WONG YUET LEUNG, FRANKIE
Chief Executive Officer

During the year, the Group made important strategic moves in its ongoing expansion and diversification in the Chinese Mainland market.

The acquisition of Xiwang Building in Dalian with JP Morgan and other partners in September 2005 marked the Group's first investment in distressed property development

MANAGEMENT DISCUSSION AND ANALYSIS

Distressed Property Development in the Chinese Mainland

Distressed property development is a new core business for the Group. We are actively leveraging SOCAM's strong base in construction and fitting out, its project management capability, as well as the Group's Mainland expertise and experience in deal-making, financing and property development. Working with knowledgeable and reputable partners, SOCAM intends to acquire and develop distressed property assets in major cities throughout the Chinese Mainland. The Group expects this new core business will make significant profit contributions.

During the year, the Group began to acquire distressed property projects, working in joint venture with international partners. To date, we have invested in three unfinished projects — in Dalian, Qingdao and Beijing — and expect to expand our activities going forward.

Xiwang Building, Dalian

In September 2005, SOCAM announced it had joined forces with JP Morgan in leading a consortium to acquire 100% of Xiwang Building, an unfinished 38-storey Grade A office plaza with a total gross floor area (GFA) of 91,500 square metres in the centre of Dalian. SOCAM holds a 45% interest in this investment, which is set to be completed within 12 months.

Zhongcheng Plaza, Qingdao

In February 2006, SOCAM again led an investor consortium to acquire a 100% interest in Blocks A and C, Phase III of Zhongcheng Plaza in Qingdao. This project comprises an office tower and a mid-range residential block, each 28-storey high, and a three-storey retail podium with a total gross floor area of over 62,000 square metres. SOCAM holds 50% of this property.

Beijing Huapu Building, Beijing

In March 2006, SOCAM and JP Morgan through a 50-50 joint venture acquired a 100% interest in an unfinished commercial complex located in a prime commercial and business district in Beijing. With a total gross floor area of 124,560 square metres, Beijing Huapu Building is expected to be completed in the third quarter of 2007.

Cement Operations in the Chinese Mainland

The key development during the year was the formation of Lafarge Shui On Cement (LSOC), a partnership that merged the respective major cement operations in China of SOCAM and of Lafarge — one of the world's largest and leading cement producers. This move marked the successful implementation of the Group's strategy to build a strong position as one of the leading corporations in high-quality cement market in the Mainland. Lafarge owns 55% of the business while SOCAM owns the remaining 45%, with equal

LSOC is now the cement leader in southwest China, marking the successful implementation of the Group's strategy to build a strong position as one of the leading corporations in the high-quality cement market in the Mainland

representation on the company's Board, which is chaired by SOCAM Chairman Mr. Vincent H.S. Lo. This joint venture is the cement leader in southwest China.

The merger was formally established in November 2005. This operation has combined Lafarge's Mainland cement operations — in Sichuan, Chongqing and Beijing — with SOCAM's cement operations in Chongqing and Sichuan, and its three large plants with dry kilns in Guizhou. SOCAM's acquisition of an 80% interest in three major cement plants in Yunnan, which are to be injected into the joint venture, received approval from the Central Government during the year.

LSOC combines complementary strengths, including Lafarge's expertise in the cement industry, especially in improving the efficiency of acquired operations, and SOCAM's proven experience and reputation in the market in central and western regions of Mainland China. Since the announcement of the joint venture, good progress has been made in post-merger integration with a focus on capturing business synergies from the combined operations and a concerted effort to establish common operating and control systems and practices.

The joint venture is increasing its capacity still further with LSOC's announcement in November 2005 of the acquisition of Shuangma Investment Group in Sichuan for around HK$296 million. This acquisition will strengthen LSOC's position in Sichuan, consolidating its market leadership in the province. In particular, it will enhance the joint venture's presence in Chengdu, the provincial capital, where LSOC's Dujiangyan cement plant with an annual production capacity of 1.4 million tonnes per annum (tpa) is already in operation profitably.

The Group made further and significant investments in Mainland cement operations during the year. However, these cement operations as a whole have incurred losses in 2005 because of the difficult market conditions in Chongqing and that the synergy and benefits arising from the merger with Lafarge last November had yet to be realised. The Group believes that the cement operations in the Chinese Mainland will result in significant long-term return to the shareholders.

