



瑞安建業有限公司  
SHUI ON CONSTRUCTION AND MATERIALS LIMITED  
(Incorporated in Bermuda with limited liability)

# *Reaching NEW Heights*

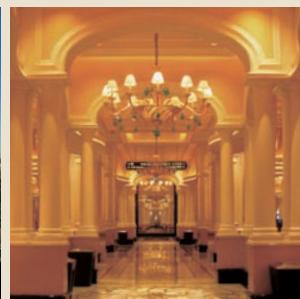


Annual Report  
**2006**

Stock Code: 983

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Listed on the Hong Kong Stock Exchange in 1997, Shui On Construction And Materials Limited (SOCAM) is principally engaged in distressed property development, construction, cement, and property development and venture capital investment in Hong Kong, Macau and the Chinese Mainland.

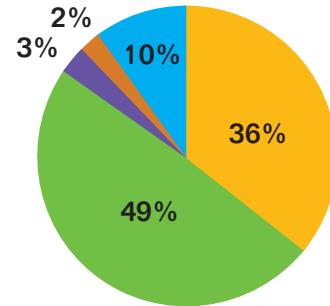
# Financial Highlights

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006		% increase
		HK\$ million	% increase	
Turnover	1,680.4	1,400.2	+ 20%	
Profit before taxation	636.2	364.2	+ 75%	
Profit attributable to equity holders of the Company	602.1	314.8	+ 91%	
	HK\$	HK\$		
Basic earnings per share	2.17	1.16	+ 87%	
Dividend per share	0.70	0.37	+ 89%	

## Assets Employed

at 31 December 2006

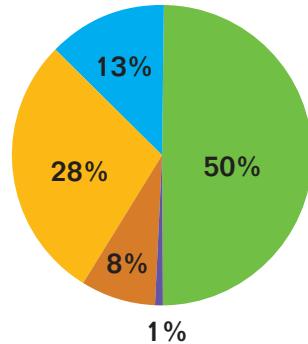
- Interests in jointly controlled entities
- Available-for-sale investments
- Bank balances and cash
- Other non-current assets
- Other current assets

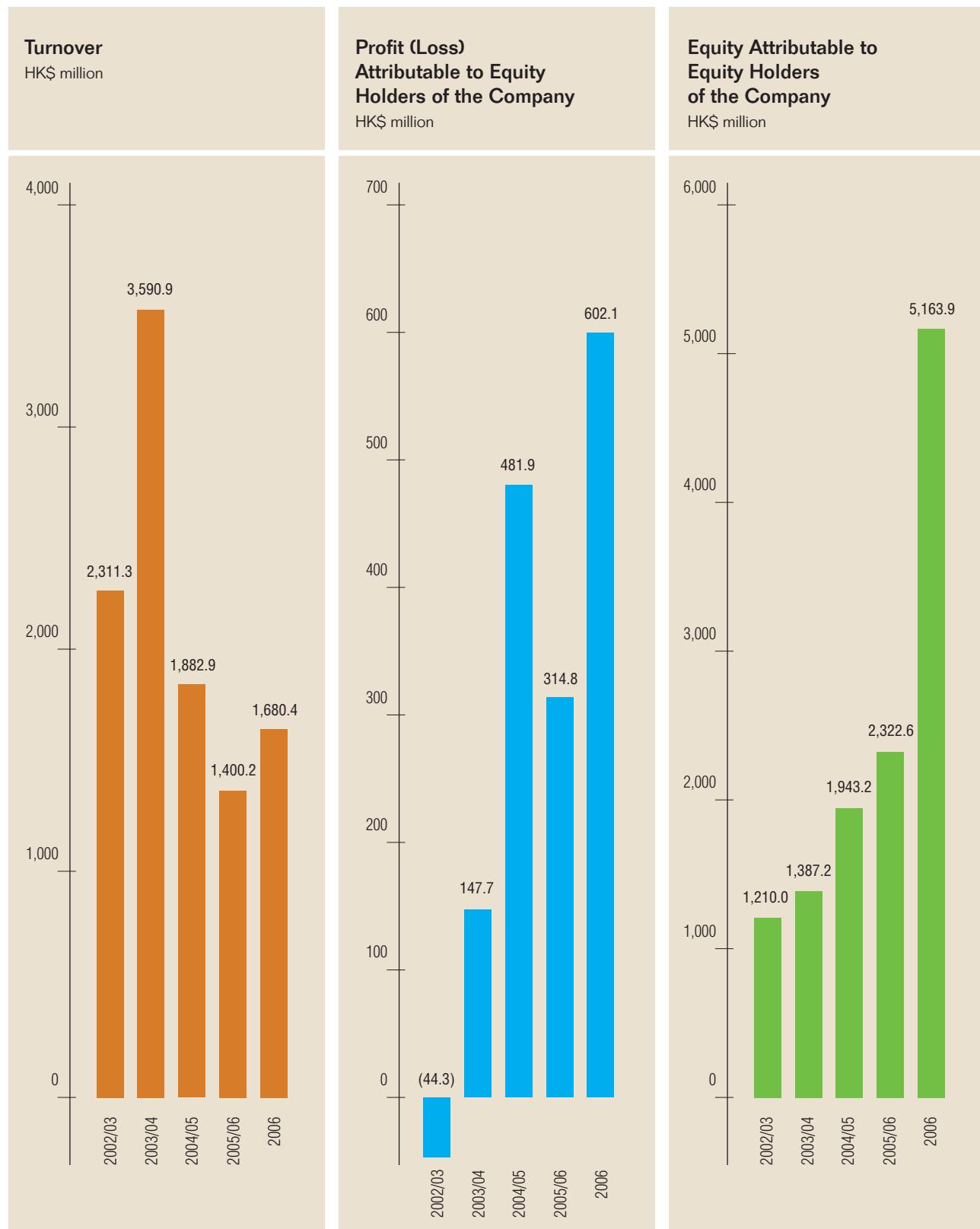


## Capital and Liabilities

at 31 December 2006

- Capital and reserves
- Minority interests
- Convertible bonds
- Bank borrowings
- Other current liabilities





# Corporate Information

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## BOARD OF DIRECTORS

### Executive Directors

Lo Hong Sui, Vincent (Chairman)  
Choi Yuk Keung, Lawrence (Vice-Chairman)  
Wong Yuet Leung, Frankie (Chief Executive Officer)  
Wong Fook Lam, Raymond  
Lowe Hoh Wai Wan, Vivien

### Non-executive Director

Professor Michael John Enright

### Independent Non-executive Directors

Anthony Griffiths  
Cheng Mo Chi, Moses  
Professor K.C. Chan

### Audit Committee

Anthony Griffiths (Chairman)  
Cheng Mo Chi, Moses  
Professor K.C. Chan  
Professor Michael John Enright

### Remuneration Committee

Anthony Griffiths (Chairman)  
Cheng Mo Chi, Moses  
Professor K.C. Chan  
Professor Michael John Enright  
Lo Hong Sui, Vincent

### Company Secretary

Sincere Wong

### Auditor

Deloitte Touche Tohmatsu

### Registered Office

Clarendon House, 2 Church Street  
Hamilton HM 11, Bermuda

### Head Office and Principal Place of Business

34th Floor, Shui On Centre  
6-8 Harbour Road, Hong Kong

### Principal Share Registrars and Transfer Office

The Bank of Bermuda Limited  
6 Front Street, Hamilton HM 11, Bermuda

### Branch Share Registrars and Transfer Office

Standard Registrars Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East, Wanchai, Hong Kong

### Principal Bankers

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
The Bank of East Asia, Limited

### Stock Code

983

### Website

[www.shuion.com](http://www.shuion.com)

# Business Structure



# Chairman's Statement

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## ENHANCING SHAREHOLDER VALUE

2006 was an important year for SOCAM as we were able to deliver enhanced shareholder value through the Shui On Land public listing while recording satisfactory performances across all our business operations. We also implemented a new strategy for sustained growth.

As a result of a change in our financial year end, the period under review has been shortened to nine months. I am pleased to report that our key financial results for the nine-month period exceeded those of the preceding full year.

During the period under review, we have focused on our new strategy to build our distressed property development and cement businesses, and this will secure future recurrent earnings from the Chinese Mainland and Hong Kong. This strategy is proving successful.

## STRONG FINANCIAL RESULTS

The Group's profit attributable to shareholders for the nine-month period ended 31 December 2006 was HK\$602 million, representing an increase of 91% over the previous full financial year (2005/2006: HK\$315 million). Earnings per share were HK\$2.17, an increase of 87% over the previous year (2005/2006: HK\$1.16). Turnover was HK\$1,680 million, an increase of 20% on the previous year (2005/2006: HK\$1,400 million).

### Dividends

The Directors recommend the payment of a final dividend of HK\$0.52 per share to shareholders. This, together with the interim dividend of HK\$0.18 per share, yields a total of HK\$0.70 per share for the nine-month period.

