit for 2002 was wholly absorbed by tax losses brought forward and Yunnan Kaixin incurred tax losses for 2003 and 2004.

The enterprise income tax in the PRC is calculated at 15% of the estimated taxable profit of Yunnan Kaixin for 2002, and 33% of the estimated taxable profit for 2003 and 2004.

No provision for PRC enterprise income tax has been made in the financial statements of Dongjun Cement as Dongjun Cement was at the pre-operating stage during the Relevant Periods.

No provision for PRC enterprise income tax has been made in the financial statements of Yunnan Cement as Yunnan Cement did not have any taxable profit for the Relevant Periods.

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
The charge comprises:			
Enterprise income tax in the PRC	3,135	1,291	4,137
Underprovision in prior years	<u>126</u>	<u>357</u>	<u>—</u>
	<u>3,261</u>	<u>1,648</u>	<u>4,137</u>

Income tax expense for the year can be reconciled to the (loss) profit before taxation per the combined income statement as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
(Loss) profit before taxation	(29,349)	(78,295)	7,056
Tax at the domestic income tax rate of 33%	(9,685)	(25,837)	2,328
Tax effect of expenses that are not deductible in determining taxable profit	3,113	2,824	6,055
Tax effect of income not subject to income tax	(417)	(2,471)	(2,171)
Underprovision in prior years	126	357	—
Tax effect of tax losses not recognised	136	773	2,315
Tax effect of deductible temporary difference not recognised	11,535	27,273	88
Tax effect of utilization of tax losses not previously recognised	(702)	—	—
Effect of different tax rate of subsidiaries	(1,088)	(1,977)	(4,914)
Others	243	706	436
Income tax expense for the year	3,261	1,648	4,137

Details of unrecognised deferred tax assets for the Relevant Periods are set out in note 26.

8. DIVIDENDS

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Declared	1,892	3,867	2,323

As approved by the Annual General Meeting of Kunming Cement on 28 March 2003, a dividend of RMB6,330,304 was declared and satisfied by the issue of 6,330,304 bonus shares of RMB1 each to the then shareholders during the year ended 31 December 2002 and thus a bonus issue of RMB3,553,000 was accounted for by the Yunnan Group. The remaining balances of dividends in the Relevant Period represent the dividends declared by Kaiyuan Cement and attributable to the shareholders of Yunnan Cement.

9. (LOSS) PROFIT PER SHARE

(Loss) profit per share of the Yunnan Group is not presented herein as such information is not considered meaningful.

10. PROPERTY, PLANT AND EQUIPMENT

THE YUNNAN GROUP

	Construction in progress <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2002	10,541	259,521	248,900	50,157	45,287	614,406
Additions	20,351	2,006	2,178	430	2,885	27,850
Disposals	(5,399)	—	(6,462)	(97)	(2,935)	(14,893)
Transfer	<u>(9,908)</u>	<u>7,191</u>	<u>2,370</u>	<u>347</u>	<u>—</u>	<u>—</u>
At 31 December 2002	<u>15,585</u>	<u>268,718</u>	<u>246,986</u>	<u>50,837</u>	<u>45,237</u>	<u>627,363</u>
DEPRECIATION						
At 1 January 2002	—	151,825	155,770	23,241	33,047	363,883
Provided for the year	—	10,959	18,790	4,144	1,989	35,882
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(4,540)</u>	<u>(77)</u>	<u>(1,523)</u>	<u>(6,140)</u>
At 31 December 2002	<u>—</u>	<u>162,784</u>	<u>170,020</u>	<u>27,308</u>	<u>33,513</u>	<u>393,625</u>
NET BOOK VALUE						
At 31 December 2002	<u>15,585</u>	<u>105,934</u>	<u>76,966</u>	<u>23,529</u>	<u>11,724</u>	<u>233,738</u>

	Construction in progress <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2003	15,585	268,718	246,986	50,837	45,237	627,363
Additions	271,854	730	2,310	687	3,249	278,830
Disposals	(947)	—	(4,027)	(11,091)	(2,087)	(18,152)
Transfer	<u>(3,482)</u>	<u>(4,278)</u>	<u>6,307</u>	<u>1,453</u>	<u>—</u>	<u>—</u>
At 31 December 2003	<u>283,010</u>	<u>265,170</u>	<u>251,576</u>	<u>41,886</u>	<u>46,399</u>	<u>888,041</u>
DEPRECIATION						
At 1 January 2003	—	162,784	170,020	27,308	33,513	393,625
Provided for the year	—	11,700	12,966	3,781	2,457	30,904
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(3,766)</u>	<u>(10,072)</u>	<u>(824)</u>	<u>(14,662)</u>
At 31 December 2003	<u>—</u>	<u>174,484</u>	<u>179,220</u>	<u>21,017</u>	<u>35,146</u>	<u>409,867</u>
NET BOOK VALUE						
At 31 December 2003	<u>283,010</u>	<u>90,686</u>	<u>72,356</u>	<u>20,869</u>	<u>11,253</u>	<u>478,174</u>

APPENDIX II

ACCOUNTANTS' REPORT OF YUNNAN CEMENT

	Construction in progress <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2004	283,010	265,170	251,576	41,886	46,399	888,041
Additions	463,306	6,603	8,716	2,538	9,991	491,154
Disposals	(27,124)	—	(206)	(3)	(3,936)	(31,269)
Transfer	<u>(1,012)</u>	<u>222</u>	<u>—</u>	<u>—</u>	<u>790</u>	<u>—</u>
At 31 December 2004	<u>718,180</u>	<u>271,995</u>	<u>260,086</u>	<u>44,421</u>	<u>53,244</u>	<u>1,347,926</u>
DEPRECIATION						
At 1 January 2004	—	174,484	179,220	21,017	35,146	409,867
Provided for the year	—	9,138	15,180	3,220	2,548	30,086
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(1)</u>	<u>(1)</u>	<u>(3,821)</u>	<u>(3,823)</u>
At 31 December 2004	<u>—</u>	<u>183,622</u>	<u>194,399</u>	<u>24,236</u>	<u>33,873</u>	<u>436,130</u>
NET BOOK VALUE						
At 31 December 2004	<u>718,180</u>	<u>88,373</u>	<u>65,687</u>	<u>20,185</u>	<u>19,371</u>	<u>911,796</u>

Included in construction in progress is net interest capitalised as at 31 December 2003 and 2004 of about RMB1,019,000 and RMB10,157,000, respectively. No interest is capitalised as at 31 December 2002.

As at 31 December 2004, the Yunnan Group has pledged certain portion of buildings and construction in progress with aggregate amounts of net book value of RMB88,373,000 and RMB718,180,000 respectively, to secure bank loans. The Yunnan Group did not have any property, plant and equipment pledged as at 31 December 2002 and 2003.

11. LAND USE RIGHTS

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP			
COST			
At beginning and at end of the year	3,112	3,112	3,112
AMORTISATION			
At beginning of the year	146	231	316
Provided for the year	85	85	85
At end of the year	231	316	401
NET BOOK VALUE			
At end of the year	2,881	2,796	2,711

The lands are situated in the PRC and held under medium-term lease.

12. INVESTMENTS IN SUBSIDIARIES

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	—	—	359,741

13. INVESTMENTS IN SECURITIES

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP			
Investment securities			
- Listed equity securities in PRC, at cost	7,000	5,000	—

The amount represented the Yunnan Group's investment of 6.44% shareholding in 雲南新概念保稅科技股份有限公司 (Yunnan New Concept Free Trade Techniques Joint Stock Company Limited) (“Yunnan New Concept”), a company incorporated in the PRC and listed on the Shanghai Stock Exchange. The listed equity securities (“法人股”) of Yunnan New Concept during the Relevant Periods was PRC non-circulating shares.