Chongqing

All of SOCAM's major cement operations in Chongqing were injected into the joint venture. Prior to the merger, TH Cement had a difficult period due to continuing overcapacity in the market and the upsurge in the cost of energy. LSOC's focus in Chongqing is to concentrate on the high-end market. It is targeting a significant share of the urban market

Demand for high quality cement will continue as the "Go West" Policy leads to tremendous investments in infrastructural projects

and developing new customer sectors, such as supplying rural needs. Construction of a new dry kiln in Hechuan with a capacity of 1.2 million tpa was completed in the first quarter of 2006.

Sichuan

There is sustained cement demand in Sichuan with a current annual growth rate of 7%. However, the commissioning of a new LSOC line with a capacity of 1.4 million tpa at Dujiangyan in September 2006, and a further line in the fourth quarter of 2006 by a competitor, is expected to resolve the current market shortage. During the year, due to market demand, the joint venture was able to increase its pricing in Sichuan focusing on high end products.

The Shuangma acquisition, when approved and completed, will give the joint venture two complementary positions in Sichuan: a cement plant in the north of the province near Mianyang, and a plant in the south near Yibin. Capacity in Sichuan is expected to reach 7 million tpa after the Shuangma acquisition is approved and after the completion of the second line at Dujiangyan.

Guizhou

SOCAM injected three dry kilns in Guizhou — namely Dingxiao, Xinpu and Shuicheng — into the LSOC joint venture. SOCAM continues to operate six smaller cement plants in Xishui, Zunyi, Kaili, Yuqing, Bijie and Changda and a grinding station in Hejiang, with a total production capacity of 1.5 million tpa.

Acquired by SOCAM during the year, Shuicheng is one of the largest plants of its kind in Guizhou with a new 750,000 tpa dry kiln and three wet kilns capable of producing 750,000 tpa. This plant has helped complete SOCAM's network of cement suppliers operating in a cohesive territory surrounding the provincial capital Guiyang.

Guizhou's infrastructure development is benefiting significantly from the Central Government's "Go West" policy. In particular, the Guizhou government is accelerating construction works in transport, water and electricity supply, which are expected to provide strong demand for cement. During 2005, total cement consumption in Guizhou rose by more than 9%. Our Guizhou operations sold a larger volume of cement and by mid 2005 saw firmer cement prices. SOCAM, together with LSOC, now enjoys a significant share of the high-grade cement market in Guizhou.

Completion of a new cement production line in September 2006 at LSOC's Dujiangyan plant will increase annual production capacity by 1.4 million tonnes per annum

Beijing

There is distinct overcapacity in Beijing as demand has reduced in the face of the government austerity measures introduced in 2004. This has exerted pressure on pricing. Demand is expected to remain flat in the face of a slowdown in real-estate development although there has been an increase in Olympics-driven infrastructure.

Nanjing

The Nanjing plant under SOCAM was converted into a grinding mill during the year and the workforce was reduced by 90%. The operation is becoming viable and continues to export cement to the Australian market.

Venture Capital

The Group saw significant performance in its portfolio of investments in the two Yangtze Ventures Funds, in which it is a 65.5% and 75.4% shareholder respectively, and in the On Capital China Tech Fund, in which it is a 74% shareholder. Our venture capital funds made a total contribution during the year of HK$293 million. The principal investments made by these funds are as follows:

Yangtze Ventures Funds (YVF)

Solomon Systech

In December, we achieved our goal of a substantially profitable exit in this business engaged in semiconductor and high voltage integrated circuit development. YVF realized a profit of HK$18 million on the disposal of the remaining shareholding during the year which, together with earlier disposal profits, totalled HK$296 million compared to the initial HK$34 million outlay, over a three-and-a-half year period.

Han Sheng Tang Herbal Technologies

The Group made a new investment in Han Sheng Tang Herbal Technologies, acquiring a 25% interest. We see strong demand for this company's health supplement products in China's ageing but increasingly affluent population.

China Infrastructure Group (CIG)

CIG invests in the development and management of port projects along the Yangtze River. YVF made a one-time unrealized gain of HK$16 million upon the IPO of CIG Yangtze Ports (which holds a port in Wuhan) on Hong Kong's GEM Board in September 2005. YVF holds 18.99% of CIG Yangtze Ports following the listing.

