



**LO HONG SUI, VINCENT**  
Chairman





We have made significant progress in our strategic objective of building a broader recurrent income base in the Chinese Mainland with the formation of Lafarge Shui On Cement Limited and the acquisition of distressed properties for development. We remain committed to further creating shareholder value.



*With the formation of LSOC, our operations in China's cement industry were transformed and we have created a dominant business*

## CHAIRMAN'S STATEMENT

### RESULTS

I am pleased to report that the Group's profit attributable to shareholders for the year ended 31 March 2006 was HK\$315 million. This represents a decrease of 35% compared to the previous financial year (2004/2005: HK\$482 million), which saw a HK\$346 million one-off gain from the injection of Rui Hong Xin Cheng into Shui On Land. Earnings per share were HK\$1.16, a decrease of 35% over the previous year (2004/2005: HK\$1.79). Turnover was HK\$1,400 million, a decrease of 26% on the previous year (2004/2005: HK\$1,883 million).

The Directors recommend the payment of a final dividend of HK\$0.25 per share to shareholders whose names appear on the Register of Members of the Company on 23 August 2006. This, together with the interim dividend of HK\$0.12 per share, yields a total of HK\$0.37 per share for the year.

### BUSINESS REVIEW

The Group continued to devote energy and resources to strategic initiatives to creating shareholder value during the year. Through value appreciation in the projects of Shui On Land Limited, the formation and expansion of Lafarge Shui On Cement Limited and embarkation on distressed property development projects, we have made significant progress in our strategic objective of expanding and diversifying in the Chinese Mainland while securing a broader recurrent income base and building up the ability to ride out economic cycles. We will continue to examine opportunities for bringing significant new strength to the Group and remain committed to further creating shareholder value.

A strategic development during the year is the ground breaking activity for our Group in the distressed property development in the Chinese Mainland. SOCAM's involvement began in September 2005 when we announced an initiative to acquire with JP Morgan and other partners 100% of Xiwang

Building, an unfinished Grade A office plaza in Dalian. This represented our first investment in distressed property development. Since September, we have extended our activity to Qingdao and Beijing. This is an exciting new core business for the Group in which we are leveraging SOCAM's strengths and expertise in construction, project management, and deal-structuring and financing, while working with knowledgeable and reputable international partners. We expect attractive returns from our portfolio of projects in terms of yield and capital value. We plan to secure recurrent income through long-term investment in commercial and office property and to achieve sales profit through the disposal of residential developments. Our objective is to become one of the leaders in distressed property investment in the Chinese Mainland.

Our operations in China's cement industry were transformed and their prospects favourably enhanced with our announcement in August 2005 of





our joint venture with Lafarge, one of the world's largest and leading cement producers. Lafarge Shui On Cement (LSOC), as the joint venture is known, is one of China's leading cement businesses. We have each contributed operations in Sichuan and Chongqing while SOCAM has injected its three largest cement plants in Guizhou and Lafarge has added its operations in Beijing. SOCAM has also recently acquired three important plants in Yunnan that will be injected into the joint venture in time. LSOC announced in November its intended acquisition of Shuangma Investment Group. When approved by the Central Government, this acquisition will make LSOC the market leader in Sichuan, and bring its total cement production capacity in China - including the Yunnan plants - to 23.3 million tonnes per annum (tpa) by the end of 2006. Integration of our respective interests is progressing to plan. We have created a dominant business that I am confident will see sustained success.

The Group's portfolio of venture capital investments again brought significant returns. The investments of the two Yangtze Ventures Funds and On Capital China Tech Fund produced a total profit of HK\$293 million.

Shui On Land (SOL), in which the Group holds partial interest, had a good year. SOL is now active in property development in Shanghai, and also

in Hangzhou, Chongqing and Wuhan, with a total land bank in the Chinese Mainland of over 8.2 million square metres of buildable gross floor area including open areas and public facilities.