14. INVENTORIES

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP			
Raw materials	48,684	52,188	77,425
Work-in-progress	16,825	13,965	23,812
Finished goods	17,405	7,096	6,440
	<u>82,914</u>	<u>73,249</u>	<u>107,677</u>

Inventories stated at net realisable value included in above are as follows:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Raw materials	<u>560</u>	<u>560</u>	<u>—</u>

All other inventories were stated at cost at the balance sheet dates.

15. DEBTORS, DEPOSITS AND PREPAYMENTS

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

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP			
Debtors (net of allowance for bad and doubtful debts) aged analysis:			
Within 90 days	35,565	42,185	40,521
91 days - 180 days	15,412	19,120	6,101
181 days - 365 days	6,317	8,585	9,903
Over 365 days	<u>8,320</u>	<u>15,070</u>	<u>5,067</u>
	65,614	84,960	61,592
Receivable from a non-banking individual	—	10,000	11,000
Prepayment, deposits and other receivables	31,805	47,802	101,917
Bills receivable	<u>450</u>	<u>4,107</u>	<u>5,364</u>
	<u>97,869</u>	<u>146,869</u>	<u>179,873</u>

The receivable from a non-banking individual represented the designated deposits that were placed with financial institutions in the PRC and being on-lent to the borrower.

At 31 December

2004

RMB'000

YUNNAN CEMENT	
Prepayment and other receivables	1,975

16. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The amounts are unsecured, interest free and repayable on demand. The related companies represent the enterprises which are under the common control of the ultimate holding company and the minority shareholders of subsidiaries.

17. CREDITORS AND ACCRUED CHARGES

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP			
Creditors aged analysis:			
Within 90 days	11,109	16,683	27,291
91 - 180 days	962	882	654
181 - 365 days	415	1,013	878
Over 365 days	3,009	1,475	1,942
	15,495	20,053	30,765
Accruals and other payables	76,546	87,635	111,347
Bills payable	10,899	38,845	91,875
	102,940	146,533	233,987

18. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest free and repayable on demand.

19. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

THE YUNNAN GROUP AND YUNNAN CEMENT

The amount is unsecured, interest free and repayable on demand.

20. BANK BORROWINGS

The bank borrowings are repayable as follows:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP			
Bank borrowings			
Within one year	124,800	113,000	299,000
More than two years, but not exceeding five years	<u>—</u>	<u>170,000</u>	<u>527,000</u>
	124,800	283,000	826,000
Less: Amounts due within one year included in current liabilities	<u>(124,800)</u>	<u>(113,000)</u>	<u>(299,000)</u>
Due after one year	<u>—</u>	<u>170,000</u>	<u>527,000</u>
Secured	54,800	133,000	546,000
Unsecured	<u>70,000</u>	<u>150,000</u>	<u>280,000</u>
	<u>124,800</u>	<u>283,000</u>	<u>826,000</u>
		At 31 December	
		2004	
		RMB'000	
YUNNAN CEMENT			
Secured bank borrowings due within one year included in current liabilities			<u>76,000</u>

21. LOANS FROM EMPLOYEES

THE YUNNAN GROUP

The amounts represented loans from employees for the construction of the cement factory of Dongjun Cement. The amounts bore interest at 3.88% per annum, unsecured and repayable on demand. The amounts were fully repaid in 2004.

22. PAID-UP CAPITAL

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Paid-up capital:			
At beginning of the year	205,380	205,380	223,146
Increased during the year	<u>—</u>	<u>17,766</u>	<u>137,595</u>
At end of the year	<u>205,380</u>	<u>223,146</u>	<u>360,741</u>

The paid-up capital of the Yunnan Group as at 31 December 2002 and 2003 represented the total of Yunnan Cement's proportionate share of the registered capital of Kunming Cement, Kaiyuan Cement and Yunnan Kaixin calculated in accordance with the existing group structure of Yunnan Group.

The increase of paid-up capital of the Yunnan Group during the year ended 31 December 2003 was attributable to the bonus issue and capitalisation of capital reserve and other reserve of Kunming Cement.

The paid-up capital of the Yunnan Group and Yunnan Cement as at 31 December 2004 represented the registered capital of Yunnan Cement as at that date.

23. RESERVES

	Accumulated profits (losses)	Capital reserve	Other reserve	Special reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE YUNNAN GROUP					
At 1 January 2002	(54,159)	77,701	4,641	—	28,183
Net loss for the year	(17,396)	—	—	—	(17,396)
Transfer	(27,653)	87	27,566	—	—
Dividends	<u>(1,892)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,892)</u>
At 31 December 2002	<u>(101,100)</u>	<u>77,788</u>	<u>32,207</u>	<u>—</u>	<u>8,895</u>
Net loss for the year	(46,075)	—	—	—	(46,075)
Transfer	(1,644)	654	990	—	—
Capitalisation of reserves	—	(1,620)	(12,593)	—	(14,213)
Dividends	(314)	—	—	—	(314)
Dividends - bonus issue	<u>(3,553)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,553)</u>
At 31 December 2003	<u>(152,686)</u>	<u>76,822</u>	<u>20,604</u>	<u>—</u>	<u>(55,260)</u>
Net profit for the year	3,841	—	—	—	3,841
Transfer	(5,532)	3,745	1,787	—	—
Reserve arising from group reorganisation	—	—	—	(136,595)	(136,595)
Dividends	<u>(2,323)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,323)</u>
At 31 December 2004	<u>(156,700)</u>	<u>80,567</u>	<u>22,391</u>	<u>(136,595)</u>	<u>(190,337)</u>

	Accumulated losses <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Total <i>RMB'000</i>
YUNNAN CEMENT					
At 8 May 2004 (date of establishment)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net loss for the period	(18)	—	—	—	(18)
Transfer	(1,730)	865	865	—	—
At 31 December 2004	<u>(1,748)</u>	<u>865</u>	<u>865</u>	<u>—</u>	<u>(18)</u>

The capital reserve and other reserve are non-distributable and the transfer to these reserves are determined by the board of directors in accordance with the relevant laws and regulations of the PRC. These reserves can be used to make good future losses or to increase the share capital.

The special reserve is non-distributable and arising from the acquisition of the interests in Kuming Cement, Kaiyuan Cement, Yunnan Kaixin, Dongjun Cement from YNAOL by Yunnan Cement.

24. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

THE YUNNAN GROUP

The amount represents loan from 昆鹏建材厂 (“Kunpeng Construction Materials Factory”), a minority shareholder of Kunming Cement. The loan carries interest at prevailing bank loan rate and unsecured. The minority shareholder has agreed not to demand repayment within twelve months from 31 December 2004. Accordingly, the amount is shown under non-current liabilities.

25. DEFERRED INCOME

THE YUNNAN GROUP

	At 31 December		
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
COST			
At beginning of the year	2,606	8,610	92,720
Additions	<u>6,004</u>	<u>84,110</u>	<u>950</u>
At end of the year	<u>8,610</u>	<u>92,720</u>	<u>93,670</u>
AMORTISATION			
At beginning of the year	657	1,035	1,461
Release to income statement	<u>378</u>	<u>426</u>	<u>639</u>
At end of the year	<u>1,035</u>	<u>1,461</u>	<u>2,100</u>
NET BOOK VALUE			
At end of the year	<u>7,575</u>	<u>91,259</u>	<u>91,570</u>

Deferred income represents environmental protection fund and bulk cement revolution fund granted by the PRC government for the promotion of environmental protection and sales of bulk cement. Certain government grants have been utilised by the Yunnan Group for purchasing of the specified property, plant and equipment as required under the conditions of the government grant. The amount was released to the combined income statement on the same basis of the depreciation being charged on the relevant property, plant and equipment.