## BUSINESS REVIEW

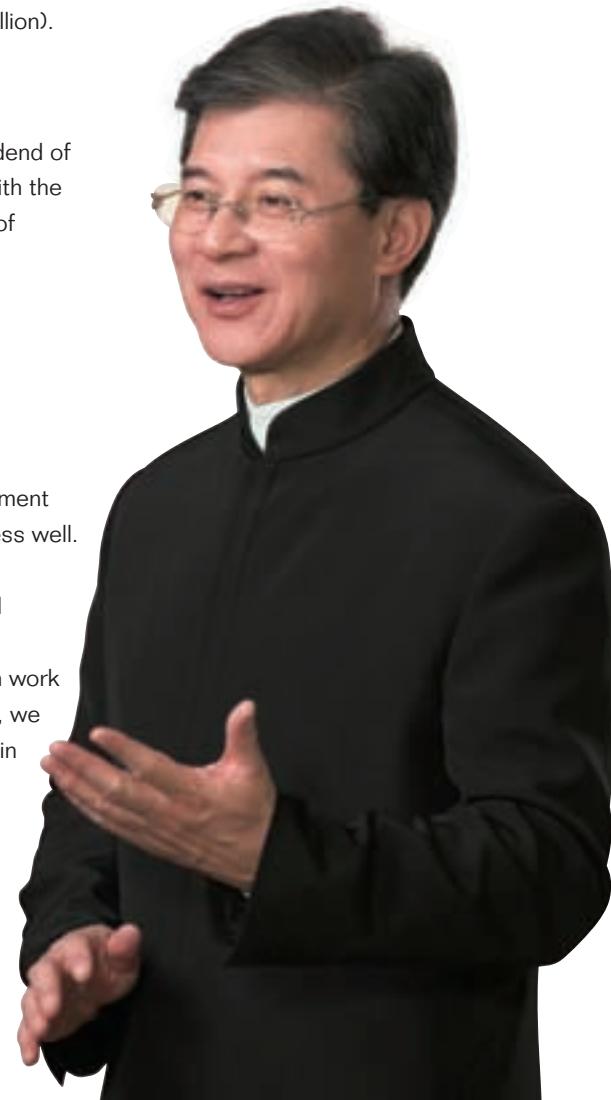
### Building Recurrent Revenue

#### *Distressed Property Development*

Work on our portfolio of distressed property development projects in the Chinese Mainland continued to progress well.

In Dalian and Qingdao, leasing and sales commenced towards the end of the period and response from the market has been encouraging. In Beijing, construction work on our property also proceeded smoothly. In addition, we acquired two more projects, in Chengdu and Beijing, in November 2006 working with strategic partners.

Lo Hong Sui, Vincent *Chairman*



The Group acquired two more projects: Huitong Building in Chengdu (Left) and Shengyuan Centre in Beijing (Right), both situated in prime locations.



The Group's portfolio following our five acquisitions, now totals a gross floor area (GFA) of some 424,270 square metres. This consists of 88,370 square metres of completed premises and 335,900 square metres of partially completed properties, all of which are situated in prime locations within their respective cities.

### Cement

Our joint venture in China with the world's leading cement manufacturer, Lafarge Shui On Cement (LSOC), did well despite a highly competitive market. LSOC returned to profit before exceptional write-offs associated with inefficient wet lines and vertical shaft kilns, and ended its first full calendar year of operations ahead of plan. LSOC made good progress on the integration of its various operations during the period, and completed the acquisition of major cement plants in Yunnan during the period. The joint venture is focusing on strengthening its market leadership through expansion and implementing the proven Lafarge operational management system. These measures are helping LSOC build a solid foundation for future growth.

### Returns from Venture Capital Investments

The Group has venture capital investments in several business sectors including technology, infrastructure, biodiesel, bus TV networks and biodegradable materials. Our two Yangtze Ventures Funds and On Capital China Tech Fund contributed a total profit of HK\$75 million during the period as the values of a number of investee companies were realised through public listings.

### Listing of Shui On Land

The highly successful listing of Shui On Land (SOL) on the Hong Kong Stock Exchange in October 2006 was a milestone for our investment in property development in the Chinese Mainland. During the period under review, the listing generated a net gain of HK\$740 million for the Group, arising from converting the Group's interest in SOL into its listed shares, plus a further increase of HK\$2,188 million in the Group's reserve as a result of the increase in market value of the Group's 17.8% shareholding in SOL at the end of this financial period.

As a leading Mainland property developer, SOL is playing a significant role in the development of its six projects in four major cities – Shanghai, Chongqing, Wuhan and Hangzhou. We believe that the business is set to deliver attractive long-term returns, from which SOCAM shareholders will benefit.

## Upturn in Our Construction Business

Our construction operations in Hong Kong and Macau saw an upturn in the Hong Kong economy and in Macau's fast-growing gaming and hospitality sectors, enabling us to generate a welcome increase in revenue during the period.

In Hong Kong, we secured significant building and maintenance contracts from the Hong Kong Housing Authority, and won valuable work from the Government's Architectural Services Department. We have also submitted a number of design-and-build tenders, including one, in joint venture with Paul Y. Engineering, for the Tamar Development that has an estimated value of over HK\$4 billion. In Macau, our fitting-out operation, Pat Davie, maintained its clear market leadership in its sector aided by the expansion of the gaming industry.

## CORPORATE GOVERNANCE

The Group recognises that sound corporate governance enhances corporate and operational management. We believe the highest standards of integrity and transparency are critical to our success, and we are pleased that our efforts were recognised during the period.

The Group was cited as one of 'Asia's Best Companies' in the Corporate Governance Asia Annual Recognition Awards 2006 that was organised by *Corporate Governance Asia* magazine. In addition, the Company's Independent Non-executive Director, Mr. Anthony Griffiths, received the 'Director of the Year Award 2006' in the Listed Companies Non-executive Directors (SEHK - Non Hang Seng Index Constituents) category from The Hong Kong Institute of Directors.



**LEFT:** The highly successful listing of SOL marked a significant milestone in SOCAM's property development investments in the Chinese Mainland.

**RIGHT:** Mr. Anthony Griffiths received the "Director of the Year Award 2006" in the Listed Companies Non-executive Directors category organised by The Hong Kong Institute of Directors.

**FAR RIGHT:** Beijing Huapu Centre is a Grade-A commercial complex which will appeal to multinational corporations and large local enterprises.

## CORPORATE CITIZENSHIP

The Group is committed to conducting itself in a socially responsible manner. Our workplace safety and health programmes, environmental management practices, and involvement with the community through charity work and sponsorship underline our determination to be a good corporate citizen.

We were proud to receive the Caring Company Logo 2006/07 from the Hong Kong Council of Social Service. We will also continue to practise and to promote corporate social responsibility and social service among our staff, and contribute towards the development of the communities in which we operate.

## PROPOSED LISTING

Distressed property development in the Chinese Mainland is an exciting new core business for SOCAM and one that we believe will provide strong impetus for our growth over the medium term. We also believe that the Central Government's property market stabilisation measures will provide a favourable platform for this new initiative.

To manage our distressed property development business, we have established a new company, SOCAM Asset Management Limited (SAM), and this entity will drive the realisation of our distressed property asset portfolio. With the thriving economy in the Chinese Mainland, there is strong demand for both high-quality residential and commercial properties among local and foreign users and investors.

To capitalise on this opportunity, we announced, in April 2007, a proposal to inject the Group's portfolio of distressed property development projects into China Central Properties Limited (CCP), along with our intention to list CCP on an internationally recognised stock exchange. This will allow CCP to establish a high profile with access to the international equity capital and debt markets in order to finance its future expansion. It will also enable the Company to enter the asset management business





2006 marked a year of significant growth for SOCAM. Our initiatives to diversify and expand businesses in the Chinese Mainland start to bear fruits and lay firm foundation for ongoing success in the future.

**LEFT:** Xiwang Building in Dalian, a distressed property project.

**RIGHT:** LSOC is now the cement leader in southwest China.

and generate a new source of recurrent income through SAM. CCP will focus primarily on acquiring partially completed property projects in major and secondary cities in the Chinese Mainland with a view to adding value and delivering attractive shareholder returns.

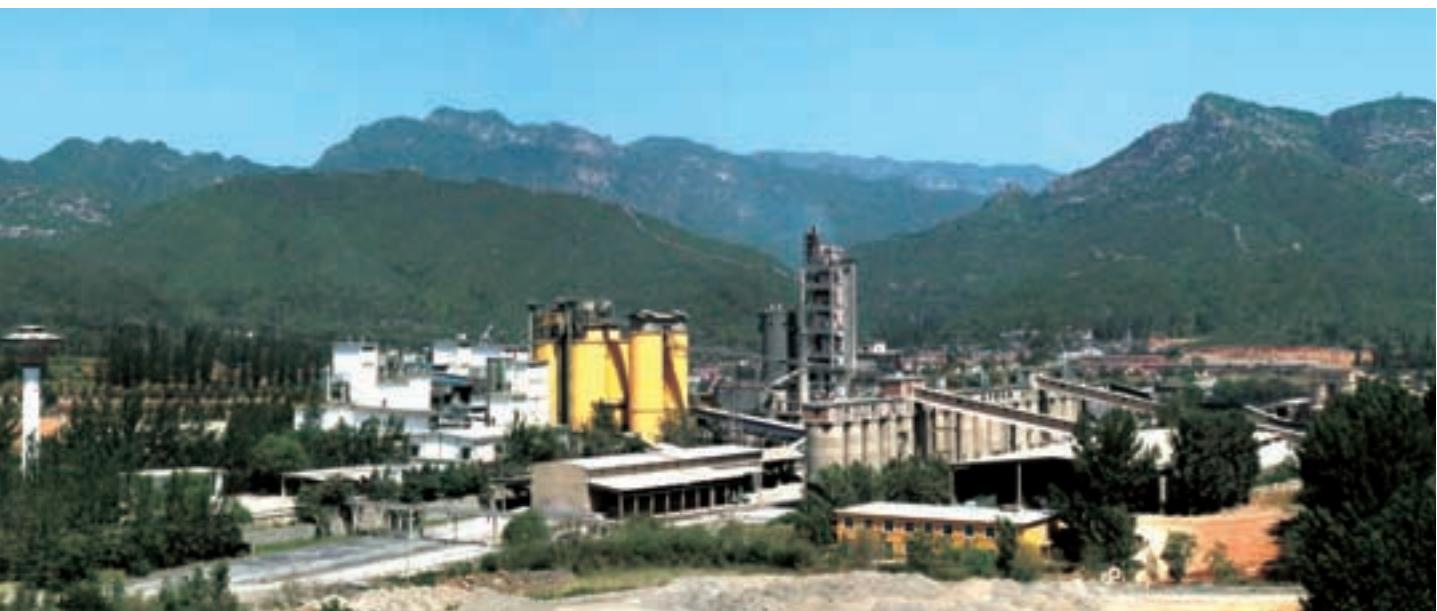
## OUTLOOK

China is the world's largest cement market. While price volatility will continue, we see significant opportunities for growth both organically and through acquisition. China's 11th Five-Year Plan (2006-2010) has created a bias towards consolidation that, we believe, will benefit the LSOC joint venture. At the same time, China is encouraging foreign investments in infrastructural facilities, especially in the central and western parts of the country. These moves bode well for our LSOC joint venture's aggressive plan to expand capacity significantly so as to sustain profit growth and enhance its competitive edge.