The respective values of SOL's projects continued to appreciate significantly. In Shanghai, Rui Hong Xin Cheng is an integrated residential development targeting the upper-middle class while Taipingqiao and Knowledge and Innovation Community (KIC) are city-core re-developments. In southwest China, the Chongqing Tiandi project is to support and service Chongqing's extensive manufacturing and service industries. The Wuhan Hankou Tiandi project will modernize a prominent site in a key city in central part of China. Finally, the Hangzhou Xihu Tiandi project has become a focal point for Hangzhou similar to Shanghai Xintiandi.

SOCAM's construction operations in Hong Kong and Macau performed well despite strong competition in Hong Kong, being active in both the public and private sectors. In Macau, Pat Davie gained further success, with

the gaming industry sustaining strong demand for fitting-out works. In the Chinese Mainland, we secured a project management contract for a Shui On Group commercial property development in Guangzhou.

### CORPORATE GOVERNANCE

The Group believes that sound corporate governance is integral to its success. Our Board leads corporate governance by setting appropriate policies and overseeing their implementation. We recognize that strong corporate governance enhances management of the Group's operations and that future prosperity is dependent upon, among other factors, the highest standards of integrity and transparency.

### FUTURE OUTLOOK

We will continue to implement our strategy of investing in our core businesses in the Mainland as a means to ensuring that the Group's significant presence in the Chinese Mainland is successful. We will continue to focus on securing a broad base of recurrent income from both Hong Kong and the Chinese Mainland.

*SOCAM and JP Morgan acquired a 100% interest in Beijing Huapu Building. Its construction work is expected to be completed in the third quarter of 2007*





*The up-market residential zone "Lakeville" in Taipingqiao redevelopment project comprises 8 lots. Pre-sale of the second lot "Lakeville Regency" which commenced in early 2006 has met with encouraging market response*

We have resolved to make the development of distressed property assets in the Chinese Mainland our new core business and our objective is to become one of the leaders in this sector. We will retain quality office and retail projects for the long term, while disposing of residential developments that offer attractive returns over shorter time frames. We believe that undertaking such projects in major cities will bring attractive returns as well as significant growth potential for SOCAM. We will diligently identify suitable projects for acquisition while continuing to build up our strengths as a preferred partner and developer in the sector.

We are excited at the prospects for the cement industry in the Chinese Mainland. We believe strong, long-term demand will arise from the nation's continued economic growth and rapid modernization, and our strong base in the central and western region in particular will benefit from the colossal state investments under the "Go West" policy. On the supply side, our joint venture with Lafarge has

the expertise and market knowledge to be robust in taking a leading market share while steadily growing its geographic base of operations.

Our venture capital interests with their distinct China focus underline our view that the Mainland will see vigorous long-term economic growth. Our diverse holdings in fast-growing and cutting-edge sectors provide the opportunity for strong gains through either an IPO or a profitable disposal.

While SOL's planned Initial Public Offering on the Hong Kong Stock Exchange was postponed due to the deterioration in the market in June, we are confident its established reputation as a visionary and innovative developer as well as its sizable land bank of premier sites will continue to be highly attractive to users and investors alike, hence the reflection of these factors in the value of SOCAM's shares.

Competition in Hong Kong's construction sector is still fierce and tender margins are likely to remain

low. Institutional bodies will provide a reasonable number of jobs and the Hong Kong SAR Government is also expected to commence more new public building works. SOCAM will be able to compete effectively for such contracts and intends to continue to bid for suitable projects.

## ACKNOWLEDGEMENTS

The business focus of our group is undergoing transformation and our operations continue to adapt to a range of new opportunities amid a competitive environment. Our management and staff once again demonstrated their ability to meet new challenges. Everybody within the Group has shown skill, determination and vigour and their continued efforts that will be key to our future success. On behalf of the Board, I would like to thank all staff members for their hard work and unwavering loyalty.

Since Messrs. Wilfred Wong and Louis Wong need to devote more time and attention to the businesses and affairs of Shui On Land, they have tendered their resignation from the Board on 1 June 2006. I would like to thank them for their dedicated service to the Company.

**Lo Hong Sui, Vincent**  
**CHAIRMAN**

Hong Kong, July 2006