26. DEFERRED TAXATION

The Yunnan Group has unused tax losses as at 31 December 2002, 2003 and 2004 of about RMB6,814,000 RMB9,437,000 and RMB16,947,000 respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses at the balance sheet dates will expire in the following years:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
2003	182	—	—
2004	789	789	—
2005	4,079	4,079	4,079
2006	1,042	1,042	1,042
2007	722	722	722
2008	—	2,805	2,805
2009	—	—	8,299
	<u>6,814</u>	<u>9,437</u>	<u>16,947</u>

The Group also has other deductible temporary differences mainly in respect of allowance for bad and doubtful debts at 31 December 2002, 2003 and 2004 of RMB66,695,000, RMB122,469,000 and RMB114,321,000 respectively. No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

27. PLEDGE OF ASSETS

	At 31 December		
	2002	2003	2004
	RMB	RMB	RMB
THE YUNNAN GROUP			
Bank deposits pledged to bank to secure a bank loan	<u>—</u>	<u>—</u>	<u>80,000</u>

Details of other pledge of assets of the Yunnan Group are set out in note 10.

YUNNAN CEMENT

Yunnan Cement has pledged bank deposit of RMB80,000,000 as at 31 December 2004 to a bank to secure bank loan granted to Yunnan Cement.

28. OPERATING LEASE COMMITMENT

At the balance sheet dates, the Yunnan Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Within one year	3,844	2,260	6,192
In the second to fifth year	15,308	9,040	24,000
Over five years	92,807	52,545	133,500
	111,959	63,845	163,692

29. CONTINGENT LIABILITIES

At the balance sheet dates, the Yunnan Group and Yunnan Cement had no significant contingent liabilities.

30. CAPITAL COMMITMENTS

THE YUNNAN GROUP	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	4,321	220,948	38,584

31. RETIREMENT BENEFIT PLAN

The employees of the Yunnan Group are members of state-managed retirement benefit scheme operated by the local government. The Yunnan Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Yunnan Group with respect to the retirement benefit scheme is to make the specified contributions.

The contributions payable to the scheme by the Yunnan Group at rate specified in the rules of the scheme included in staff costs are disclosed in note 4.

32. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Yunnan Group had the following significant transactions with certain related companies which are under the common control of the ultimate holding company:

Nature of transactions	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Rental of land use right	3,557	3,557	2,437
Rental expenses	2,895	2,260	6,024
Management fee	7,605	1,500	—

Rental expenses, rental of land use right and management fee were calculated in accordance with the terms of the relevant agreements.

In additions, certain related companies which are under the common control of the ultimate holding company have pledged certain assets to banks to secure certain banking facilities and bank loans granted to the Yunnan Group during the Relevant Periods.

The balances with related parties at balance sheet dates are disclosed in the combined balance sheets and the balance sheets of Yunnan Cement.

33. SEGMENT INFORMATION

The Yunnan Group is engaged in the production and sales of cements and other cement products. Substantially all its products were sold in the PRC during the Relevant Periods. All the Yunnan Group’s assets are located in the PRC as at 31 December 2002, 2003 and 2004.

34. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. There has been no early adoption of these new HKFRSs in the preparation of the financial statements of Yunnan Group for the Relevant Periods.

SOCAM has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how the results of operations and financial position of Yunnan Group are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

B. DISTRIBUTABLE RESERVE

The distributable reserve of Yunnan Cement is the profit determined in accordance with the applicable accounting standards in the PRC. At 31 December 2004, Yunnan Cement did not have any distributable reserve.

C. DIRECTORS' REMUNERATIONS

No remuneration has been paid or is payable to the Yunnan Cement's directors by the Yunnan Group during the Relevant Periods.

D. ULTIMATE HOLDING COMPANY

The directors of Yunnan Cement consider YNAOL as its ultimate holding company.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yunnan Cement and its subsidiaries in respect of any period subsequent to 31 December 2004.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

I. PRO FORMA COMBINED STATEMENT OF ASSETS AND LIABILITIES OF
YUNNAN CEMENT

Set out below is the pro forma combined statement of assets and liabilities of Yunnan Cement, which has been prepared based on the assets and liabilities as at 31 December 2004 extracted from the Accountants' Report of Yunnan Cement, and after making such adjustments, where appropriate:

	Exclusion of assets and liabilities of a subsidiary, Luidai (Note 1) RMB'000	Acquisition of minority interests (Note 2) RMB'000	Transfer of land use rights to Dongjun Cement (Note 3) RMB'000	Recording of deferred consideration payable to YNAOL (Note 4) RMB'000	Adjusted Combined RMB'000
Non-Current Assets					
Property, plant and equipment	911,796	(1,768)			910,028
Land use rights	<u>2,711</u>		61,875		<u>64,586</u>
	<u>914,507</u>				<u>974,614</u>
Current Assets					
Inventories	107,677	(2,556)			105,121
Debtors, deposits and prepayments	179,873	(1,696)			178,177
Amounts due from related companies	2,115				2,115
Bank deposits, pledged	80,000				80,000
Bank balances, deposits and cash	<u>410,513</u>	<u>(347)</u>			<u>410,166</u>
	<u>780,178</u>				<u>775,579</u>
Current Liabilities					
Creditors and accrued charges	233,987	(712)			233,275
Amounts due to related companies	151,249	(4,869)			146,380
Amount due to ultimate holding company	66,944				66,944
Bank borrowings, due within one year	299,000				299,000
Income tax payable	<u>3,250</u>				<u>3,250</u>
	<u>754,430</u>				<u>748,849</u>

APPENDIX III

PRO FORMA COMBINED STATEMENT OF ASSETS AND

LIABILITIES OF YUNNAN CEMENT

	Exclusion of assets and liabilities of a subsidiary, Luidai (Note 1) RMB'000	Acquisition of minority interests (Note 2) RMB'000	Transfer of land use rights to Dongjun Cement (Note 3) RMB'000	Recording of deferred consideration payable to YNAOL (Note 4) RMB'000	Adjusted Combined RMB'000
Combined RMB'000					
Net Current Assets	25,748				26,730
	940,255				1,001,343
Minority Interests	151,231	151,231			—
Non-Current Liabilities					
Loan from a minority shareholder of a subsidiary	50				50
Accounts payable to ultimate holding company				140,000	140,000
Bank borrowings, due after one year	527,000				527,000
Deferred income	91,570				91,570
	618,620				758,620
Net assets	170,404				242,723

Notes:

1.

Prior to the Reorganisation, Kunming Cement also held a 65% interest in Yunnan Luidai Industrial Company Limited (“Luidai”), a company engaged in the production of chemical materials for cement and concrete. Luidai was established in April 1996 with a registered capital of about RMB1.4 million (about HK\$1.3 million). The Directors have confirmed that, as part of the Reorganisation and prior to the Acquisition, Kunming Cement will dispose of its interest in Luidai such that all the assets and liabilities relating to Luidai will be excluded from Yunnan Cement and the PRC Subsidiaries.
2.

Being acquisition of minority interests in Kunming Cement, Kaiyuan Cement, Yunnan Kaixin and Dongjun Cement and then transfer-in to Yunnan Cement by YNAOL.
3.

The land use rights are expected to be transferred to Dongjun Cement from one of the existing equity joint venture partners of Dongjun Cement in accordance with the joint venture agreement of Dongjun Cement prior to the completion of the New Agreements.
4.

Being the discounted value of the RMB180 million which will be treated in the books and records of Yunnan Cement as account payable of Yunnan Cement to YNAOL and determined based on a discount rate of 6.12% per annum by reference to the lending rate applicable to the borrowings over 5 years announced by The People’s Bank of China at the date of this circular.