Carling Technology

Carling Technology (Gushan) manufactures and sells biodiesel and other by-products using waste oils as raw materials. YVF's stake at the end of March 2006 was 8%. With oil prices holding firmly above US$70 per barrel, we expect Gushan to continue to perform well. During the year, a US-based private equity fund and another investor took a stake in Gushan at a substantial premium to our entry price.

Other Investments

YVF also has holdings in: Walcom Group, which manufactures animal feedstuff; Apexone Microelectronics, a manufacturer of integrated circuits; Advantek Biologics, a biopharmaceutical specialist; Wuhan Huali Environment Protection Technology, a firm specializing in the R&D and production of environmentally friendly packaging products; Beijing Hi Sunsray Information Technology, which develops and operates an exclusive

KIC aims to inspire innovation and entrepreneurship and create a "live, work and play" lifestyle to attract venture capitalists, entrepreneurs, technology companies and research institutions

The internationally acclaimed historic restoration zone Shanghai Xintiandi is an extremely popular landmark in Shanghai

Interactive Voice Response (IVR) platform for China Mobile; and Rongxing Industrial Development, which is engaged in radio monitoring, measuring and testing, network planning and design, and system integration in China.

On Capital China Tech Fund (On Capital)

Established in June 2004, this fund invests in China's TMT sector and became a subsidiary of the Group during the year. The portfolio of investments is developing steadily and performance has met management's expectations.

Hi Sunsray

With YVF already holding an interest in the IVR specialist Beijing Hi Sunsray Information Technology, On Capital also made its inaugural investment in the same company in 2004. On Capital currently holds a 12% stake. Hi Sunsray made steady profit in 2005.

Union Genesis

On Capital holds 37.5% of this IC design specialist catering to the Digital TV, High Definition TV and Set Top Box market. Union Genesis aims to supply decoder chips in the Mainland, where some 320 million analog TV sets will need hardware to decode digital TV signals.

Arasor

Arasor International Group supplies integrated optoelectronic and wireless solutions serving global systems vendors operating in the network transport, wireless and consumer display industries. On Capital holds 9% of the company.

Carling Technology (Gushan)

On Capital took a stake in Gushan in May 2005, complementing YVF's investment in the company in the same month. On Capital held 2% of Gushan at the end of March 2006.

Airway

Airway Communications International is using post-3G wireless communications technology to provide Wireless Broadband Access services to customers in China. Airway is participating in a rapidly growing segment of China's telecommunications market.

Bus Online

On Capital acquired an interest in this business during the year. Bus Online sells advertising timeslots on LCD TV screens installed on board public buses and is active in 22 major cities in Mainland China.

Property Development Interests in the Chinese Mainland under Shui On Land Limited (SOL)

Adjustments resulting from austerity measures were seen in some of the major Mainland cities during the year, although strong demand for quality residential units continued. Property operations in the Mainland continued to do well with SOL making a significant profit contribution. Its six major multi-phase projects are in various stages of development in Shanghai, Chongqing, Wuhan and Hangzhou, which together will have in total over 8.2 million square metres of GFA, open areas and other public facilities under SOL's land use rights certificates, land grant contracts and legally binding master agreements with district governments.

In February 2006, SOCAM led an investor consortium to acquire a 100% interest in Blocks A and C of Phase III of Zhongcheng Plaza

Shanghai Taipingqiao

This city-core development is expected to have a total GFA of approximately 1.1 million square metres on completion. This project includes a historic restoration zone (known as Shanghai Xintiandi) which was fully completed in 2002; a corporate headquarters zone (known as Corporate Avenue), for which one of the lots was completed in 2004; and an up-market residential zone, for which the first of eight lots (known as Lakeville) was completed in 2003 and pre-sales for a second lot (known as Lakeville Regency) which commenced in early 2006 met with an encouraging market response. For the year ended March 2006, Shanghai Xintiandi and Corporate Avenue recorded average occupancies of 91% and 97% respectively during the year.

Shanghai Rui Hong Xin Cheng

Also known as Rainbow City, this is an integrated residential development that is expected to comprise approximately 10,000 residential units and will have a total GFA of around 1.1 million square metres upon completion. On 31 March 2006, 1,485 units out of the planned 1,759 units in the current phase, one of the eight phases of the development, had been completed and approximately 89% of these completed units had been sold.

