Management Discussion and Analysis

Since most of the Group's investments are currently in the Chinese Mainland, which adopts 31 December as the year end date, the Company has changed the date of its financial year end from 31 March to 31 December in order to align financial reporting dates within the Group. This new arrangement commenced with the financial period beginning on 1 April 2006. This annual report therefore covers the period from 1 April 2006 to 31 December 2006.

During the nine-month period under review, SOCAM implemented initiatives to increase its investment portfolio and strengthen its competitive position in the Chinese Mainland market, laying firm foundations for encouraging and sustainable growth in the long term.

BUSINESS REVIEW

DISTRESSED PROPERTY DEVELOPMENT IN THE CHINESE MAINLAND

The Group's new core business - distressed property development - progressed well. During the period, two more properties in prime locations in Beijing and Chengdu were added to our portfolio. With the completion of Xiwang Building in Dalian, we expect our distressed property development operations to generate attractive returns and stable recurrent income for the Group. By the end of 2006, there were five properties in four major cities with a total gross floor area (GFA) of approximately 424,270 square metres.

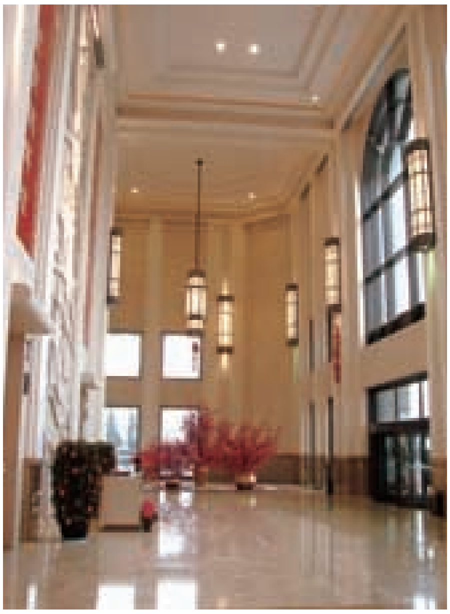
Dalian - Xiwang Building

Xiwang Building, a top-grade office tower located at the heart of the city, is owned 100% by an investor consortium led by SOCAM and JP Morgan. As the city's economy continues to show strong growth, continuous inflows of capital have raised demand for high-quality office space. The prime location and premium quality of the property has attracted interest from both domestic and international tenants. With the appointment of global real-estate advisor DTZ as the property management agent, Xiwang Building also offers world-class property management. Upon the completion of construction works in December, the building was handed over for occupation. Pre-leasing marketing initiatives were underway at the end of the period and the market response was encouraging. A pricing strategy suitable for a high-end Grade A landmark office building has been adopted.

Qingdao - Central International Plaza
(formerly known as Zhongcheng Plaza)

SOCAM has a 50% interest in this consortium-owned property consisting of Blocks A and C of Central International Plaza, a mixed office, retail and residential development located at the heart of the Central Business District. The project consists of two towers - one for offices and the other for residential units. Construction commenced in October on receipt of the necessary permit, and completion is expected in the third quarter of 2007.

Wong Yuet Leung, Frankie *Chief Executive Officer*



Xiwang Building is a top-grade office tower located at the heart of Dalian, and has attracted interest from both domestic and international tenants.

Sales of the offices commenced in November, while sales of residential and retail units are scheduled for 2007. The sales launch met with a favourable response, with many potential tenants registering their interest. At the end of 2006, about 30% of the available office space had been sold. The buoyant economy of the city has led to high demand for office and residential space in prime locations and this project is well placed to benefit from that trend.

Beijing - Huapu Centre

Beijing Huapu Centre, a Grade-A commercial complex, is owned by SOCAM and JP Morgan through a 50-50 joint venture. The property consists of two office towers, each 24-storeys high on a nine-storeyed podium, and has mixed office and retail space. Construction progressed well during the period. The two towers were topped out in mid-October and construction is expected to be completed by the fourth quarter of 2007. Despite rapid supply growth in Beijing's office and retail sectors, both categories are likely to be underpinned by the relatively tight supply of premium-quality space in prime locations. Situated at the heart of the Second Ring Road business district, and offering convenient transport connections to Beijing's major business districts, this Grade-A development will appeal to multinational corporations and large local enterprises, while commanding premium rentals.