II. LETTER FROM DELOITTE TOUCHE TOHMATSU

Deloitte.
德勤德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

6 April 2005

The Directors
Shui On Construction And Materials Limited

Dear Sirs,

We report on the pro forma combined statement of assets and liabilities of Yunnan Cement set out on pages 113 and 114 under the heading “Pro forma Combined Statement of Assets and Liabilities of Yunnan Cement” of Appendix III to the circular of the Company dated 6 April 2005 (the “Circular”), in connection with major transaction in relation to the acquisition of interests in Yunnan Cement, and the Option granted to Lafarge to acquire 50 per cent. of the Company’s interests in Yunnan JV (the “Transactions”), which has been prepared, for illustrative purposes only, to provide information about how the Transactions might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of Shui On Construction And Materials Limited to prepare the pro forma combined statement of assets and liabilities of Yunnan Cement.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma combined statement of assets and liabilities of the Yunnan Cement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma combined statement of assets and liabilities of Yunnan Cement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma combined statement of assets and liabilities of Yunnan Cement with the directors of Shui On Construction And Materials Limited.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the pro forma combined statement of assets and liabilities of Yunnan Cement.

The pro forma combined statement of assets and liabilities of Yunnan Cement has been prepared on the basis set out on page 114 of the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of Yunnan Cement had the Transactions completed as at 31 December 2004, or any future date.

Opinion

In our opinion:

- a) the pro forma combined statement of assets and liabilities of Yunnan Cement has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants



Member of RHL International Property Consultants
永利行國際物業顧問集團成員

RHL Appraisal Ltd. 永利行評值顧問有限公司

Surveyors, Valuers, Land & Property Consultants

測量師、估值師、土地及物業顧問

Room 1010, Star House, Tsimshatsui, Kowloon, Hong Kong

The Directors

Shui On Construction & Materials Limited

34/F., Shui On Centre

6-8 Harbour Road

Wanchai, Hong Kong

6th April, 2005

Dear Sirs,

Re: Valuation of Land and Buildings of Various Cement Plants Situate in Yunnan Province, the People's Republic of China

1. INSTRUCTIONS

In accordance with the instructions from **Shui On Construction & Materials Limited** (referred to as the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), we have valued the land and buildings of certain cement plants (referred to as the “Property”) situate in Yunnan Province, the People's Republic of China (referred to as the “PRC”). We confirm that we have carried out site inspection of the Property, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of value of the Property as at 31st January 2005 (referred to as the “Valuation Date”).

2. BASIS OF VALUATION

With the exception of property numbered 1 in this report, our valuation is our opinion of the market value which we would define as intended to mean the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's — length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Those properties of which the Land Use Rights Certificate has not yet obtained as at the valuation date have no commercial value. We have also valued their open market value as disclosed in the footnote in the valuation certificate on the basis that the existing owners of those properties shall commit to secure Land Use Rights Certificate for them on or before the completion of the Reorganisation and the Acquisition such that the properties can be freely transferred on the market by the Group.

3. VALUATION METHODOLOGY

Due to the nature of buildings and structures of the Property where there is no readily identifiable market, we have adopted the “Depreciated Replacement Cost” approach in assessing its value. This approach makes use of the current replacement costs in arriving at the value to the business in occupation of the Property as existing at the valuation date. This method requires an estimate of the market value of the land in its existing use and an estimate of the new replacement costs of the buildings and other site works, from which deductions are then made to allow for age, condition, functional obsolescence, etc. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of known market based on comparisons with like properties.

Our valuation of the Property based on depreciated replacement cost approach is subject to the fact that prospective earnings would provide a reasonable return on the appraised property, plus the value of any assets not included in the appraisal and adequate net working capital.

4. ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Property in the open market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of the Property.

Other special assumptions of each property, if any, have been stated in the footnotes of the valuation certificate for each corresponding property.

5. TITLE INVESTIGATION

We have been provided with copies of Land Use Rights Certificate and Building Ownership Certificate in relation to the Property. In addition, we have relied to a considerable extent on the advice given by the Group and its PRC legal adviser namely Tianyi Zhihe Law Office (天一致和律師事務所), in the legal opinion regarding the nature of property interests and title to the Property. The Status of the Land Use Rights Certificate and Building Ownership Certificate of each Property is set out as follows:

Property	Land Use Rights Certificate	Building Ownership Certificate
1	Yes	Yes
2	No	No
3	Yes	Yes
4	Yes	No
5	Yes	Yes
6	Yes	No

Opinion of the PRC legal adviser to the Company in relation to the Property is summarized as follows:

Property No.1

1. The land use rights in the property are held by Kunming Cement Factory;
2. Legal and valid Land Use Rights Certificates and Building Ownership Certificates have been issued to the property;
3. The property is partially subject to mortgage in favour of Huaxia Bank-Kunming Daguan Branch;
4. Kunming Cement Factory has the rights to occupy, use, transfer and mortgage a portion of the property with a land area of 1,914,464.76 square metres during the unexpired land use rights term;
5. The remaining portion of the property with area of 6,495 square metres has been granted to the Kunming Cement Factory by way of administrative allocation. It is required to complete land grant procedures including payment of land premium to the government before it can dispose of the property to any third party.

Property No.2

Dongjun Cement is required to secure Land Use Right Certificate for the property in order to complete and legitimize the land transaction and the capital injection as mentioned.

Property No.3

1. The land use rights in the property are held by Yunnan Kaiyuan Cement Factory;
2. Legal and valid Land Use Rights Certificates and Building Ownership Certificates have been issued to the property and the property is free from any mortgage; and
3. The land use rights of the property were granted to the owner by way of administrative allocation. It is required to complete land grant procedures including payment of land premium to the government before it can dispose of the property to any third party.

Property No.4

1. The land use rights in the property are held by Kunming Cement for a term expiring on 18th December 2050;
2. Kunming Cement has the rights to occupy, use, transfer and mortgage the property for the whole of the unexpired term of land use rights; and
3. Legal and valid Land Use Rights Certificate has been issued to property.

Property No.5

1. The land use rights in the property are held by Kaiyuan Cement Factory-Chenggong Sub-plant (開遠水泥廠呈貢分廠);
2. Legal and valid Land Use Rights Certificates and Building Ownership Certificate have been issued to the property which is free from any mortgage; and
3. The land use rights of a portion of the property with an area of 14,922.83 square metres were granted to the owner by way of administrative allocation. It is required to complete land grant procedures including payment of land premium to the government before it can dispose of the property to any third party.

Property No.6

1. The land use rights in the property are held by Yunnan State Property Cement Honghe Company Limited (雲南國資水泥紅河有限公司) (formerly known as Kaiyuan Cement (雲南開遠水泥股份有限公司)) for a term expiring on 31st March 2047; and
2. Legal and valid Land Use Rights Certificates have been issued to the property which is free from any mortgage.

6. LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of all the premises valued but no structural surveys have been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimensions, measurements and areas are only approximations.

We have relied to a considerable extent on the information provided by the Group/YNAOL and have accepted advice given to us by the Group/YNAOL on such matters as statutory notices, easements, tenure, occupation, construction costs, site and floor areas and in the identification of the Property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group/YNAOL. We have also advised by the Group/YNAOL that no material facts have been omitted from the information supplied.

No allowance has been made in our valuation for any charges, mortgages or amount owing on any property interests nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In preparing this valuation report, we have conducted the valuation in accordance with the Hong Kong Guidance Notes on the Valuation of Property Asset (2nd Edition) published by the Hong Kong Institute of Surveyors and complied with all the requirements contained in the Listing Rules and the Practice Note 12 issued by the Stock Exchange of Hong Kong Limited.