Our venture capital investment funds are now fully invested. We anticipate that we will benefit from opportunities that may arise through future profitable disposals or initial public offerings.

The Group's holding in SOL is poised to bring significant increases in the Group's value, with SOL's share price having risen by over 20% since its listing. SOL currently has a land bank with about 8.4 million square metres of GFA in the Chinese Mainland. We support its strategy and compelling business model. As a visionary and innovative developer with a proven track record, we have confidence that SOL will continue to be a highly sought-after property stock.

In Hong Kong, the construction industry faces a challenging environment with competitive pressures negatively impacting tender values. Despite this, the Group is confident about its prospects and is looking forward to a stable year in 2007 with a satisfactory pipeline of tenders, especially in design-and-build projects. We are encouraged by the strong recovery in the local economy and the commitment of the Hong Kong SAR Government to devote more resources to infrastructure and community facilities.



We are determined to exploit our competitive advantages in the distressed property development and cement sectors in the Chinese Mainland, and expect further expansion in the coming year in both businesses. Sustained economic growth in the Mainland, coupled with the dynamics of the Beijing Olympic Games in 2008, is expected to boost demand for high-quality properties in the cities, and for high-grade cement in the developing areas. These developments place the Group well for the future and we will continue to seek opportunities in Hong Kong and in the Chinese Mainland to achieve our ambitious growth targets.

## MANAGEMENT AND STAFF

Our management and staff once again played a pivotal role in our success. Their dedication, determination and loyalty were evident throughout the period under review and we continue to count on their efforts for the future. On behalf of the Board, I would like to thank all staff members for their hard work and commitment.

**Lo Hong Sui, Vincent**

*Chairman*

Hong Kong, April 2007

# 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 Sunray

Hi Sunray 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 Sunray

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.

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*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.

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### **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

# 1997-2007: The Transformation of SOCAM

SOCAM was listed on the main board of the Stock Exchange of Hong Kong in February 1997. The newly listed company combined the construction business of the Shui On Group, which was the founding business of Shui On with over 25 years of history, as well as Shui On's construction materials operations, which had built a successful 20-year track record.

In just 10 years, SOCAM has successfully completed a dramatic transformation, from a Hong Kong-focused corporation into a predominantly Chinese Mainland-based group that now boasts a total asset base in excess of HK\$10 billion, of which almost 90% is invested in the Mainland. By anticipating market changes and leveraging core competencies, we have achieved new successes. In cement, our joint venture with Lafarge is the market leader in southwest China and aiming to be a leader in China. We have built a distressed property development business with projects in Dalian, Beijing, Qingdao and Chengdu which is poised for rapid growth. We no longer supply the construction materials market in Hong Kong although our construction business remains a highly competitive division serving Hong Kong and Macau. We have a significant minority stake in the Hong Kong-listed Shui On Land, a premier Mainland property developer, and our venture capital investments are yielding attractive returns via IPOs and profitable disposals.

## Strong Performance After The 1997 Listing

SOCAM's early focus was on Hong Kong. While the Group had production facilities for construction materials and building components in the Pearl River Delta along with investments in cement plants in Chongqing, the overwhelming majority of its business operations and assets was in Hong Kong.

The Group played a prominent part in Hong Kong's construction boom which saw a considerable increase in private and public sector works in the late 1990s. Our construction subsidiaries, Shui On Construction and Shui On Building Contractors, stood out among their competitors in public housing construction and in prominent design-and-build contracts. It was the same design-and-build capability that allowed SOCAM to successfully undertake property development projects such as Bauhinia Garden in Tseung Kwan O, which is a project under the



government's Private Sector Participation Scheme. Another achievement of which we are justly proud is the relocation of the historic Murray House to Stanley on the south side of Hong Kong Island. This was an intricate and challenging project that involved preserving a heritage building while giving Hong Kong a magnificent new landmark.

The Group's construction materials division also prospered alongside the construction boom. We produced ready-mixed concrete and aggregates, and imported cement to supply the Hong Kong market. In addition to cement trading, we made sizeable investments in Mainland cement plants, having started a Chongqing cement operation with a joint venture partner in 1994, and adding a major plant - in which we have a 60% interest - in Nanjing in 1998.



Murray House, Hong Kong



Bauhinia Garden, Hong Kong

By the end of the 1990s, SOCAM enjoyed a strong position in each of its business sectors but the value of SOCAM's construction works peaked in 2000. The Hong Kong Housing Authority's public housing programme began to shrink and this, together with the general downturn in Hong Kong's economy, dealt a major blow to the Group's businesses, especially its construction materials operation.

The Group had been seeking long term sustainable growth by diversifying outside the limited Hong Kong market, hence its early investments in Mainland cement plants. In the face of a difficult business environment, it was apparent by the turn of the millennium that repositioning of the Group's businesses was an essential platform for future success.

## The Repositioning Takes Shape

Two key strategic thrusts underpinned SOCAM's repositioning. The first was the necessity to identify new business streams for diversification and growth. The second was the enormous range of opportunities presented by the emergence of the Chinese Mainland as a global powerhouse with its imminent accession to the World Trade Organization at the beginning of a new millennium.

The Group stepped up its planning for new business streams in the late 1990s around a broad aim to diversify and expand into the fast-growing markets of the Mainland through extending the existing operations. An early move in terms of building new operations came in

2000 in response to the dotcom boom and the associated proliferation of e-commerce applications. This was when SOCAM set up Asia Materials for on-line and off-line trading of construction materials and products, capitalising on the Group's expertise in construction and supported by fully-fledged supply chain management.

That same year, SOCAM set up the first Yangtze Ventures fund together with other investors to make direct investments in technology-based and high-growth ventures in the Yangtze River area, to capture the opportunity for high-returns from the success of innovative businesses.

There were further new moves with SOCAM acquiring its first cement plant in Guizhou at the end of 2000. The following year, SOCAM's joint venture Chongqing TH Cement became the largest high-grade cement producer in Chongqing, thanks to continued expansion of its earlier investment in this business. SOCAM then acquired from its parent company, the Shui On Group, the development rights for Rui Hong Xin Cheng in Shanghai, one of the city's largest and earliest large-scale urban redevelopment projects. This was the start of SOCAM's strategy to participate in the Mainland's property development market.

In the course of repositioning, there were, understandably, challenges. The cessation of Asia Materials in 2004 and the disposal of the long-standing construction materials business in Hong Kong and the Pearl River Delta in early 2005 were notable examples of our readiness to exit operations that did not suit our new strategy. These strategic moves reflected our determination to focus our resources, both financial and human, on businesses that offer long-term growth prospects and allow us to excel and achieve leadership. By that time, it was clear that the repositioning of SOCAM should focus on Mainland cement, Mainland properties, Hong Kong construction, and venture capital investments.



*The establishment of Lafarge Shui On Cement joint venture*

## Success In Cement

An important theme in SOCAM's transformation into a Mainland-oriented enterprise is China's cement industry. Indeed, a primary listing objective in 1997 was to expand cement investments in the Mainland and SOCAM's acquisition of Nanjing Jiangnan Cement in 1998 was a step in this strategy. In late 2000, SOCAM acquired its first cement plant in Guizhou and, by end of 2004, it had built a network of plants operating in a cohesive territory surrounding the provincial capital Guiyang, while TH Cement had some 70% of the high-grade cement market in Chongqing. Our rapid expansion in Chongqing and Guizhou coincided with the Central Government's "Go West" policy aimed at modernising the central and western provinces. SOCAM was one of the first Hong Kong corporations to exploit the region's emerging potential, becoming the leading cement producer in Chongqing and Guizhou. In 2004 we successfully signed a framework agreement to acquire major plants in Yunnan, a move that was soon to further strengthen our leading position in southwest China.

While SOCAM was building its position in this sector, Lafarge – the world leader in building materials – was also making

its strategic push into the post-WTO Mainland market. The Group saw the opportunity for a strong and lasting partnership that could provide world-class leadership in this industry in China. In 2005, SOCAM initiated the Lafarge Shui On Cement (LSOC) joint venture. The alliance immediately established a new cement leader in the southwest region, one of the Mainland's largest and fastest growing areas. The joint venture combined Lafarge's global expertise in cement technology and operational management with SOCAM's experience and reputation in the Chinese market.

With SOCAM chairman Mr. Vincent Lo chairing the board of directors and Lafarge managing the business operations, LSOC quickly expanded production and made a key acquisition in Sichuan. LSOC has significantly strengthened the Group's presence in the Mainland's cement industry. The joint venture is benefiting from large infrastructure projects that are part of China's "Go West" programme, as well as Beijing's numerous Olympics-related infrastructure and real estate projects. With the enormous growth potential of the southwest region in the medium and long term, the future for this business is bright.