Beijing - Shengyuan Centre

In December 2006, SOCAM formed a joint venture with other investors and acquired Shengyuan Centre, a Grade A office development located in the Lufthansa Area, an important business district enjoying convenient transport connections. Construction and upgrading works are underway and are scheduled for completion by the end of 2007. The Shengyuan Centre consists of a nine-storey and an eighteen-storey office tower with parking facilities in a three-level basement.

Chengdu - Huitong Building

SOCAM successfully extended its presence to the Chengdu market in a 50/50 joint venture which acquired Huitong Building in November. Located on Renmin South Road in the city centre of Chengdu, it comprises two phases: two existing towers in Phase I consisting of hotel, office and retail space; and an office building on a retail podium to be built on adjacent vacant land in Phase II. Construction and upgrading works are expected to commence in May 2007 based on revised usage and designs, with completion of the entire Phase I by the end of 2007. Sales and leasing are due to commence in the second quarter of 2007.

CEMENT OPERATIONS IN THE CHINESE MAINLAND

Lafarge Shui On Cement, a joint venture between SOCAM and Lafarge formed in November 2005 (with SOCAM holding a 45% interest), achieved positive EBITDA in its first full year operation. The business benefited from the Chinese Mainland's thriving economy and the Central Government's "Go West" policy. There was, however, an exceptional impairment loss of HK$174 million to provide mainly for the closure of two wet kilns, which have been replaced by a dry kiln, and all vertical shaft kilns. This led to a reported loss of HK$158 million, of which SOCAM's 45% share was HK$71 million.

Satisfactory performance was also recorded for SOCAM's cement operations in Guizhou.

Lafarge Shui On Cement (LSOC)

The end of 2006 marked the first full calendar year of the joint venture's operation. During the period, SOCAM completed its acquisition of an 80% interest in the Yunnan Cement Group, which includes three major cement plants, and injected the assets into LSOC. Together with the completion of two new dry kilns during this year, LSOC's total production capacity was 19 million tonnes at year end while the completion of the acquisition of Sichuan Shuangma is still conditional upon regulatory approval. LSOC's vision in China is to be one of the top operators in its field, adopting world-class standards

LEFT: *In Qingdao, the sale of the offices commenced in November and met with a favourable response. At the end of 2006, about 30% of the available office space had been sold.*

RIGHT: *Through active expansion and adoption of Lafarge's operational management system, the LSOC joint venture is bound to go from strength to strength.*

of safety, environmental protection and accountability. The joint venture performed satisfactorily and finished the year ahead of plan due to higher sales volumes and better pricing.

Chongqing

In Chongqing, a distinct recovery in the market driven by significant growth of investment and infrastructure construction has brought sustained demand for cement. This has led to improved selling prices, sales volumes and collection of receivables. The joint venture maintained market leadership in Chongqing with sales volumes above budget.

The capacity expansion projects progressed well during the period. Construction of a new dry kiln in Hechuan, Chongqing with a production capacity of 1.2 million tonnes per annum (tpa) was completed. The steel slag plant with a capacity of 1 million tpa commenced production in November.

Sichuan

The 1.4 million tpa second line at Dujiangyan in Sichuan was commissioned in October, and an inauguration ceremony was held in January 2007. The new facility effectively doubled the production capacity of the Dujiangyan plant. Strategically located to supply the city of Chengdu, the new production line will enable the Group to meet very strong growth in the local cement market.

LSOC's acquisition of the Shuangma plants in Sichuan was delayed pending final approval by the relevant authorities, which is expected in the second quarter of 2007. Capacity in Sichuan is expected to reach 6.5 million tpa after the Shuangma acquisition is approved.

Guizhou

The Guizhou provincial government is accelerating construction works in roads, water supply and hydroelectric power under the "Go West" policy. This is expected to produce very strong demand for high-grade cement, with the prospect of a steady rise in cement prices. In this environment, the three dry kilns that SOCAM injected into the LSOC joint venture - namely Dingxiao, Xinpu and Shuicheng - performed well.