Shanghai Knowledge and Innovation Community

Also known as the Shanghai Chuangzhi Tiandi project, this city-core development project is expected to have a total GFA of approximately 539,000 square metres on projected completion in 2010. Close to major academic institutions, it aims to inspire innovation and entrepreneurship and create a "live, work and play" lifestyle to attract venture capitalists, entrepreneurs, technology companies and research institutions. Construction commenced in April 2004 and completion of Stage 1 (Live and Work area 1 and Hub Area 1) with a total GFA of about 139,000 square metres of residential, retail and office premises is expected in the latter half of 2006.

Chongqing Tiandi

This city-core development project is expected to have a total GFA of approximately 2.6 million square metres upon projected completion in 2014 and will be integrated with the central business district in the Yuzhong district in Chongqing. The project will include office buildings, an exhibition and merchandise centre and luxury hotels, a large residential area, and retail, entertainment and food and beverage properties. Construction of Chongqing Tiandi Phase 1A with a total GFA of slightly over 110,000 square metres commenced in the fourth quarter of 2005.

Wuhan Hankou Tiandi

On completion projected in 2014, this city-core development is expected to have a total GFA of approximately 1.4 million square metres and will comprise Grade A office buildings, retail and residential properties and hotels. Construction commenced in the first quarter of 2006 with the first phase of residential units expected to come to market in 2008.

The gaming and hospitality sectors in Macau and Hong Kong provide excellent opportunities for our fitting-out specialist, Pat Davie

Hangzhou Xihu Tiandi

Situated adjacent to Hangzhou's celebrated West Lake, this project is targeting a total GFA of approximately 52,000 square metres of mixed food and beverage, entertainment and retail properties. Phase 1, with a total GFA of approximately 6,000 square metres, has been operational since May 2003 and the entire project is expected to be completed in 2008.

Construction in Hong Kong, Macau and in the Chinese Mainland

The total market for construction work in Hong Kong was HK$43 billion in 2005, up from HK$39 billion the year before. However, only the private sector benefited from this growth as tenders issued in the public sector declined. The gaming and hospitality sectors in Macau provided excellent opportunities for our fitting-out specialist, Pat Davie. Our operations performed satisfactorily during the year, with our continuing focus on handling final accounts contributing to the improved result.

The division's total turnover for the year was HK$1,364 million, while contracts totalling HK$903 million were won.

On 31 March 2006, the gross and outstanding values of contracts on hand were approximately HK$3.7 billion and HK$2.2 billion respectively (31 March 2005: HK$4.3 billion and HK$2.5 billion).

Shui On Building Contractors (SOBC)

In the public housing sector, the Hong Kong Housing Authority (HKHA) continued to maintain an annual production target of 20,000 units. Although SOBC was unable to secure the few HKHA tenders that were available due to the extremely competitive market environment, SOBC won maintenance works during the period, including HKHA District Term Contracts worth a combined HK$112 million. SOBC also secured a HK$260 million building works contract from CLP Power Hong Kong.

Projects completed during the year include Shek Pai Wan Estate Phase 1 for the HKHA and other works for both the HKHA and CLP Power Hong Kong.

Shui On Construction (SOC)

SOC won a tender for Marymount School in the first half at HK$92 million

Projects completed by SOBC during the year include Shek Pai Wan Estate Phase I, which is a major project of HKHA and a design-and-construct project from the Architectural Services Department (ASD) worth HK$144 million. The Hong Kong Government is expected to substantially revive tenders for important public works which will include the Government Headquarters at Tamar, the largest of several suspended ASD projects. SOC will partner with Paul Y. Engineering to bid for this project with an estimated contract value in excess of HK$4 billion.

SOC also won a project management contract in Guangzhou in the Chinese Mainland for a 71,000-square-metre commercial property development owned by the Shui On Group (SOCAM's privately held parent company).

During the year, SOC completed a HK$323 million facility at Princess Margaret Hospital in Hong Kong for the ASD.

Pat Davie

In Hong Kong and Macau, there were major contributions from the contracts with Union Bank of Switzerland (UBS), Serenity Place and Macau Wynn Casino projects. During the year, works valued at HK$282 million were secured.

In the Chinese Mainland, Pat Davie is providing project management support for the Group's distressed property development projects.

PROSPECTS

The Group's leadership in the various consortia purchasing distressed properties for development provides a sound platform for building a new core business. The Group believes there are excellent prospects for identifying similar opportunities in the Mainland and SOCAM will continue to focus on prime locations in cities with high investment potential and active real-estate markets.

The major Yunnan cement plants in which SOCAM has an 80% interest were taken over in April 2006 and, in due course, will be injected into LSOC, at which point the joint venture's total production capacity will be increased to about 18.6 million tpa.