We enclose herewith the summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung
BSc MFin MRICS MHKIS RPS(GP)
Director

Sandra S.W. Lau
MFin MHKIS AAPI RPS (GP)
Director

Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Sandra S. W. Lau, who is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them have over ten years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property interests held by the owners for self-occupation

		Capital Value in existing state as at 31st January 2005
No.	Property	
1.	Building and structures of cement plant located at Puping Village, Machang Town, Xishan District and Fuxing Village, Daiban Qiao Town, Kunming City, Yunnan Province the PRC	No commercial value
2.	Land, building and structures of cement plant located at Daiban Qiao Town, Kunming City, Yunnan Province the PRC	No commercial value
3.	Land, building and structures of cement plant located at Xinan Road, Kaiyuan City Yunnan Province the PRC	RMB87,870,000
4.	Land, building and structures of cement plant located at Huajia Shan, Donggong Town, Chuxiong City, Yunnan Province the PRC	RMB6,450,000
5.	Land, building and structures of Chenggong grinding mill located at Luoyang Town, Chenggong City, Yunnan Province the PRC	RMB48,400,000
6.	Land, building and structures of Mile grinding mill located at Midong Village, Midong Town, Mile County, Yunnan Province the PRC	RMB11,500,000
Total:		<u>RMB154,220,000</u>

VALUATION CERTIFICATE

Property interest by the owners for self-occupation

			Particulars of occupancy	Capital Value in existing state as at 31st January 2005
No.	Property	Description		
1.	Building and structures of cement plant located at Puping Village, Machang Town, Xishan District and Fuxing Village, Daiban Qiao Town, Kunming City, Yunnan Province, the PRC.	The property comprises various parcels of land in three clusters within the same area with a total land area of 1,920,959.86 square metres on which a total of 23 production buildings/structures, 26 warehouses, 8 office/laboratory buildings and 3 dormitory buildings are erected. These buildings/structures were completed in between 1957 and 2003. The buildings and structures, which include workshops, transformer stations, warehouses, pump stations, office buildings and other ancillary production buildings, have a total gross floor area of about 108,434.41 square metres. In addition, other major facilities such as equipment foundations, sheds, water towers, railway, chimney, conveying passages are found within the property.	The property is occupied by the owner as a cement production plant.	No commercial value (See footnote 7)

Notes:-

1. As revealed by three sets of Land Use Right Certificate all dated 29th November 2002, the land use rights of a portion of the subject site located at Fuxing Village, Daiban Qiao Town, Kunming City with a total land area of 1,709,703.06 square metres are held by Kunming Cement Factory (昆明水泥廠) for a term expiring on 10th September 2051. The permitted use of the said parcel of land is industrial.
2. As revealed by another six sets of Land Use Right Certificate all dated 16th December 2002, the land use rights of another portion of the subject site located at Puping Village, Machang Town, Xishan District, Kunming City with a total land area of 204,761.80 square metres are held by Kunming Cement Factory (昆明水泥廠) for a term expiring on 10th September 2051. The permitted use of the said parcel of land is industrial.
3. As revealed by another two sets of Land Use Right Certificate dated 7th March 1989 and 12th December 1990 respectively, the land use rights of another portion of the subject site located at Dong Feng Gan Gou Wei, Xishan District, Kunming City with a total land area of 2,095 square metres are held by Kunming Cement Factory (昆明水泥廠). The permitted use of the said parcel of land is industrial.
4. As revealed by another Land Use Right Certificate dated 22nd December 1988, the land use rights of another portion of the subject site located at Puping Village, Machang Town, Xishan District, Kunming City with a total land area of 4,400 square metres are held by Kunming Cement Factory (昆明水泥廠). The permitted use of the said parcel of land is industrial.
5. As revealed by various sets of Building Ownership Certificate dated 10th July 2000, 30th August 2000 and 9th January 2001 respectively, the aforesaid buildings and structures are held by Kunming Cement Factory.

6. Opinion of the PRC legal adviser to the Group in relation to the property is summarized as follows:
 - 6.1 The land use rights in the property are held by Kunming Cement Factory;
 - 6.2 Legal and valid Land Use Rights Certificates and Building Ownership Certificates have been issued to the property;
 - 6.3 The property is partially subject to mortgage in favour of Huaxia Bank-Kunming Daiguan Branch;
 - 6.4 Kunming Cement Factory has the rights to occupy, use, transfer and mortgage a portion of the property with a land area of 1,914,464.86 square metres during the unexpired land use rights term;
 - 6.5 The remaining portion of the property with an area of 6,495 square metres has been granted to the Kunming Cement Factory by way of administrative allocation. It is required to complete land grant procedures including payment of land premium to the government before it can dispose of the property to any third party.
7. Pursuant to an agreement between 雲南省國有資產經營有限責任公司 (Yunnan National Assets Operation Co., Ltd., the Lessor) and Prime Allied Enterprises Limited, a wholly-owned subsidiary of the Company, the subject land parcels (with an area of 1,920,959.86 constituting a portion of the land held by Kunming Cement Factory) shall be leased by the Lessor to Kunming Cement (after it becomes a wholly owned subsidiary of Yunnan Shui On Construction Materials Investment Holding Co., Ltd.) (the Lessee) for a term of 20 years (commencement from the effective date of that land leasing agreement) at an annual rent of RMB6,000,000. As confirmed by the Company, the above annual rent was fixed under arm's length negotiation between the Lessor and the Company with reference to the market land rent as prevailing and the land leasing agreement shall be executed and come into effect from the completion date of the Reorganisation and Acquisition. The depreciated replacement cost of the buildings and structures of the property as at the valuation date is RMB50,000,000.
8. As stipulated in the aforesaid Land Leasing Agreement, any leasing of buildings and structures of the property and construction of additional structure(s) on the subject land parcel by Kunming Cement is subject to prior approval of Yunnan National Assets Operation Co., Ltd.
9. The land use rights in the property are to be held by Kunming Cement under leasehold interests and therefore its land portion has no commercial value attributable to Kunming Cement.

			Particulars of occupancy	Capital Value in existing state as at 31st January 2005
No.	Property	Description		
2.	Land, building and structures of cement plant located at Daiban Qiao Town, Kunming City, Yunnan Province, the PRC.	The property comprises three parcels of land with a total land area of 1,091,701.26 square metres for cement plants purpose upon which a total of 9 production buildings/structures, 3 warehouses, 2 office/laboratory buildings and 1 dormitory building are planned to be erected. These buildings/structures will be fully completed in June 2005. Upon completion, the buildings and structures, which include workshops, transformer stations, warehouses, pump stations, office buildings and other ancillary production buildings, have a total gross floor area of about 54,402 square metres. In addition, other major facilities such as equipment foundations, sheds, water towers, chimney, conveying passages are found within the property.	The property is occupied by the owner as a cement production plant.	No commercial value (See footnote 7)

Notes:-

- As revealed by the Land Use Right Contract entered into between 雲南省大板橋園藝場 (Yunnan Province Daiban Qiao Yuan Yi Chang) and Dongjun Cement (雲南東駿水泥有限公司) dated 6th April 2004, the latter agreed to acquire the land use rights of a parcel of land of the property with an area of 251,701.26 square metres from the former at a consideration of RMB9,816,300.
- As revealed by a Capital Examination Report issued by Yunnan Asia Pacific Certified Public Accountants Company Limited (雲南亞太會計師事務所有限公司) on 28th August 2003, the remaining portion of the subject land parcels with an area of 840,000 square metres is injected into Dongjun Cement as capital contribution of RMB61,874,700 by one of the shareholders of Dongjun Cement.
- As confirmed by YNAOL, the land values stated in note 1 and note 2 were fixed with reference to the fair market land prices as prevailing.
- As confirmed by YNAOL, YNAOL and/or Dongjun Cement commits to complete land grant procedures, pay land premium to the Government and obtain Land Use Right Certificates and Building Ownership Certificates for the property before the completion of the Acquisition.
- In the absence of any document certifying the duration of land use rights of the property, we have assumed that the property is held by the owner for a term of 50 years from the date of Land Use Rights Certificate of the property, being the maximum term of land use rights for industrial land as stipulated in the Article 12 of the Provisional Regulation of the People’s Republic of China on Granting and Transferring the Land Use Rights of State-owned Land in Cities and Towns.
- Opinion of the PRC legal adviser to the Group in relation to the property states that Dongjun Cement is required to secure Land Use Rights Certificate for the property in order to complete and legitimize the land transaction and the capital injection as mentioned above.
- On the basis that the owner of the property commits to secure Land Use Right Certificate for the property, the capital value of the property in existing state is RMB205,290,000. According to the information provided the Group and given the actual completion status of the project, the construction cost to be expended to completed the property (excluding those costs for work done but not yet paid) as at the valuation date is about of RMB5,550,000. The capital value of the property as if it were fully completed as at the valuation date is about RMB210,840,000.