## Enhancing Shareholder Value

SOCAM's transformation story has involved keeping a keen eye on opportunities to invest in attractive properties in major Mainland conurbations. Aware that its initial resources were not sufficient for achieving success as a fully-fledged property business, SOCAM in 2004 sold Rui Hong Xin Cheng and the related development rights in return for a significant shareholding in the Shui On Group's property flagship Shui On Land (SOL) which had by now become one of the Mainland's most admired and ambitious mega-developers. With its broad range of prominent mixed developments in Shanghai, Hangzhou, Chongqing and Wuhan, SOL was successfully listed on the Hong Kong Stock Exchange in 2006, bringing very substantial gains to SOCAM, and enhancing its asset base.

## A Niche That Leverages Our Core Capabilities

The niche market of acquiring and developing "distressed properties" in key cities in the Chinese Mainland is an exciting chapter in SOCAM's transformation into a Mainland-oriented enterprise. Distressed property assets have come onto the market in China as cash-strapped Mainland developers find themselves unable to proceed with their original plans for property or land they have acquired. While often situated in prime locations, these partially completed properties present challenges to potential investors because of the many complications involved – legal, financial, technical and so on.

SOCAM on the other hand, is uniquely positioned to meet these challenges by leveraging its core capabilities. These include SOCAM's strong base in construction and fitting out, its project

management capability, its property development know-how as well as its expertise in investment financing and deal structuring, not to mention its rich Mainland experience and network. These factors have attracted global financiers and international investors to partner with SOCAM in the confidence that SOCAM is well qualified to deliver.

SOCAM's involvement in the distressed property market began in 2005 with the acquisition of Xiwang Building, an almost completed 38-storey Grade-A office tower in Dalian, in a consortium with investment banker JP Morgan and other investors. With successful completion of this first project, SOCAM is reaping handsome rewards with the building's prestigious image in a prime city-centre location commanding above-average rents.

The distressed property development portfolio grew quickly and now embraces five projects in four major cities – Dalian, Beijing, Chengdu and Qingdao. There are further projects in the pipeline. SOCAM is well advanced in its strategy to become a leader in distressed property development in the Chinese Mainland.

## Building On Our Roots in Hong Kong

While SOCAM's strategic focus has been to transform the Group into a predominantly Mainland-based enterprise, our construction operations in Hong Kong remain an important foundation for our growth. These are not only leading businesses in their own right, they also provide a solid foundation in project management and building technology to support the Group's expansion in the Mainland.

Shui On Building Contractors and Shui On Construction continue to play a robust



*Xintiandi, Shanghai*

role in the public sector construction and have successfully expanded into maintenance works, although the total value of their contracts has shrunk significantly compared to their heyday at the turn of the millennium. SOCAM is currently servicing building construction and maintenance works contracts from the Hong Kong Housing Authority, the Architectural Services Department and public institutions. It is also tendering for a number of design-and-build projects, including the large-scale new government headquarters at the Tamar Development, for which SOCAM is working in joint venture with Paul Y. Engineering.

As Macau realises its own vision of becoming "Asia's Las Vegas", our fitting-out and refurbishment subsidiary Pat Davie captured this market opportunity back in 2004 and now achieved clear market leadership in serving the gaming and hospitality industries in this market. In Hong Kong, Pat Davie continues to be a leading contractor for extensions and relocations of large corporate offices, and for the burgeoning shopping arcade and retail sector. Pat Davie's project management expertise in fitting-out has also been highly instrumental to the Group's rapidly expanding distressed property development business.



*Distressed property project in Qingdao - before and after*

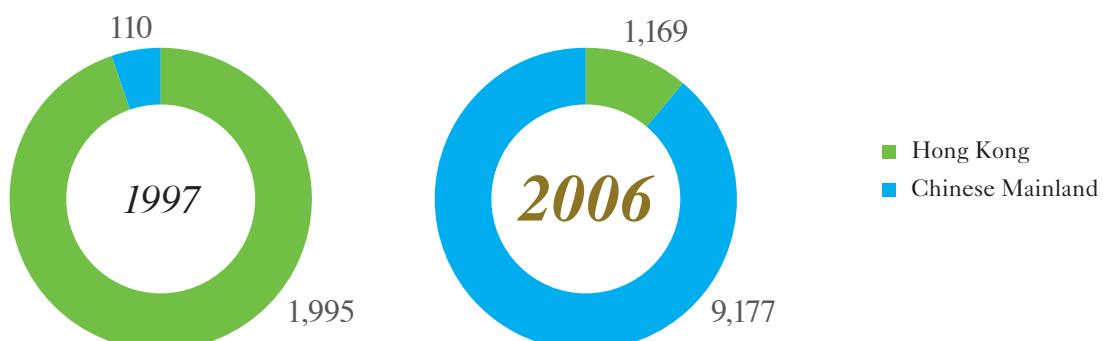
1997

- Cement
- Construction
- Construction materials



### *Geographical Segments (in terms of total assets)*

(HK\$ million)



### **Creating A Venture Capital Portfolio**

Venture capital investments in the Chinese Mainland businesses have continued to bring pleasing results to SOCAM. Following the establishment of the first fund —Yangtze Ventures I—in 2000, Yangtze Ventures II and On Capital China Tech Fund were set up to invest in fledgling high-tech enterprises in the Mainland as well as Hong Kong. These three funds are now fully invested and the range of investments embraces innovative products and services from

environmentally-friendly recycling of waste oils and animal feedstuffs to telecoms, TV programming, herbal supplements, “green” packaging and biopharmaceuticals.

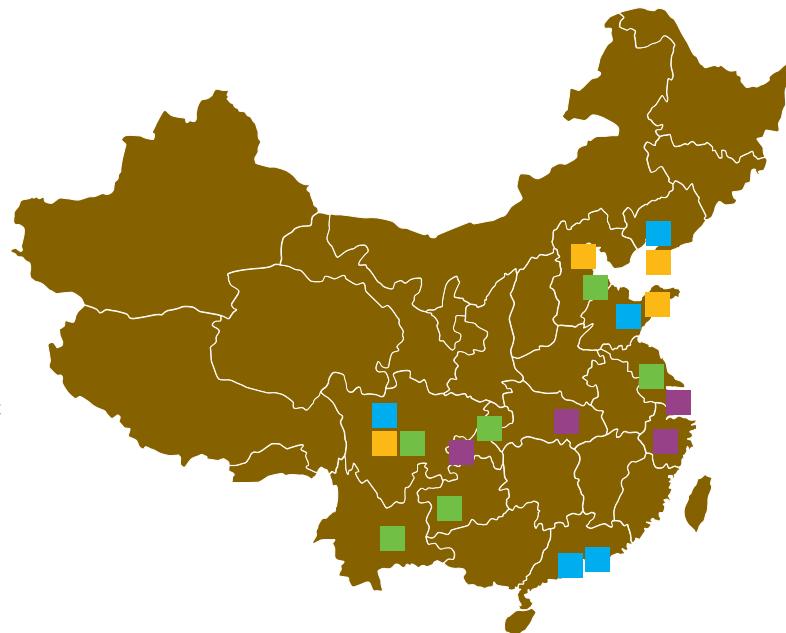
The investee companies are progressively seeking public listings in various international equity markets. Not only are the Group’s venture funds delivering highly satisfactory returns, they also underline our deep understanding of the China market and our ability to successfully identify and capitalise on new investment opportunities.

### **Weathering Storms**

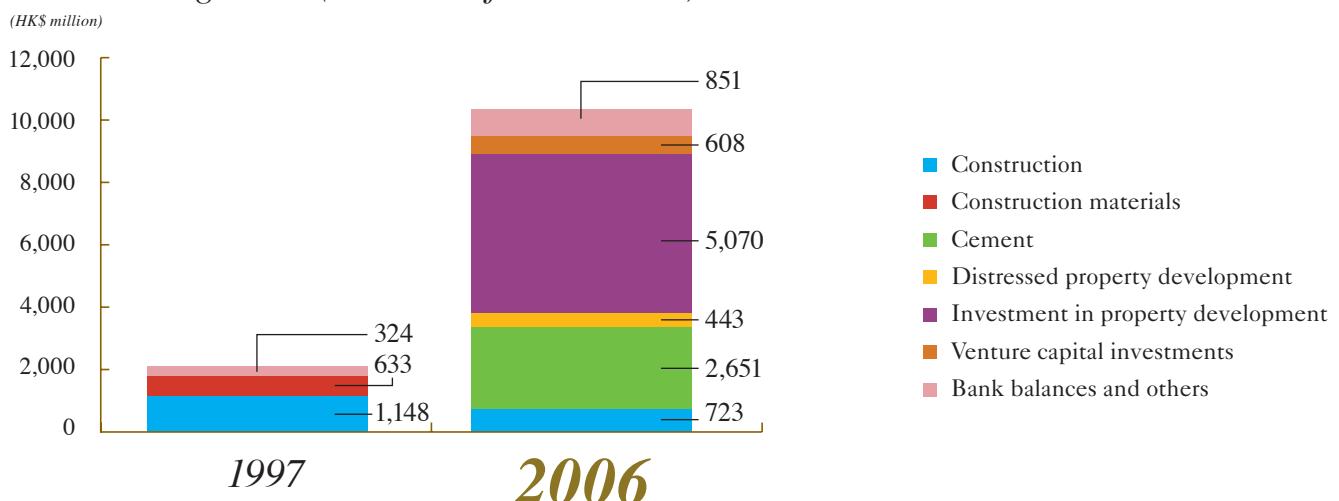
Over the past decade, SOCAM has successfully weathered the same economic storms that hit Hong Kong. We have evolved into a company with leading positions in both Hong Kong and the Chinese Mainland through diversified businesses that embrace the distressed property development, cement supply, construction, a significant shareholding in SOL and venture capital interests. Today’s SOCAM bears little resemblance to the SOCAM that went public ten years ago.