The second production line of the Dujiangyan plant enables LSOC to meet the growing demand for cement in Sichuan.

Beijing

Demand in the Beijing market was also noticeably higher, aided by Olympics-related infrastructure and real-estate projects, and with tight supply leading to improved cement prices.

Guizhou Cement

Cement production and sales at the six cement plants in Guizhou retained by SOCAM - in Xishui, Zunyi, Kaili, Yuqing, Bijie and Changda - were steady during the year. SOCAM continued to implement cost-saving initiatives, including the installation of dewatering systems, and undertake technical improvement works to enhance productivity in response to rising coal and electricity costs.

Nanjing Cement

The grinding operation in Nanjing remains under SOCAM's control. It continued to supply cement to the local market and export to Australia, achieving satisfactory performance during the period.

VENTURE CAPITAL

There was good progress in the Group's portfolio of investments in the two Yangtze Ventures Funds, in which the Group is a 65.5% and 75.4% shareholder respectively, and the On Capital China Tech Fund, in which it is a 66.8% shareholder. A number of investee companies were listed in the fourth quarter of 2006, enabling the market value of these investments to be fairly reflected and providing a convenient exit for our venture funds at the appropriate time.

Yangtze Ventures Funds (YVFs)

Walcom Group
This Group, which manufactures animal feedstuff, was successfully listed on the AIM Market of the London Stock Exchange in December 2006 at a price that delivered a return of 2.9 times cost.

Hi Sunsray
Hi Sunsray develops and operates an exclusive Interactive Voice Response platform for China Mobile and has performed well. YVF disposed of its US$1 million investment in December and realised a fourfold gain.

Carling Technology (Gushan)
In April, YVF sold about 20% of its interest in Gushan, which manufactures and sells biodiesel and related products, at a substantial premium to its entry price. Gushan is strengthening its operations in anticipation of a listing in 2007.

Cosmedia
In June, YVF made a US$2.5 million investment in Cosmedia, a provider of TV entertainment programmes in China, taking an effective 3.3% interest. Cosmedia was listed on the London AIM in December at a price that delivered a return of 1.5 times cost.

On Capital China Tech Fund (On Capital)

Established in 2004, On Capital continues to seek investments in wireless technology, computer security, online games, software developed using Linux, software outsourcing and telecom infrastructure technologies. The performance of this portfolio of investments is currently on track.

Hi Sunsray
The company continues to perform very well. On Capital disposed of one-third of this investment in December, realising a substantial fourfold gain on the original investment. It exercised the right to convert the remainder of its investment into shares of its holding company, Hi Sun Technology (China) Limited, which is listed on the Main Board of the Hong Kong Stock Exchange. SOCAM currently holds 27.7 million shares of Hi Sun Technology (China) Limited and this tranche was worth some HK$56 million at 31 December 2006.

Arasor
This provider of optoelectronics and wireless solutions was successfully listed on the Australian Stock Exchange in October 2006 at a price representing a return of 1.75 times cost for this investment. Following the listing, On Capital held 4 million shares valued at HK$54 million.

Bus Online
Bus Online sells advertising timeslots on LCD TV screens installed on board public buses in major cities in China and has made good progress in expanding its bus TV network. On Capital's share in Bus Online was partially disposed of in December at a price that delivered a return of 2.8 times cost.

Carling Technology (Gushan)

On Capital invested in Gushan in May 2005. Its 1.56% shareholding in this biodiesel manufacturer complements YVF's 6.24% interest. Gushan is seeking a listing in 2007.

PROPERTY DEVELOPMENT INVESTMENT - SHUI ON LAND (SOL)

The strength of SOL's unique and sustainable business model was underlined by its successful initial public offering (IPO) in early October on the Main Board of the Hong Kong Stock Exchange. The shares were priced at the top end of the offer price range and traded at more than 10% above this level on the first day of trading.