No.	Property	Description	Particulars of occupancy	Capital Value in existing state as at 31st January 2005
3.	Land, building and structures of cement plant located at Xinan Road, Kaiyuan City, Yunnan Province, the PRC.	The property comprises a total of 12 parcels of land with a total land area of 355,869.94 square metres on which a total of 34 production buildings/structures, 6 warehouses and 8 office buildings are erected. These buildings/structures were completed in between 1970 and 2003. The buildings and structures of the property, which include workshops, transformer stations, warehouses, pump stations, office buildings and other ancillary production buildings, have a total gross floor area of about 114,809.62 square metres. In addition, other major facilities such as equipment foundations, sheds, water towers, railway, chimney, conveying passages are found within the property.	The property is occupied by the owner as cement production plants.	RMB87,870,000

Notes:-

1.
- As revealed by the Land Use Right Certificate issued in 2004, the land use rights of the property with a land area of 194,521 square metres are held by Yunnan Kaiyuan Cement Factory (雲南省開遠水泥廠). The permitted use of the said parcel of land is industrial.
2.
- As revealed by the Land Use Rights Certificate dated 2nd September 2004, the land use rights of the property with a land area of 60,936 square metres are held by Yunnan Kaiyuan Cement Factory (雲南省開遠水泥廠). The permitted use of the said parcel of land is industrial.
3.
- As revealed by the Land Use Right Certificate dated 21st September 2002, the land use rights of the property with a total land area of 57,645.80 square metres are held by Yunnan Kaiyuan Cement Factory (雲南省開遠水泥廠). The permitted use of the said parcel of land is industrial.
4.
- As revealed by another Land Use Right Certificate dated 18th August 1999, the land use rights of the property with a land area of 11,081.48 square metres are held by Kaiyuan Cement Factory Oil Tank (開遠水泥廠油庫). The permitted use of the said parcel of land is storage.
5.
- As revealed by another six sets of Land Use Right Certificate all dated 5th November 2003, the land use rights of the property with a total land area of 6,785.73 square metres are held by Kaiyuan Cement Factory. The permitted use of the said parcel of land is industrial.
6.
- As revealed by another two sets of Land Use Right Certificate both dated 21st September 2002, the land use rights of the property with a total land area of 24,899.93 square metres are held by Kaiyuan Cement Factory. The permitted use of the said parcel of land is industrial.

7. As revealed by various sets of Building Ownership Certificate all dated 10th June 1987, the aforesaid buildings and structures are held by Yunnan Kaiyuan Cement Factory.
8. In the absence of any document certifying the duration of land use rights of the property, we have assumed that the property is held by the owner for a term of not less than 50 years from the date of Land Use Rights Certificate of the property, being the maximum term of land use rights for industrial land as stipulated in the Article 12 of the Provisional Regulation of the People's Republic of China on Granting and Transferring the Land Use Rights of State-owned Land in Cities and Towns.
9. Opinion of the PRC legal adviser to the Group in relation to the property is summarized as follows:
 - 9.1 The land use rights in the property are held by Yunnan Kaiyuan Cement Factory;
 - 9.2 Legal and valid Land Use Rights Certificates and Building Ownership Certificates have been issued to the property and the property is free from any mortgage; and
 - 9.3 The land use rights of the property were granted to the owner by way of administrative allocation. It is required to complete land grant procedures including payment of land premium to the government before it can dispose of the property to any third party.
10. As confirmed by YNAOL, YNAOL and/or Kaiyuan Cement commit to complete land grant procedures so as to convert the property from administrative allocated land into transferable granted land before the completion of the Acquisition.

			Particulars of occupancy	Capital Value in existing state as at 31st January 2005
No.	Property	Description		
4.	Land, building and structures of cement plant located at Huajia Shan, Donggong Town, Chuxiong City, Yunnan Province, the PRC.	The property comprises a parcel of land with an area of 17,424 square metres on which a total of 6 production buildings/structures, 13 warehouses, 2 office/laboratory buildings and 1 dormitory building are erected. These buildings/structures were completed in 1993. The buildings and structures, which include workshops, transformer stations, warehouses, pump stations, office buildings and other ancillary production buildings, have a total gross floor area of about 4,316.56 square metres. In addition, other major facilities such as equipment foundations, sheds, water towers, chimney, conveying passages are found within the property.	The property is occupied by the owner as a cement production plant.	RMB6,450,000

Notes:-

1. As revealed by the Land Use Right Certificate dated 21st December 2000, the land use rights of the property with a land area of 17,424 square metres are held by Kunming Cement (昆明水泥股份有限公司) for a term expiring on 18th December 2050. The permitted use of the said parcel of land is industrial.
2. As confirmed by YNAOL, YNAOL and/or Kunming Cement commits to obtain Building Ownership Certificates for the property before the completion of the Acquisition. We have included the value of buildings and structures in the valuation on the assumption that the Group shall have no legal impediment in obtaining Building Ownership Certificate.
3. Opinion of the PRC legal adviser to the Group in relation to the property is summarized as follows:

3.1 The land use rights in the property are held by Kunming Cement for a term expiring on 18th December 2050;

3.2 Kunming Cement has the rights to occupy, use, transfer and mortgage the property for the whole of the unexpired term of land use rights; and

3.3 Legal and valid Land Use Rights Certificate has been issued to property.

No.	Property	Description	Particulars of occupancy	Capital Value in existing state as at 31st January 2005
5.	Land, building and structures of Chenggong grinding mill located at Luoyang Town, Chenggong City, Yunnan Province, the PRC	The property comprises a total of 5 parcels of land with a total land area of 131,480.32 square metres on which a total of 5 production buildings/structures, 6 warehouses, 3 office/laboratory buildings and 1 dormitory building are erected. These buildings/structures were completed in between 1985 and 1992. The buildings and structures, which include workshops, transformer stations, warehouses, pump stations, office buildings and other ancillary production buildings, have a total gross floor area of about 14,850 square metres. In addition, other major facilities such as equipment foundations, sheds, water towers, railway, chimney, conveying passages are found within the property.	The property is occupied by the owner as a cement manufactory plant.	RMB48,400,000

Notes:-

1.
- As revealed by the Land Use Right Certificate dated 15th October 1997, the land use rights of the property with a land area of 4,533.33 square metres are held by Kaiyuan Cement Factory — Chenggong Sub-plant (開遠水泥廠呈貢分廠) for a term of 50 years commencing on 15th October 1997 and expiring on 15th October 2047. The permitted use of the said parcel of land is industrial.
2.
- As revealed by two sets of Land Use Right Certificate both dated 15th October 1997, the land use rights of the property with a total land area of 10,879.10 square metres are held by Kaiyuan Cement Factory — Chenggong Sub-plant (開遠水泥廠呈貢分廠). The permitted use of the said parcel of land is industrial.
3.
- As revealed by another Land Use Right Certificate dated 5th April 1994, the land use rights of the property with a land area of 112,024.16 square metres are held by Yunnan Kaiyuan Cement Factory — Chenggong Cement Grinding Mill (雲南開遠水泥廠呈貢水泥粉磨站) for a term of 50 years expiring on 4th April 2044. The permitted use of the said parcel of land is industrial.
4.
- As revealed by another Land Use Right Certificate dated 4th April 1994, the land use rights of the property with a land area of 4,043.73 square metres are held by Yunnan Kaiyuan Cement Factory — Chenggong Cement Grinding Mill (雲南開遠水泥廠呈貢水泥粉磨站) for the use of access roads.
5.
- As revealed by five sets of Building Ownership Certificate all dated 27th March 2001, the aforesaid buildings and structures are held by Kaiyuan Cement Factory — Chenggong Sub-plant (開遠水泥廠呈貢分廠).