LSOC is awaiting approval of the Shuangma acquisition with the deal expected to be completed in the third quarter of 2006. This transaction will increase the cement production capacity of the joint venture in China to about 23.3 million tpa, reinforcing its position as the leader in southwest China and one of the leading cement producers in the Mainland. In all our cement operations, we see excellent long-term growth and revenues, especially in our joint venture with Lafarge, which we believe will play a leading role in the cement industry in China.

In April 2006, Yangtze Ventures Funds and On Capital together sold a 2.2% interest in Gushan to the same U.S. based private equity fund that took a stake in Gushan during the year. Looking ahead, our venture capital business also offers the prospects of favourable returns with possible listings and other fund raising initiatives planned for principal investments.

SOL has a successful track record in large-scale urban renewal projects in the Chinese Mainland. Developments which are expected to generate sales revenue in the coming year include Lot 114 (known as Lakeville Regency) of the Shanghai Taipingqiao project, the remaining portion of Phase 2 of the Shanghai Rui Hong Xin Cheng project, and the first "live-work" area at the Shanghai Knowledge and Innovation Community project.

SOC won a tender for Marymount School in 2005 at HK$92 million

The monetary value of the construction market in Hong Kong is likely to remain stable in 2006/07 although a bigger programme, including a number of design-and-build contracts, is expected from the Architectural Services Department. A contract for a new private school on Hong Kong Island with a value of HK$226 million, a Hong Kong Housing Authority contract for a public housing estate at Eastern Harbour Crossing Site Phase 4 with a value of HK$434 million, and two maintenance contracts totalling HK$175 million were secured after 31 March 2006. Our construction division will continue to compete for worthwhile projects. Pat Davie has secured HK$140 million worth of new jobs in Hong Kong and Macau after 31 March 2006 and will continue to focus on both Macau's fast-expanding hospitality sector and providing support to the Group's distressed property development projects in the Chinese Mainland.

FINANCIAL REVIEW

Results

The Group reported a profit of HK$315 million for the year ended 31 March 2006, a decrease of 35% compared to the previous financial year. The decrease in profit was mainly due to a one-off gain of HK$346 million realized during the previous financial year arising from the injection of Rui Hong Xin Cheng into SOL.

The Group's profit for the current financial year was also affected by the adoption of a number of new accounting standards. In particular, assets and liabilities of the Group and its jointly controlled entities and associates were carried at fair value. The Group expects that the changes in fair value of the assets and liabilities from year to year will have an impact on its financial results.

Liquidity and Financing

On 31 March 2006, the Group's borrowings, net of bank balances, deposits and cash, amounted to HK$2,730.3 million (31 March 2005: HK$1,195.4 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, increased from 61% on 31 March 2005 to 118% on 31 March 2006. It is not the intention of the Group to maintain this high level of gearing, and appropriate measures will be taken to reduce it in the future.

Treasury Policies

Bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating-rate basis. Investments in the Chinese Mainland are financed by borrowings in Hong Kong dollars, U.S. dollars and Renminbi. Given that income from operations in the Chinese Mainland is denominated in Renminbi, the Group expects that small fluctuations expected in the Renminbi exchange rate will have very little effect on the Group's business performance and financial status. Therefore, no hedging against Renminbi exchange risk has been made.

EMPLOYEES

On 31 March 2006, the number of employees in the Group was approximately 750 (2005: 900) in Hong Kong and Macau, and 11,340 (2005: 11,340) in subsidiaries and jointly controlled entities in the Chinese Mainland. Employee remuneration packages are maintained at competitive levels and employees are rewarded on a performance-related basis. Other staff benefits include provident fund schemes, medical insurance, in-house training and subsidies for job-related seminars, and programmes organized by professional bodies and educational institutes. Share options are granted annually by the Board of Directors to senior management staff members as appropriate. Likewise, in the Chinese Mainland, staff benefits are commensurate with market levels, with an emphasis on provision of training and development opportunities and resources. The Remuneration Committee of the Board has been developing a long-term, share-award, incentive scheme for key executives based on positive total shareholder return achieved for SOCAM shareholders over rolling three year periods which equal or exceed the total shareholder return of the Hang Seng Index for the same periods.

Wong Yuet Leung, Frankie
CHIEF EXECUTIVE OFFICER

Hong Kong, July 2006