At the time of SOL's IPO, the Group's ordinary shareholding in SOL was diluted from 28.7% to 13.2% and the Group's US$50 million junior preference shares in SOL were converted into a 4.6% ordinary shareholding in SOL. The dilution has been accounted for as a deemed disposal of part of the Group's interest in SOL. Following the listing, SOL is no longer regarded as an associate of the Group for accounting purposes. This means all SOL shares held by the Group are treated as a strategic investment, measured at fair value. The deemed disposal, together with the conversion of the junior preference shares on the listing date, and the subsequent movements in SOL's share price to the end of 2006, produced a total gain of HK$2,928 million for the period under review. The gain was booked as profits and as direct additions to reserves. This has led to a substantial increase in the net asset value of the Group and reduced the Group's gearing ratio considerably.

The value of the Group's 17.8% shareholding in SOL at 31 December 2006, based on SOL's closing price of HK$6.79 per share, was approximately HK$5,070 million.

CONSTRUCTION IN HONG KONG, MACAU AND THE CHINESE MAINLAND

The Group's construction business performed well during the period under review, against the background of a challenging operating environment in Hong Kong. The division's total turnover for the period was HK$1,605 million (2005/06: HK$1,364 million), while contracts totalling HK$2,130 million (2005/06: HK$903 million) were won.

On 31 December 2006, the gross and outstanding values of contracts on hand were approximately HK$5.3 billion and HK$3.1 billion respectively (31 March 2006: HK$3.7 billion and HK$2.2 billion respectively).

Shui On Building Contractors (SOBC)

In the public housing sector, the Hong Kong Housing Authority (HKHA) continued to maintain its annual production target of 20,000 units. SOBC secured two HKHA contracts: a HK$433 million public housing estate at the Eastern Harbour Crossing Site Phase 4; and a HK$608 million project for the redevelopment of Lam Tin Phases 7 and 8, along with associated development of Choi Wan Road Site 1 (Phase 3) towards the period end.

SOBC's maintenance works section secured contracts valued at HK$33 million and performed well during the period. SOBC intends to compete for a number of forthcoming Architectural Services Department (ASD) maintenance tenders. Sustained demand from the HKHA, the Urban Renewal Authority and The Link is also benefiting the Group's maintenance operations. Besides winning numerous safety and health awards as in past years, SOBC received additional industry recognition during the period. Key achievements included: a Gold Award in the category of "Outstanding Contractors (Maintenance Services Projects) - District Term Contract"; and a Silver Award in the category of "Outstanding Contractors (New Works Project) - Main Contractor" in the Quality Public Housing Construction & Maintenance Awards 2006 run by the HKHA.

Projects completed during the period include the public housing estate at Fanling Area 36 (Phase 3) for the HKHA and a District Term Maintenance Contract in the Kwai Chung Area.

LEFT: *The Group's investment holding in SOL is poised to grow in value given the exciting prospects of this visionary and innovative property developer. Its compelling business model is exemplified by the Knowledge and Innovation Community in Shanghai.*

RIGHT: *SOBC won a HK$433 million contract for a public housing estate at the Eastern Harbour Crossing Site during the period.*

LEFT: *The topping-out ceremony of the Tuen Mun Hospital Rehabilitation Block was held in September 2006.*

RIGHT: *The ICAC Headquarters Building is expected to be completed in the second quarter of 2007.*

Shui On Construction (SOC)

During the period, SOC won a HK$226 million contract for the Victoria Shanghai Academy, a new private school on Hong Kong Island, and a HK$424 million contract from the ASD for an indoor recreational centre in Tung Chung.

During the period, SOC completed the redevelopment of Marymount Primary School, and finished improvement works at Marymount Secondary School.

In 2006, the ASD issued a higher number of tenders for government building works than in recent years. Many of these were for design-and-build contracts and SOC submitted tenders. At the period end, SOC was also preparing a submission in joint venture with Paul Y. Engineering for the ASD tender of the Tamar Development, which has an estimated contract value of more than HK$4 billion.

Pat Davie

The fit-out and refurbishment markets in Hong Kong improved steadily during the period in the retail, commercial and educational sectors. Client demand for prequalification in the face of higher project values, coupled with renewed emphasis on quality workmanship and experienced project management, has worked in favour of Pat Davie. Extensions and relocations of large corporate offices provided a healthy pipeline of business, as did the shopping arcade and retail refurbishment sector.