6. Opinion of the PRC legal adviser to the Group in relation to the property is summarized as follows:
- 6.1 The land use rights in the property are held by Kaiyuan Cement Factory — Chenggong Sub-plant (開遠水泥廠呈貢分廠);
- 6.2 Legal and valid Land Use Rights Certificates and Building Ownership Certificate have been issued to the property which is free from any mortgage; and
- 6.3 The land use rights of a portion of the property with an area of 14,922.83 square metres were granted to the owner by way of administrative allocation. It is required to complete land grant procedures including payment of land premium to the government before it can dispose of the property to any third party.
7. As confirmed by YNAOL, YNAOL and/or Kaiyuan Cement commits to complete land grant procedures so as to convert the property from administrative allocated land into transferable granted land before the completion of the Acquisition.

No.	Property	Description	Particulars of occupancy	Capital Value in existing state as at 31st January 2005
6.	Land, building and structures of Mile grinding mill located at Midong Village, Midong Town, Mile County, Yunnan Province, the PRC.	The property comprises a parcel of land with an area of 33,236.77square metres on which a total of 7 production buildings/structures, 3 warehouses, 2 office/laboratory buildings and 2 dormitory building are erected. These buildings/structures were completed in 1988. The buildings and structures, which include workshops, transformer stations, warehouses, pump stations, office buildings and other ancillary production buildings, have a total gross floor area of about 3,414.92 square metres. In addition, other major facilities such as equipment foundations, sheds, water towers, chimney, conveying passages are found within the property. The property is held for a term expiring on 31st March 2047.	The property is occupied by the owner as a cement manufactory plant.	RMB11,500,000

Notes:-

1.

As revealed by the Land Use Right Certificate dated 16th July 2001, the land use rights of the property with a land area of 33,236.77 square metres are held by Kaiyuan Cement (雲南開遠水泥股份有限公司) for a term expiring on 31st March 2047. The permitted use of the said parcel of land is industrial.
2.

As confirmed by YNAOL, YNAOL and/or Kaiyuan Cement commits to obtain Building Ownership Certificates for the property before the completion of the Acquisition.
3.

Opinion of the PRC legal adviser to the Group in relation to the property is summarized as follows:
- 3.1

The land use rights in the property are held by Yunnan State Property Cement Honghe Company Limited (雲南國資水泥紅河有限公司) (formerly known as Kaiyuan Cement (雲南開遠水泥股份有限公司)) for a term expiring on 31st March 2047; and
- 3.2

Legal and valid Land Use Rights Certificates have been issued to the property which is free from any mortgage.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to SOCAM. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to SOCAM and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to SOCAM, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors and SOCAM's chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to SOCAM 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 SOCAM	
	Personal Interests	Other Interests
Lo Hong Sui, Vincent	—	185,183,000
Wong Ying Wai, Wilfred	120,000	—
Choi Yuk Keung, Lawrence	602,000	—
Wong Yuet Leung, Frankie	—	—
Wong Fook Lam, Raymond	—	—
Lowe Hoh Wai Wan, Vivien	—	—
Wong Hak Wood, Louis	228,000	—
Enright Michael John	—	—
Griffiths Anthony	—	—
Cheung Kin Tung, Marvin	—	—
Cheng Mo Chi, Moses	—	—

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

(b) Share Options of the Company

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 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”). All options granted previously under the Old Scheme continue to be valid and exercisable.

As at the Latest Practicable Date, the following Directors had interests in right of options granted under the Old Scheme and the New Scheme:

Name of Director	Date of grant	Subscription price per share <i>HK\$</i>	Period during which options are exercisable	Number of ordinary shares subject to the options
Wong Ying Wai, Wilfred	27.8.2002	6.00	27.2.2003 to 26.8.2007	80,000
	27.8.2002	6.00	27.8.2005 to 26.8.2010	5,000,000**
Choi Yuk Keung, Lawrence	4.7.2000	9.56	4.1.2001 to 3.7.2005	70,000
	17.7.2001	9.30	17.1.2002 to 16.7.2006	140,000
	27.8.2002	6.00	27.2.2003 to 26.8.2007	168,000
	27.8.2002	6.00	27.8.2005 to 26.8.2010	5,000,000**
Wong Yuet Leung, Frankie	4.7.2000	9.56	4.1.2001 to 3.7.2005	200,000
	17.7.2001	9.30	17.1.2002 to 16.7.2006	200,000
	27.8.2002	6.00	27.2.2003 to 26.8.2007	160,000
	27.8.2002	6.00	27.8.2005 to 26.8.2010	2,000,000**

Name of Director	Date of grant	Subscription price per share <i>HK\$</i>	Period during which options outstanding are exercisable	Number of ordinary shares subject to the options
Wong Fook Lam, Raymond	4.7.2000	9.56	4.1.2001 to 3.7.2005	160,000
	17.7.2001	9.30	17.1.2002 to 16.7.2006	160,000
	27.8.2002	6.00	27.2.2003 to 26.8.2007	110,000
	27.8.2002	6.00	27.8.2005 to 26.8.2010	2,000,000**
Lowe Hoh Wai Wan Vivien	4.7.2000	9.56	4.1.2001 to 3.7.2005	160,000
	17.7.2001	9.30	17.1.2002 to 16.7.2006	160,000
	27.8.2002	6.00	27.2.2003 to 26.8.2007	66,000
	27.8.2002	6.00	27.8.2005 to 26.8.2010	2,000,000**
Wong Hak Wood, Louis	4.7.2000	9.56	4.1.2001 to 3.7.2005	280,000
	17.7.2001	9.30	17.1.2002 to 16.7.2006	280,000
	27.8.2002	6.00	27.2.2003 to 26.8.2007	88,000
	27.8.2002	6.00	27.8.2005 to 26.8.2010	2,000,000**

As at the Latest Practicable Date, 28,922,000 Shares may be issued upon exercise of all outstanding options granted. This represents about 11% 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or SOCAM’s chief executive, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of SOCAM or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by SOCAM pursuant to section 352 of the SFO or any interests which are required to be notified to SOCAM and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(c) **Interests of shareholders discloseable pursuant to the SFO**

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

Name	Number of ordinary shares in SOCAM	Percentage of shareholding in SOCAM
Cheah Cheng Hye	13,912,000	5.17%

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

(d) **Substantial shareholding in other members of the Group**

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of SOCAM or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of owner of shares or equity interest (as the case may be)	Name of subsidiary	Effective % equity interest held
番禺市廣鋁實業總公司 (Panyu Guang Rui Enterprise Ltd.)	Panyu Dynamic Mark Steel & Aluminium Engineering Co. Ltd.	20%
Eversound Enterprise Ltd.	Panyu Dynamic Mark Steel & Aluminium Engineering Co. Ltd.	16%
Lung Shing Construction & Materials Company Ltd.	Lamma Concrete Products Ltd.	40%