# 2006

- Construction
- Cement
- Distressed property development
- Investment in property development



## *Business Segments (in terms of total assets)*



Our transformation reflects our determination to excel as well as our commitment to sound corporate governance. Together, these guiding principles have allowed us to build strong new operations and capitalise on attractive business opportunities.

At the centre of our corporate culture is a determination to improve and innovate, and to conduct business and staff relationships in a spirit of integrity and fairplay. In guiding our strategy, we seek long-term growth by continuing to create shareholder value, and our efforts

are directed only at those markets and businesses in which we can excel.

Our corporate governance is characterised by a constant endeavour to ensure shareholders' interests are promoted and protected by strict adherence to regulatory requirements, consistent application of control systems and practices, proper disclosure and transparent reporting, and effective functioning of the Board. We are guided by our wider Corporate Mission, which emphasises attractive returns to shareholders, quality products and

services to customers, career development opportunities for employees, a merit-based management philosophy that values teamwork and a set of shared beliefs in integrity and excellence to foster long-term, sustainable growth.

On these strong foundations, SOCAM is entering a new era of growth. We look ahead with confidence and optimism, with a determination to make positive contributions to the future of the Chinese Mainland and Hong Kong.

# Corporate Governance Report

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The Board of Directors of the Company (the "Board") is pleased to present the Corporate Governance Report of the Company for the nine months ended 31 December 2006.

## COMMITMENT TO CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance practices which are essential for sustainable development and growth of the Group, enhancing corporate performance and accountability as well as shareholder value. The Board sets appropriate policies and oversees their implementation both in the affairs of the Board and throughout the Group.

The Company has applied the Principles and complied with all the Code Provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the nine months ended 31 December 2006 except for the deviations from Code Provisions A.4.1 and A.4.2, which are explained below.

## DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To ensure a balance of power and authority, the positions of the Chairman of the Board and Chief Executive Officer are held by Mr. Lo Hong Sui, Vincent and Mr. Wong Yuet Leung, Frankie respectively. Their respective responsibilities are clearly defined.

The Chairman is responsible for leading the Board in setting the overall strategy and making major development decisions of the Group and monitoring their implementation, to ensure value creation for shareholders. He takes part in cultivating cordial relationships with strategic associates of the Group and creating a favourable environment for the development of the Group's businesses. As leader of the Board, the Chairman also assesses the development needs of the Board as a whole with a view to building its effectiveness as a team and developing the knowledge and expertise of individual Board members and future leaders of the Group.

The Chief Executive Officer is responsible for leading the operations of the Group's businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board, including the building of a strong corporate culture within the Group.

## THE BOARD

### Responsibilities

The Group's corporate governance emphasizes a practical management of its affairs with high standards of integrity and transparency.

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs and overseeing the achievement of the plans to enhance shareholder value. All Directors are expected to take decisions objectively in the interests of the Company.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, upon making request to the Board.

The Board reserves for its decision all major aspects of the Company's affairs, including the approval and monitoring of all policy matters, overall strategies, resulting business plans (inclusive of annual budgets) and their implementation, internal control and risk management systems, material transactions (in particular those which may involve conflicts of interest), financial information, major capital expenditure, appointment of Directors and other significant financial and operational matters.

All operational decisions are delegated to the Executive Directors led by the Chief Executive Officer. The day-to-day management, administration and operation of the Company are delegated to the management. The delegated functions and work tasks are periodically reviewed. The Board will give clear directions to the management as to their powers of management, and circumstances where management should report back. Approval has to be obtained from the Board prior to any decision being made or any commitments being entered into on behalf of the Company that are outside the limits of the operational authority delegated by the Board.

The management has an obligation to supply to the Board and its committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The Board and each Director have separate and independent access to the management. The Board has arranged for appropriate insurance cover for the Directors.

## Composition

The Board currently comprises nine members - the Chairman and four other Executive Directors, one Non-executive Director and three Independent Non-executive Directors:

### **Executive Directors:**

Mr. Lo Hong Sui, Vincent (*Chairman of the Board and member of Executive Committee and Remuneration Committee*)

Mr. Choi Yuk Keung, Lawrence (*Vice-chairman of the Board and chairman of Executive Committee*)

Mr. Wong Yuet Leung, Frankie (*Chief Executive Officer and member of Executive Committee*)

Mr. Wong Fook Lam, Raymond (*member of Executive Committee*)

Mrs. Lowe Hoh Wai Wan, Vivien (*member of Executive Committee*)

### **Non-executive Director:**

Professor Michael John Enright (*member of Audit Committee and Remuneration Committee*)

### **Independent Non-executive Directors:**

Mr. Anthony Griffiths (*chairman of Audit Committee and Remuneration Committee*)

Mr. Cheng Mo Chi, Moses (*member of Audit Committee and Remuneration Committee*)

Professor K.C. Chan (*member of Audit Committee and Remuneration Committee*)

None of the members of the Board is related to one another.

During the nine months ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Independent Non-executive Directors are considered by the Board to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the Non-executive Director and Independent Non-executive Directors brings his own relevant expertise to the Board and its deliberations.

The Board encourages target-based performance and innovation to achieve the Group's strategies and plans.

## Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. Under Code Provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Directors of the Company retire not strictly under Code Provision A.4.2, but in accordance with the Bye-laws which stipulate that one-third of the Directors of the Company, except the Chairman and the Chief Executive Officer, shall retire from office by rotation at each annual general meeting.

The Board considers that all Directors (save for the Chairman and the Chief Executive Officer) are subject to retirement and re-election on a periodic basis under the Bye-laws. The Board also considers that the continuity of leadership is important for the stability and growth of the Company and that both the Chairman and the Chief Executive Officer should not be subject to retirement or hold office for a limited term.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

The Board reviews from time to time its own structure, size and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. Where vacancies on the Board exist, the Chairman will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. External recruitment agencies may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Bye-laws, Mr. Anthony Griffiths and Professor Michael John Enright shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The Board recommends the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting.

## Training and Continuing Development for Directors

The Chairman has assessed the development needs of the Board as a whole, with a view to building its effectiveness as a team and assisting in the development of individual skills, knowledge and expertise.

Arrangements have been made to provide each new Director a comprehensive, formal and specific induction on the first occasion of his/her appointment and continuing briefing and professional development when necessary.

## Board Meetings

### Number of Meetings and Directors' Attendance

The Board met regularly during the period as well as on an ad hoc basis, as required by business needs. As a result of the change of financial year end, the Board met only three times during the nine-month period ended 31 December 2006. Among these three meetings, the Board met twice to approve the final results for the year ended 31 March 2006 and the interim results for the six months ended 30 September 2006 respectively. The attendance of the Directors at the regular Board meetings is set out in the table on page 35.

### Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to the Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep them apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the management whenever necessary.

The Company Secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to all Directors for comment within a reasonable time after each meeting and the final version is open for inspection by the Directors.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings to approve transactions in which such Directors or any of their associates have a material interest.

## BOARD COMMITTEES

The Board has set up four main Board Committees, namely, the Audit Committee, the Remuneration Committee, the Executive Committee and the Strategy Committee, for overseeing particular aspects of the Company's affairs. Pursuant to a resolution passed by the Board, the Strategy Committee has been merged with the Executive Committee during the period.

Each of these three Committees has been established with defined written terms of reference, approved by the Board, which set out the Committee's major duties. These terms of reference are available to shareholders upon request and can also be found on the Company's website.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

## Meeting Attendance

The individual attendance record of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Executive Committee during the nine months ended 31 December 2006 is set out below:

Name of Directors	Attendance/Number of Meetings during the nine months ended 31 December 2006			
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Executive Committee Meetings
Mr. Lo Hong Sui, Vincent	2/3	N/A	3/4	6/8
Mr. Choi Yuk Keung, Lawrence	3/3	N/A	N/A	8/8
Mr. Wong Yuet Leung, Frankie	3/3	N/A	N/A	8/8
Mr. Wong Fook Lam, Raymond	3/3	N/A	N/A	8/8
Mrs. Lowe Hoh Wai Wan, Vivien	3/3	N/A	N/A	7/8
Professor Michael John Enright	3/3	2/3	2/4	N/A
Mr. Anthony Griffiths	3/3	3/3	4/4	N/A
Mr. Cheng Mo Chi, Moses	2/3	2/3	2/4	N/A
Professor K.C. Chan	3/3	2/3	3/4	N/A

Mr. Wong Ying Wai, Wilfred and Mr. Wong Hak Wood, Louis resigned as Directors of the Company on 1 June 2006. No board meeting was scheduled during the period from 1 April 2006 up to the date of their resignation. Mr. Wong Ying Wai, Wilfred attended meetings of the Executive Committee twice during the period before his resignation.

## 1. Audit Committee

### Composition of the Committee

Mr. Anthony Griffiths (Chairman of the Committee)

Mr. Cheng Mo Chi, Moses

Professor K.C. Chan

Professor Michael John Enright

Except Professor Michael John Enright who is a Non-executive Director, the Committee members are the Independent Non-executive Directors of the Company, with the Chairman having the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

### Role and duties

Under the terms of reference of the Audit Committee, the principal responsibilities of the Audit Committee include review of the Group's financial statements and the effectiveness of internal control systems. The Audit Committee also oversees the engagement of external auditor and reviews its independence as well as the effectiveness of the audit process. The terms of reference of the Audit Committee, which include the specific duties as set out in the CG Code, are available on the Company's website.

