



Lo Hong Sui, Vincent  
Chairman

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## RESULTS

I am pleased to report that the Group's profit attributable to shareholders was HK\$483 million, representing an increase of 226% over the previous financial year (2003/2004: HK\$148 million). Earnings per share were HK\$1.80, an increase of 227% over the previous year (2003/2004: HK\$0.55). Turnover was HK\$2,232 million, a decrease of 38% from the previous year (2003/2004: HK\$3,591 million).

The Directors recommend the payment of a final dividend of HK\$0.30 per share to shareholders whose names appear on the Register of Members of the Company on 19 August, 2005. This, together with the interim dividend of HK\$0.30 per share, yields a total of HK\$0.60 per share for the year.

## BUSINESS REVIEW

A key feature of the year's performance was the investment in Shui On Land (SOL), established as the flagship property company of the Shui On Group (SOCAM's privately held parent company) in June 2004 for property development and investment on the Chinese Mainland. The injection of

our Rui Hong Xin Cheng (Rainbow City) development into SOL generated a gain of HK\$345.7 million during the year.

More importantly, as a significant minority shareholder of SOL, an entity that has a diversified real estate portfolio and a strong reputation on the Chinese Mainland, SOCAM now enjoys significant and diverse opportunities in the dynamic Mainland property market.

In April 2005, SOL acquired a 50-hectare plot in the city core of Wuhan, a major city in central China, taking its total land bank on the Chinese Mainland to approximately 8 million square metres of gross floor area. SOL's current portfolio also includes three projects in Shanghai (Rui Hong Xin Cheng, Taipingqiao Redevelopment Project and Chuangzhi Tiandi), Xihu Tiandi in Hangzhou and Chongqing Tiandi.

All these projects made good progress during the year. Rui Hong Xin Cheng saw strong sales from two blocks in Phase 2 in October 2004. Another two blocks in Phase 2 that were put up for sale in June 2005 also met with encouraging

The world-renowned Xintiandi in Shanghai has proven to be extremely popular



responses. At the Taipingqiao Redevelopment, occupancy at Shanghai Xintiandi was 98% in the North Block and 92% in the South Block while approximately 94% of the office space in Phase 1 of Corporate Avenue was let to corporate tenants at the end of March 2005. Construction commenced in April 2004 at Chuangzhi Tiandi, the innovative mixed-use scheme that aims to generate Silicon Valley-style technological entrepreneurship. Phase 1 of the Hub and Live/Work area is expected to be completed by end of 2005. Relocation for Chongqing Tiandi progressed well and construction of the first phase is expected to commence in the third quarter of 2005.

Our cement operations also made good progress in strengthening market penetration through acquisitions of new plants and investment in new production lines. In Chongqing, we completed construction of a new dry kiln at Diwei and proceeded with work on a plant for processing steel slag. In Guizhou, we acquired a large cement factory located at Shuicheng, a move that completed a cohesive network of plants around the provincial capital Guiyang. However, results were disappointing in Chongqing and

Guizhou due to the adverse effect of the Central Government's austerity measures on demand and prices of cement as well as rising energy costs.

We are in the process of finalising the acquisition of 80% of several key cement plants in Yunnan with a combined capacity of 4.5 million tpa (tonnes per annum). Yunnan is a fast-growing province that is sustaining high prices for cement. Demand is set to grow rapidly in the face of the Go West programme and the government policy to foster closer links between China and ASEAN countries (Yunnan is adjacent to three of these countries). We have granted an option to Lafarge, a world leader in building materials, until 31 December, 2005 to acquire 50% of SOCAM's share in this Yunnan deal. It is the intention of the Group to explore wider cooperation with Lafarge on the Chinese Mainland, and discussions have been held to that end.

With our existing status as the largest cement producer in Chongqing and Guizhou, the Yunnan operations will further strengthen our leading position in southwest China. Upon completion of the deal, the Group will have a total

The Group completed construction of a new  
**1 million** tonne per annum kiln at Diwei, Chongqing... ❖

Phase 1 of Corporate Avenue, a multi-phase development of Grade A office buildings with integral commercial facilities, comprises Towers I and II



... and acquired a **1.4 million** tonne per annum  
cement plant located at Shuicheng, Guizhou. 

production capacity in excess of 15 million tpa of high grade cement in the region.