Name of owner of shares or equity interest (as the case may be)	Name of subsidiary	Effective % equity interest held
Lung Shing Construction & Materials Company Ltd.	Guangdong Lamma Concrete Products Limited	40%
番禺市廣鋁實業總公司 (Panyu Guang Lu Enterprise Co. Ltd.)	Panyu Shui Fai Metal Works Engineering Company Limited	22.5%
Hip Kwan Engineering Co. Ltd.	Panyu Shui Fai Metal Works Engineering Company Limited	22.5%
Eversound Enterprise Ltd.	Dynamic Mark Limited	20%
番禺市廣鋁實業總公司 (Panyu Guang Lu Enterprise Co. Ltd.)	Guang Rui Construction Materials (Panyu) Ltd.	25%
Hip Kwan Engineering Co. Ltd.	Shui Fai Metal Works Engineering Co. Ltd.	22.5%
Eversound Enterprise Ltd.	Shui Fai Metal Works Engineering Co. Ltd.	22.5%
Jadson Construction Ltd.	Pacific Extend Ltd.	33%*

* The 33% equity interest held by Jadson Construction Ltd. carries voting right of 20.625%.

(e) Material Interests

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 March 2004 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to SOCAM or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to SOCAM or any of its subsidiaries.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by SOCAM or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

(f) Independence

As at the Latest Practicable Date, none of the Directors and their respective associates have any interest in a business apart from the Group's business, which competes or is likely to compete, directly or indirectly, with the Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

3. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2004, the date to which the latest published audited financial statements of SOCAM were made up.

4. EXPERTS

- (a) The following are the qualifications of the experts who have given their opinions or advices which are contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong
RHL Appraisal Ltd.	Qualified property valuer
天一致和律師事務所 (Tianyi Zhihe Law Office)	Qualified PRC lawyer

- (b) None of Deloitte Touche Tohmatsu, RHL Appraisal Ltd. and 天一致和律師事務所 (Tianyi Zhihe Law Office) has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Each of Deloitte Touche Tohmatsu, RHL Appraisal Ltd. and 天一致和律師事務所 (Tianyi Zhihe Law Office) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (d) None of Deloitte Touche Tohmatsu, RHL Appraisal Ltd. nor 天一致和律師事務所 (Tianyi Zhihe Law Office) has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2004, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letters and the accountants' reports prepared by Deloitte Touche Tohmatsu set out in Appendices I, II and III and the valuation report prepared by RHL Appraisal Ltd. set out in Appendix IV (including the references to the legal opinion issued by 天一致和律師事務所 (Tianyi Zhihe Law Office), the Group's PRC legal adviser), are given for incorporation in this circular.

5. LITIGATION

As at the Latest Practicable Date, neither SOCAM nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against SOCAM or any of its subsidiaries.

6. SERVICE CONTRACTS

There is no existing or proposed service contracts between any of the Directors and SOCAM or any of its subsidiaries respectively, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately prior to the date of this circular:

- (1) JO Agreement;
- (2) S&P Agreement;
- (3) New JV Agreement;
- (4) New Transfer Agreement;
- (5) Tri-Party Agreement;
- (6) Lafarge Agreement;
- (7) Technical Assistance Agreement;
- (8) Sale and purchase agreement dated 18 February 2004 relating to the sale of the entire issued share capital of Foresight Profits Limited and the amount of about HK\$763 million owed to SOCAM by a subsidiary of Foresight Profits Limited entered into between SOCAM and Shui On Land Limited (“Rainbow Sale and Purchase Agreement”);
- (9) Subscription and shareholders’ agreement dated 18 February 2004 relating to the subscription of the 400 million preference shares of Shui On Land Limited (“SOL”) at the subscription price of US\$1.00 each (about HK\$7.80) and the operations of SOL entered into by SOL, NRI Limited, Shui On Properties Limited, Shui On Company Limited and SOCAM (“Subscription and Shareholders’ Agreement”);
- (10) Sale and purchase agreement dated 15 September 2004 relating to the disposal of On King Building, Nos. 54 and 56, Tsun Yip Street, Kwun Tong, Kowloon between Kotemax Limited, an indirect wholly owned subsidiary of SOCAM, and an Independent Third Party (“On King Agreement”);

- (11) A joint venture agreement entered into between Shui On Construction Company Limited, a wholly owned subsidiary of SOCAM and Focus Top Limited on 13 September 2004 to form a joint venture, namely “Shui On Joint Venture”, to undertake a project in relation to the design and construction of Independent Commission Against Corruption Headquarters Building at Java Road, North Point, Hong Kong (the “JV Agreement on the ICAC project”);
- (12) A framework agreement entered into between Sommerset Investments Limited, an indirect wholly owned subsidiary of SOCAM, Guizhou Shuicheng Cement Co., Ltd. and Guizhou Wumengshan Development Co., Ltd. on 20 December 2004 to form a cement joint venture in Shuicheng, Guizhou (the “Framework Agreement on Shuicheng Cement”); and
- (13) An agreement entered into between Shui On Building Materials Limited, a wholly-owned subsidiary of SOCAM, and Maxking Investments Limited on 31 December 2004 to sell the entire issued share capital of Ken On Concrete Co. Ltd., Instant Mortars Ltd., Shui On Cement Co. Ltd. and Honest China Limited (the “Agreement for Disposal of CMD”).

8. GENERAL

- (a) The Qualified Accountant of SOCAM is Mr. Raymond F L Wong, a fellow of the Institute of Chartered Accountants in England and Wales and a fellow of the Hong Kong Institute of Certified Public Accountants.
- (b) The secretary of SOCAM is Ms. Janice C W Tam, holder of a master’s degree in science, a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants.
- (c) The principal share registrar and the transfer office of SOCAM is the Bank of Bermuda Limited, 6 Front Street, Hamilton HM 11, Bermuda.
- (d) The Hong Kong branch share registrar and transfer office is Standard Registrars Limited, 28th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The registered office of SOCAM is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of SOCAM is at 34th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.
- (f) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours up to 4:00 p.m. on 26 April 2005 at the principal office of SOCAM at 34th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong:

- (a) memorandum of association and bye-laws of SOCAM;
- (b) the JO Agreement;
- (c) the S&P Agreement;
- (d) the Lafarge Agreement;
- (e) the Technical Assistance Agreement;
- (f) the New JV Agreement;
- (g) the New Transfer Agreement;
- (h) the New Tri-Party Agreement;
- (i) Rainbow Sale and Purchase Agreement;
- (j) Subscription and Shareholders' Agreement;
- (k) the On King Agreement;
- (l) the JV Agreement on the ICAC project;
- (m) the Framework Agreement on Shuicheng Cement;
- (n) the Agreement for Disposal of CMD;
- (o) the letters from Deloitte Touche Tohmatsu in relation to the pro forma financial information, the texts of which are set out in Appendices I and III;
- (p) the accountants' report of Deloitte Touche Tohmatsu, the text of which is set out in Appendix II;
- (q) the valuation report of RHL Appraisal Ltd., the text of which is set out in Appendix IV;
- (r) the legal opinion issued by 天一致和律師事務所 (Tianyi Zhihe Law Office), references to which are made in the valuation report set out in Appendix IV;

- (s) the annual reports of SOCAM for the two financial years ended 31 March 2004;
- (t) the interim report of SOCAM for the six months ended 30 September 2004;
- (u) the written consents referred to in paragraph 4 in this Appendix;
- (v) the circular of SOCAM dated 23 March 2004;
- (w) the circular of SOCAM dated 24 September 2004;
- (x) the circular of SOCAM dated 26 January 2005; and
- (y) the circular of SOCAM dated 2 February 2005.