### Work performed during the nine months ended 31 December 2006

The Audit Committee met 3 times during the nine months ended 31 December 2006. The Directors' attendance at the meetings held is set out in the table on page 35. A separate report prepared by the Audit Committee which summarizes its work performed during the period is set out on pages 41 and 42.

## 2. Remuneration Committee

### Composition of the Committee

Mr. Anthony Griffiths (Chairman of the Committee)

Professor K.C. Chan

Mr. Cheng Mo Chi, Moses

Professor Michael John Enright

Mr. Lo Hong Sui, Vincent

Except Mr. Lo Hong Sui, Vincent who is the Chairman of the Board and Professor Michael John Enright who is a Non-executive Director, the Committee members are the Independent Non-executive Directors of the Company. Each member is sufficiently experienced and is appropriately skilled in the issues of determining Board remuneration in public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

### Role and duties

Pursuant to the terms of reference of the Remuneration Committee, the main duties of the Remuneration Committee are:

- (a) to make recommendation to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- (b) to determine, review and approve the specific remuneration packages of all Executive Directors and senior management, taking into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration; and
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The terms of reference of the Remuneration Committee, which include the specific duties as set out in the CG Code, are available on the Company's website.

### Work performed during the nine months ended 31 December 2006

The Remuneration Committee met 4 times during the nine months ended 31 December 2006. The Directors' attendance at the meetings held is set out in the table on page 35. A separate report prepared by the Remuneration Committee which summarises its work performed during the period is set out on pages 43 to 47.

### 3. Executive Committee

#### Composition of the Committee

The members of the Executive Committee comprise all the Executive Directors of the Company and a number of key executives of the Group. Following the resignation of Mr. Wong Ying Wai, Wilfred as an Executive Director of the Company on 1 June 2006, Mr. Choi Yuk Keung, Lawrence has been appointed as the Chairman of the Committee in place of Mr. Wong Ying Wai, Wilfred.

#### Role and duties

The main duties of the Executive Committee are:

- (a) to monitor the macro business environment and market trends with respect to the current and potential business areas of the Group;
- (b) to evaluate and set the business strategies for ensuring the long-term growth and competitiveness of the core businesses of the Group;
- (c) to formulate corporate development strategies and plan and allocate resources, human, financial and otherwise, for execution;
- (d) to review the execution of approved strategies and business plans;
- (e) to review and approve acquisitions and disposals of assets in the ordinary course of business with investment costs/net book values not exceeding HK\$25 million for any single transaction or a series of related transactions, other than notifiable transactions and connected transactions as defined by the Listing Rules;
- (f) to review the operating performance and financial position of the Company and its strategic business units on a monthly basis; and
- (g) to implement the decisions taken by the Board.

#### Work performed during the nine months ended 31 December 2006

During the nine months ended 31 December 2006, the Executive Committee held eight meetings at approximately monthly intervals. The Directors' attendance at the eight meetings held is set out in the table on page 35. The work performed by the Executive Committee during the period covered the matters set out in the Committee's terms of reference, including mainly the review of the Group's operating performance against the budget and the monitoring of the development and progress of various projects and joint ventures. The financial and operating performances of each business unit are reviewed on a monthly basis.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the nine months ended 31 December 2006.

The Company has also established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or the Company's securities.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements of the Company for the nine months ended 31 December 2006.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 66.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the nine months ended 31 December 2006 amounted to HK\$3.95 million and HK\$3.0 million respectively. The costs incurred for the non-audit services represented professional fees of HK\$1.8 million in connection with the Company's issue of the HK\$930 million zero coupon convertible bonds, and fees totalling HK\$1.2 million for other professional services with respect to corporate risk management and review of interim accounts.

## INTERNAL CONTROL

The Board has overall responsibility for the maintenance of sound and effective internal control systems within the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

The Board has entrusted the Audit Committee with the responsibility for reviewing the internal control systems of the Group which include financial, operational and compliance controls and risk management functions. Procedures have been set up, inter alia, for safeguarding assets against unauthorized use or disposition, control over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and in publications. Management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Board has conducted a review of the Company's internal control systems for the nine months ended 31 December 2006, including financial, operational and compliance controls and risk management functions and assessed the effectiveness of internal control systems by considering the work performed by the Audit Committee, executive management, external consultants and internal auditors. During the period, the Audit Committee employed external consultants to review the Group's systems and policies for assessing and taking action to mitigate the impact of the different types of risk in its various operations as part of the Committee's ongoing review of the adequacy of the Group's internal controls. A report was received with recommendations to the management for adoption of measures to enhance the risk management systems, anti-fraud program and compliance management.

## SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

Pursuant to the Bye-laws of the Company, shareholders of the Company holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to convene a special general meeting for the transaction of any specific issues in respect of the business of the Company. In addition, the Bye-laws contain the rights of shareholders and the procedures for demanding a poll for voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of shareholders' meetings. In the event that poll voting is conducted, the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the shareholders' meetings.

Any enquiries by shareholders requiring the Board's attention can be sent in writing to the Company Secretary at the Company's principal place of business in Hong Kong.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at [www.shuion.com](http://www.shuion.com) where the Company's announcements, business developments and operations, financial information, corporate governance practices and other information are posted.

# Audit Committee Report

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## Composition

Mr. Anthony Griffiths (Chairman of the Committee)

Mr. Cheng Mo Chi, Moses

Professor K.C. Chan

Professor Michael John Enright

Except Professor Michael John Enright who is a Non-executive Director, the Committee members are the Independent Non-executive Directors of the Company, with the Chairman having the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

## Meeting attendance

The Committee met 3 times during the period under review and the attendance of individual members of the Committee was as follows:

Name of Director	Attendance/Number of Meetings
Mr. Anthony Griffiths	3/3
Mr. Cheng Mo Chi, Moses	2/3
Professor K. C. Chan	2/3
Professor Michael John Enright	2/3

Other attendees of the meetings were the head of the Group's Corporate Evaluation, responsible for internal audit, and, by invitation, the Executive Director and the general manager responsible for the finance and accounting function, together with senior representatives of the external auditor. The Company Secretary acts as the secretary to the Audit Committee.

## Role and duties

Under the terms of reference of the Audit Committee, the principal responsibilities of the Audit Committee include review of the Group's financial statements and the effectiveness of internal control systems. The Audit Committee also oversees the engagement of external auditor and reviews its independence as well as the effectiveness of the audit process. The terms of reference of the Audit Committee are available on the Company's website.

## Work during the period

The work performed by the Audit Committee during the nine months ended 31 December 2006 included reviews of:

- the Group's audited financial statements and other related documents for the year ended 31 March 2006 and the annual results announcement, with a recommendation to the Board for approval;

- the Group's interim financial statements and other related documents for the six months ended 30 September 2006 and the interim results announcement, with a recommendation to the Board for approval;
- the internal control systems of the different cement plants of the Group in the Mainland China, including the involvement in the internal audit review of Lafarge Shui On Cement Limited, a joint venture in which the Group owns 45% interest;
- the distressed asset development projects in China from risk perspectives;
- the building maintenance and construction activities in Hong Kong and Shanghai respectively;
- the valuation of major assets, including contract receivables and payables, of the Group at 30 September 2006;
- the changes in accounting policies and major accounting issues arising from the implementation of the new Hong Kong Financial Reporting Standards;
- the connected transactions reported by management in each quarter, including the implementation and compliance of the Company's policy on connected transactions;
- the adequacy of the provision for doubtful debts being made in each quarter;
- the report and management letter submitted by the external auditor, which summarised matters arising from their audit on the Group's financial statements for the year ended 31 March 2006;
- the fee proposals of the external auditor for the review of the interim financial statements for the six months ended 30 September 2006 and for the annual audit of the financial statements for the nine-month period ended 31 December 2006;
- the scope of work of the external auditor and its re-appointment;
- the annual work programme of the Group's Corporate Evaluation as well as its staffing and resources planning; and
- the risk management activities of the Group and the corporate controls.

The Committee employed external consultants to review the Group's systems and policies for assessing and taking action to contain the different types of risk in its various operations as part of the Committee's ongoing review of the adequacy of the Group's internal controls. A report was received and, after review by the Committee, it was passed to management for comment and proposed action. The response from management was received by the Committee after 31 December 2006.

All the recommendations of the Committee to management and the Board were accepted and implemented.

# Remuneration Committee Report

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## Composition

Mr. Anthony Griffiths (Chairman of the Committee)  
Professor K.C. Chan  
Mr. Cheng Mo Chi, Moses  
Professor Michael John Enright  
Mr. Lo Hong Sui, Vincent

Except Mr. Lo Hong Sui, Vincent who is the Chairman of the Board and Professor Michael John Enright who is a Non-executive Director, the Committee members are the Independent Non-executive Directors of the Company.

## Meeting attendance

The Committee met four times during the period under review and the attendance of its members was:

Name of Director	Attendance/Number of Meetings
Mr. Anthony Griffiths	4/4
Professor K. C. Chan	3/4
Mr. Cheng Mo Chi, Moses	2/4
Professor Michael John Enright	2/4
Mr. Lo Hong Sui, Vincent	3/4

Mr. Wong Yuet Leung, Frankie, the Chief Executive Officer and Mrs. Lowe Hoh Wai Wan, Vivien, the Executive Director responsible for human resources, attend meetings of the Committee by invitation. The Company Secretary acts as the secretary to the Remuneration Committee.