Pat Davie completed a number of major projects, including fit-outs for the Macau Wynn Casino, Deloitte Touche Tohmatsu offices, the Ladies Recreation Club and the Disneyland Stitch Theatre. The total value of contracts secured in Hong Kong and Macau at the end of December was HK$406 million, and new contracts include Airport Authority offices and further work in Macau for the Wynn Resort and the Venetian Cotai. Also in Macau, Pat Davie secured several new packages at the MGM and Crown Casino fitout projects. The Group intends to leverage these wins to maintain its market leadership in the casino fit-out business in Macau.

Pat Davie completed fit-outs for the Macau Wynn Casino and other major projects in Macau and Hong Kong.

In China, Pat Davie is handling construction and project management work for the Group's distressed property development projects in Dalian and Qingdao. There are further opportunities in SOCAM's distressed property development business in these cities as well as in Chengdu and Beijing.

PROSPECTS

Looking ahead, the buoyant economy in the Chinese Mainland, coupled with strong investor confidence, sets the scene for solid growth for the Group's property development business. Working with its existing joint venture partners, the Group is in the process of setting up a sizeable listed vehicle to capture the significant expansion opportunities in the distressed property development business in the Chinese Mainland and to become a leader in this niche market segment. In its investment and trading property portfolio, the Group will build its presence in midwest China and strengthen its position in the northeast. The Central Government's austerity measures and its macro-economic policy will help to control over-heating and create numerous distressed property investment opportunities.

In cement, the Group will continue its strategy of building a strong position in the Chinese Mainland's high-quality cement market through the LSOC joint venture. LSOC is already the leading cement producer in southwest China. Projected production capacity at the end of 2007 is estimated at 23 million tpa, which includes operations in Chongqing, Sichuan, Guizhou, Beijing and Yunnan, as well as the Shuangma plants, once regulatory approval for the acquisition is received. The Group is well positioned to meet stricter regulatory controls on safety and environmental matters that will take effect, and anticipates a strong performance from its cement operations.

The Group's venture capital investments are expected to bring attractive returns through listings and other fund raising initiatives.

The Group believes its investment holding in SOL will increase in value given the excellent growth prospects of this premier and innovative property developer in the Chinese Mainland. The Group's investment in SOL will enable it to capitalise on the promising potential of the Mainland's property market and provide attractive returns through dividends and from future capital appreciation.

In construction, the sector as a whole is expected to remain steady in the year ahead. In April 2007, SOC was awarded by the ASD the design-and-build contract for the Customs Headquarters Building in North Point. Further tenders for design-and-build contracts from this client are expected in 2007. In maintenance, SOBC will actively seek strong market share in HKHA and ASD projects. Pat Davie is well positioned to compete strongly in the growing hospitality sector in Macau, aided by its excellent track record to date. To enhance profitability across all its construction activities, the Group will continue to maintain tight control on project costs and corporate overheads, and will monitor subcontractor costs closely.

With its clear vision, strong determination and well defined strategic direction, the Group is well set to pursue its business goals and meet new challenges.

FINANCIAL REVIEW

Liquidity and Financing

On 31 July 2006, SOCAM issued HK$930 million zero coupon convertible bonds due 22 July 2009, raising net proceeds of approximately HK$906 million. The Group has used the funding for general working capital in its cement business, for the development of the distressed property development business, and for other general corporate purposes. The convertible bond issue has improved the Group's liquidity position and will potentially enhance its equity base.

At 31 December 2006, the Group's borrowings, including bank borrowings and outstanding convertible bonds but net of bank balances, deposits and cash, amounted to HK$3,515 million (31 March 2006: HK$2,730 million).

The Group's gearing ratio, calculated on the basis of net borrowings over shareholders' equity, decreased from 118% on 31 March 2006 to 68% on 31 December 2006.

Treasury Policies

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

EMPLOYEES

On 31 December 2006, the number of employees in the Group was approximately 820 (31 March 2006: 750) in Hong Kong and Macau, and 13,600 (31 March 2006: 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 organised 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.

Wong Yuet Leung, Frankie
Chief Executive Officer

Hong Kong, April 2007