The Group's portfolio of venture capital investments had a very good year and is expected to continue yielding significant returns. Our investment in a third fund in July 2004 underlines our determination to continue to benefit from our present investment.

While government expenditure on public housing and other building projects in Hong Kong declined further, profitability of our construction activities remained satisfactory despite shrinking turnover.


There was further poor performance in our construction materials operations in Hong Kong and the Pearl River Delta, with little prospect of improvement. The Group

recognised that this activity was no longer a core business, or one that could contribute to our long-term business expansion. We therefore disposed of most of our interests and also closed our materials trading operation.

### CORPORATE GOVERNANCE

We regard effective corporate governance as a key component in the Group's sustained development. This entails the Board setting appropriate policies and overseeing their implementation both in the affairs of the Board and throughout the Group. We believe that robust corporate governance enhances practical management of the Group's affairs emphasising high standards of integrity and transparency of information provided unproductive bureaucracy is kept to a minimum. More information is given on pages 28 to 31.



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### FUTURE OUTLOOK

Foreseeing compelling growth opportunities on the Chinese Mainland a few years ago, the Group decided to actively invest in Mainland cement and property businesses even though the core Hong Kong businesses at the time were generating healthy profits. Our strategy to transform the Group into a Mainland-oriented enterprise has been progressing well and will provide a strong and long-term platform for growth.

The year under review saw a substantial increase in profits. An important strategic objective going forward is to secure a broad base of recurrent income through operations and investments with the strength to ride out economic cycles.

Our investment in SOL will support that aim as the flagship property company holds prime office and retail properties for long-term rental income and has a pipeline of residential developments for sale in the coming years. We are confident that SOL, with its innovative approach to urban planning and a substantial – and growing – land bank on the Chinese Mainland, will achieve a steady

income stream for the Group in future years. Moreover, we will explore co-investment opportunities with SOL in selected developments that can leverage SOCAM's long and successful construction expertise.

Although performance of the cement business on the Chinese Mainland has been temporarily affected by the Central Government's austerity measures, we strongly believe that long term prospects remain good. Demand for high grade cement in southwest China – our target market – will be boosted by urbanisation and infrastructure projects under the Go West policy when the effect of the austerity measures tapers off. In addition, the austerity programme is likely to force several inefficient and poorly funded competitors out of the market. We are committed to increasing production capacity and consolidating our market penetration and are confident that this business will generate a steady income stream for the Group in the long term.

Our confidence in the Mainland market extends to our venture capital interests, which we expect will continue to bring attractive returns for shareholders.

The continued **economic growth in China**  
will allow the Group to achieve long term,  
sustainable development 



# Our venture capital interests

are expected to continue to bring attractive returns 

While construction in Hong Kong is likely to remain flat in the near term, we believe the Group is well positioned to take advantage of the next market upturn. The sales and closures of our construction materials businesses, on the other hand, allow us to focus resources on the growth of core businesses.

With the investment in SOL, the progress of our cement interests as well as the success of our venture funds, the Group believes the process of building a strong foundation on the Mainland is now complete. The continued economic growth in China will allow the Group to achieve long term, sustainable development in the years to come.

## ACKNOWLEDGEMENTS

SOCAM is successfully implementing an important transition as it builds large and sustainable operations on the Chinese Mainland. This in turn has called for hard work and flexibility from our staff. All our employees have demonstrated exemplary professionalism as the Group capitalises on opportunities on the Mainland while meeting the challenges of difficult market conditions in Hong Kong. On behalf of the Board, I would like to thank all staff members for their continuing commitment to the Group.

Lo Hong Sui, Vincent  
CHAIRMAN

Hong Kong, July 2005



Phase 2 of Rui Hong Xin Cheng (Rainbow City)