## Role and duties

The Remuneration Committee has specific terms of reference, which are available on the Company's website.

The Remuneration Committee is tasked to:

- determine the policies for the remuneration of Executive Directors (and certain senior management) to be recommended to the Board, that will assist in attracting, motivating and retaining suitably competent Executive Directors;
- review, on behalf of the Board, the remuneration recommended by the Chairman or Chief Executive Officer for each Executive Director;
- develop and review the application of schemes to reward the Executive Directors and certain senior management with bonuses based on performance and recommend to the Board the amounts to be paid to each Executive Director;

- review the proposals for the award of share options annually to the Executive Directors based on performance and the policy of encouraging their participation in the equity of the Company for recommendation to the Board; and
- recommend to the Board long term incentive plans for the Executive Directors and certain senior management, determining their application on the basis of achievement of long term targets.

### **Remuneration policy**

Through its remuneration policy, the Company aims to attract, motivate and retain competent, high calibre executives while ensuring that the remuneration is aligned with the Company's goals, objectives and performance.

Taking consideration of the findings of an independent survey on directorate pay of listed companies in Hong Kong published in late 2006, the Committee has reviewed the composition of remuneration for the Executive Directors of the Company and decided that:

- the existing remuneration structure is appropriate and competitive;
- the balance between short term and long term elements of remuneration is important and should be retained;
- salary levels will continue to be reviewed regularly against those in companies of a similar size or nature listed on The Stock Exchange of Hong Kong Limited and operating in China;
- greater emphasis will be given to corporate and individual performance, taking account of the different responsibilities of each Executive Director, which will be rewarded by bonus payable for achievement of stretching targets and the grant of share options; and
- long term incentives are important and should be based on total shareholder return.

No individual Director is involved in deciding his or her own remuneration.

The Company's policy is to encourage the participation of Executive Directors and employees in the equity of the Company. While it is highly desirable that Directors of the Company should hold shares in the Company, Independent Non-executive Directors are encouraged not to do so in order to ensure their independence.

### **Remuneration structure**

The remuneration of the Executive Directors and senior management comprises salary and benefits, performance bonuses, pension scheme contributions, share option grants and long term incentives. In determining remuneration appropriate to the Chief Executive Officer and the Executive Directors, developments in executive remuneration in Hong Kong, Mainland China and other parts of the world are reviewed and monitored with the assistance of remuneration consultants employed by the Remuneration Committee.

On the recommendation of the Committee, the Board has approved that the salary and bonus components of the remuneration of Executive Directors should normally relate to their aggregate total, as follows:

Remuneration Component	Chief Executive Officer	Executive Directors
Salary and allowances	Half	Five Eighths
Bonus for achievement of targets	Half	Three Eighths

In cases of exceptional performance, the bonus element could be increased relative to performance delivered by up to twice the amount that would be given normally.

The bonus for the Chief Executive Officer is based 75% on the Company's performance and 25% on personal performance and for the Executive Directors the two elements are each 50%.

The remuneration of Non-executive Directors is decided by the Board on recommendation by the Chairman of the Company.

## Work during the period

During the nine months ended 31 December 2006, the Remuneration Committee:

- proposed the adoption of a share award scheme which was a new long term incentive scheme, based on making share award to the Executive Directors and key executives that would vest on the achievement over rolling three-year periods of positive total shareholder return that equalled or exceeded the total return of the Hang Seng Index during the same period;
- reviewed the existing remuneration of the Executive Directors, taking account of the report of the remuneration consultants on the analysis of directors' remuneration in comparable Hong Kong listed companies;
- reviewed the proposals for the amount of bonus to be awarded to the Executive Directors and senior management based on performance; and
- reviewed the proposals for the award of share options annually to the Executive Directors and senior management based on performance and the policy of encouraging their participation in the equity of the Company.

The proposed share award scheme was approved by the shareholders of the Company during the period but subsequently it was determined and became void as the approval for the listing of, and permission to deal in, any award shares which might have been issued pursuant to the vesting of awards granted under the scheme was not obtained on or before 31 December 2006 in accordance with the provisions of the scheme. Consequently, to motivate the Executive Directors through share ownership and performance-based incentives, the Remuneration Committee proposed to apply similar performance-based vesting conditions as stipulated in the share award scheme to the future grant of share options to the Executive Directors under the existing share option scheme of the Company. The Board subsequently adopted this proposal.

## Remuneration of Directors for the period

The Directors received remuneration for the period of:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Value of share options granted (Note) HK\$'000	For the nine months ended 31 December 2006 Total HK\$'000
<b>Chairman</b>						
Mr. Lo Hong Sui, Vincent	8	—	—	—	—	8
<b>Vice-Chairmen</b>						
Mr. Choi Yuk Keung, Lawrence	8	2,433	1,500	153	—	4,094
Mr. Wong Ying Wai, Wilfred (resigned on 1 June 2006)	2	—	—	—	—	2
<b>Executive Directors</b>						
Mr. Wong Yuet Leung, Frankie	8	3,779	3,000	227	2,518	9,532
Mr. Wong Fook Lam, Raymond	8	2,042	650	112	225	3,037
Mrs. Lowe Hoh Wai Wan, Vivien	8	1,515	500	82	189	2,294
<b>Non-executive Directors</b>						
Prof. Michael John Enright	206	—	—	—	—	206
Mr. Wong Hak Wood, Louis (resigned on 1 June 2006)	33	—	—	—	—	33
<b>Independent Non-executive Directors</b>						
Mr. Anthony Griffiths	263	—	—	—	—	263
Mr. Cheng Mo Chi, Moses	206	—	—	—	—	206
Prof. K. C. Chan	206	—	—	—	—	206
<b>TOTAL</b>	<b>956</b>	<b>9,769</b>	<b>5,650</b>	<b>574</b>	<b>2,932</b>	<b>19,881</b>

Note: The amount represents the portion of fair value of the share options granted to the Directors, recognised as expenses for the period. For accounting purposes, it is required to expense the fair value of share options granted, determined at the date of grant, on a straight-line basis over the vesting period.

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## Service contracts

No service contract of any Director contains a notice period exceeding twelve months.

## Share option schemes

The Company operates two share option schemes for the Directors and employees of the Group. The 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"). 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.

The following share options were granted to the Executive Directors under the New Scheme during the period:

<b>Name of Director</b>	<b>Number of shares subject to the options granted</b>
Mr. Wong Yuet Leung, Frankie	2,000,000
Mr. Wong Fook Lam, Raymond	176,000
Mrs. Lowe Hoh Wai Wan, Vivien	150,000

# Directors and Senior Management

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## EXECUTIVE DIRECTORS

### **Lo Hong Sui, Vincent, GBS, JP**

aged 59, has been the Chairman of the Company since 1997 and is a member of the Remuneration Committee of the Company. He is the chairman of the Shui On Group which he founded 36 years ago. He is also the chairman and chief executive officer of Shui On Land Limited, which he established in 2004. He is a member of The Tenth National Committee of Chinese People's Political Consultative Conference, the honorary life president of the Business and Professionals Federation of Hong Kong, the president of Shanghai - Hong Kong Council for the Promotion and Development of Yangtze, a vice-chairman of All-China Federation of Industry and Commerce, an economic adviser of the Chongqing Municipal Government, a vice-chairman of the Chamber of International Commerce Shanghai, a court member of the Hong Kong University of Science and Technology, a director of Great Eagle Holdings Limited, a non-executive director of Hang Seng Bank Limited, and an independent non-executive director of China Telecom Corporation Limited.

He was awarded the Gold Bauhinia Star in 1998 and appointed Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region. He was made an Honorary Citizen of Shanghai in 1999. He was named Businessman of the Year by the Hong Kong Business Awards in 2001 (sponsored by DHL and the South China Morning Post) and received the Director of the Year Award in the category of Listed Company Executive Directors from The Hong Kong Institute of Directors in 2002.

### **Choi Yuk Keung, Lawrence**

aged 53, has been the Managing Director of the Company from 1997 to 2004 and was appointed Vice-Chairman of the Company in July 2004. He has also been an executive director of the Shui On Group since 1990. He was a director of Shui On Land Limited from May 2004 to May 2006. He was appointed managing director of the Shui On Group's construction division in 1991 and also that of the construction materials division in 1995. He is a member of the Standing Committee of The Ninth Guizhou Provincial Committee of Chinese People's Political Consultative Conference. He joined the Shui On Group in 1973 and has over 30 years of experience in construction. He holds a Bachelor of Science degree in Engineering from the University of California, Berkeley.

### **Wong Yuet Leung, Frankie**

aged 58, is the Chief Executive Officer of the Company and was the Vice-Chairman from 1997 to 2004. He joined the Shui On Group in 1981 and has been the managing director of Shui On Holdings Limited since 1991. He was a director of Shui On Land Limited from May 2004 to May 2006. Prior to joining the Shui On Group, he had many years of banking experience with several major international banks in Hong Kong. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and the University of Lancaster in the United Kingdom respectively. He is one of the trustees of the Shui On Provident and Retirement Scheme.

## **Wong Fook Lam, Raymond**

aged 52, is the Chief Financial Officer of the Company and has been an Executive Director since 1997. He joined the Shui On Group in 1989 and has been an executive director of Shui On (Contractors) Limited since 1993. He is a Fellow of the Institute of Chartered Accountants in England and Wales and of the Hong Kong Institute of Certified Public Accountants, and an Associate of the Institute of Chartered Accountants of Australia. He is one of the trustees of the Shui On Provident and Retirement Scheme.

## **Lowe Hoh Wai Wan, Vivien**

aged 58, has been an Executive Director of the Company since 1997. She joined the Shui On Group in 1980 and has been an executive director of Shui On (Contractors) Limited since 1993. She holds a Bachelor of Arts degree in Sociology from the State University of New York, a Master of Arts degree in Sociology from the University of Illinois, and a Doctor of Philosophy degree in Sociology from the University of Wisconsin. She is a member of the Occupational Deafness Compensation Board. She is one of the trustees of the Shui On Provident and Retirement Scheme.

## **NON-EXECUTIVE DIRECTOR**

### **Professor Michael John Enright**

aged 48, was an Independent Non-executive Director of the Company from 2000 to 2004 and was re-designated a Non-executive Director in September 2004. He is an expert on business strategy and international competition. He joined the faculty of The University of Hong Kong in 1996 where he is the Sun Hung Kai Professor of Business Administration and Director of the Asia-Pacific Competitiveness Programme at the Hong Kong Institute for Economics and Business Strategy. Professor Enright received his Bachelor's degree in Chemistry, Master's degree in Business Administration and Doctor of Philosophy degree in Business Economics from Harvard University. Before coming to Hong Kong, Professor Enright spent six years as a professor at the Harvard Business School. He is also an independent non-executive director of Johnson Electric Holdings Limited and a director of Enright, Scott & Associates. He was a director of Shui On Land Limited from May 2004 to May 2006. He is a member of the Audit and Remuneration Committees of the Company.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

### **Anthony Griffiths**

aged 63, has been an Independent Non-executive Director of the Company since 1997. He is also a non-executive director of Crystal International Limited and an independent non-executive director of Manulife Provident Trust Funds Company Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, the Institute of Management Consultants (Hong Kong Branch) and The Hong Kong Institute of Directors. He received the Director of the Year Award in the category of Listed Company Non-Executive Directors from The Hong Kong Institute of Directors in 2006. He is the chairman of the Audit and Remuneration Committees of the Company. He is also the chairman of trustees of the Shui On Provident and Retirement Scheme.

### **Cheng Mo Chi, Moses**

aged 57, has been an Independent Non-executive Director of the Company since September 2004. He is the senior partner of P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is the founder chairman of The Hong Kong Institute of Directors of which he is now the honorary president and chairman emeritus. He also serves on the boards of various listed companies, namely, Beijing Capital International Airport Company Limited, China Mobile Limited, City Telecom (HK) Limited, Guangdong Investment Limited, Kader Holdings Company Limited, Galaxy Entertainment Group Limited, Liu Chong Hing Investment Limited, China COSCO Holdings Company Limited, China Resources Enterprise, Limited, Hong Kong Exchanges and Clearing Limited and Tian An China Investments Company Limited. He is a member of the Audit and Remuneration Committees of the Company.

### **Professor K.C. Chan, JP**

aged 50, was appointed as an Independent Non-executive Director of the Company in July 2005. He is Dean of Business and Management at Hong Kong University of Science and Technology (HKUST). Before joining HKUST in 1994, he was on the faculty of the Ohio State University in the United States. He received his Bachelor's degree in Economics from Wesleyan University and both his M.B.A. and Ph.D. in Finance from the University of Chicago. He is best known for his research on the pricing of risky assets and the performance of equity trading strategies, and is listed in Who's Who in Economics. He is the chairman of Consumer Council, and a member of Exchange Fund Advisory Committee, Commission for Strategic Development, Hang Seng Index Advisory Committee, and council member of Association of Asia-Pacific Business Schools. He was appointed Justice of the Peace in 2006 by the Government of the Hong Kong Special Administrative Region. He is a member of the Audit and Remuneration Committees of the Company.

## **SENIOR MANAGEMENT**

### **Chan Cheu Hung, William**

aged 59, is an executive director of Shui On Building Materials Limited, Guizhou Shui On Cement Development Management Co., Ltd. and Lamma Rock Products Limited. He has been working in the Shui On Group for over 20 years. He holds a Master's degree in Business Administration and is a Fellow of the Institute of Quarrying.

### **Lee Wing Kee, Stephen**

aged 54, is an executive director of Shui On Building Contractors Limited and Shui On Construction Company Limited. He has been working in the Shui On Group since 1985 and has over 30 years of experience in construction. He is currently the vice president of the Hong Kong Construction Association and chairman of its Building Committee. He is also a council member of Construction Industry Training Authority and chairman of its training courses committee. Mr. Lee also serves as the chairman of the Construction Workers Qualification Committee under the Construction Workers Registration Authority. He holds a Bachelor of Science degree in Civil Engineering and is a chartered civil engineer.

### **Wong Kun To, Philip**

aged 50, is the managing director of SOCAM Asset Management (HK) Limited. He was employed by Shui On Construction Company Limited from 1979 to 1992 in various positions, including as deputy general manager. He was engaged as property development consultant for the Company's partially completed property development business in October 2005 and rejoined the Company in October 2006 as director - property development, performing property development, business development and commercial functions. He has over 25 years of experience in construction management, investment and property development. He holds a Bachelor of Engineering degree from McMaster University and is a member of the Hong Kong Institution of Engineers.

## **Lau Ping Cheung, Kaizer, SBS**

aged 55, is a director of SOCAM Asset Management (HK) Limited responsible for project planning and development as well as project management. He worked for Shui On Construction Company Limited from 1982 to 1987 in various positions up to senior contracts manager and rejoined the Company in October 2005. A chartered surveyor by profession, he was educated at the Hong Kong Polytechnic and holds a Master's degree in Construction Project Management from the University of Hong Kong. He is a past president and a fellow of the Hong Kong Institute of Surveyors, past chairman and a fellow of the Royal Institution of Chartered Surveyors (Hong Kong branch), an authorized person under the Buildings Ordinance of Hong Kong, a member of the Hong Kong Legislative Council from 2000 to 2004, a member of The Tenth Chinese People's Political Consultative Conference of Shanghai, a council member of both the China Overseas Friendship Association and Shanghai Overseas Friendship Association, and a council member of the City University of Hong Kong from 2002 to 2006. He has over 30 years of experience in property development, construction and related consultancy both in Hong Kong and the Chinese Mainland.

## **Yiu Yu Keung, George**

aged 63, is a director of SOCAM Asset Management (HK) Limited responsible for the overall performance of property projects in Beijing. He worked for Shui On Group's construction and contracting arm from 1977 to 1992 in various positions up to general manager of Shui On (China) Ltd. and rejoined the Company in May 2006. He has over 30 years of experience in construction and property development, both in Hong Kong and the Chinese Mainland. He graduated from the Civil Engineering Department of Hong Kong Baptist University and holds a Master's degree in Business Administration from the University of Macau.

## **Lai Shu Sum, Alfred**

aged 46, is the chief financial officer of Lafarge Shui On Cement Limited, the joint venture between the Company and Lafarge S.A.. He joined the Shui On Group in February 2006 and has substantial China as well as international exposure. He holds a Bachelor of Science degree in Economics from the University of London and a Master's degree in Business Administration from Heriot-Watt University. He is a Fellow of the Association of Chartered Certified Accountants and an Associate of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants.

## **Leung Kam Woon, Barnabas**

aged 59, is the business development director of the construction materials division. He joined the Shui On Group in 1978 and is currently involved in the Lafarge Shui On cement business in Chongqing. He holds Master's degrees in Management Science and in Engineering, both from the University of California, Berkeley and a Bachelor's degree in Engineering Science from the University of Portland. He is a Fellow of the Institute of Quarrying.

## **Kong Hon Ling, Frank**

aged 55, is the general manager of the construction materials division and is currently involved in the joint-venture cement business in Yunnan. He joined the Shui On Group in 1982 and has ample experience in quarrying and management of cement operations in the Chinese Mainland. He holds a Bachelor's degree in Mechanical Engineering and a Master's degree in Mechanical Engineering from Nottingham University and is a member of the Institute of Quarrying.

### **Lee Chi Keung, Lawrence**

aged 56, is the general manager – project of SOCAM Asset Management (HK) Limited responsible for the property development project in Chengdu. He worked for Shui On Building Materials Limited from 2005 to 2006 as general manager responsible for the finance and accounts of the cement business in Chongqing and rejoined the Company in November 2006. He holds a Bachelor of Social Sciences degree in Economics / Statistics from the University of Hong Kong and a Master's degree in Business Administration from the Sichuan United University.

### **Chiu Sin Chor, Peter**

aged 62, is the general manager – project of SOCAM Asset Management (HK) Limited responsible for the property development project in Qingdao. He worked for Shui On Construction Company Limited from 1981 to 1988 in various positions up to general manager and rejoined the Company in April 2006. A professional civil engineer (structural) registered in the State of Hawaii and in California, he holds a Bachelor of Science degree in Civil Engineering from the University of Hawaii. He has over 30 years of international experience in construction and project management.

### **Ng Yat Hon, Gilbert**

aged 46, is the general manager of Pat Davie Limited. He joined the Shui On Group in 1996 and has over 20 years of experience in construction. He holds a Bachelor's degree in Civil Engineering from University of Manchester and a Master's degree in Project Management from University of New South Wales and is a chartered civil engineer.

### **Chan Ngai Shing, David**

aged 52, is the general manager of Shui On Building Contractors Limited and Shui On Construction Company Limited. He joined the Shui On Group in 1989 and has over 25 years of experience in construction. He holds a Bachelor's degree in Civil Engineering and a Master's degree in Civil Engineering both from the University of McMaster and is a chartered civil engineer. He is a member of the Hong Kong Institute of Real Estate Administration. He is currently a council member of the Hong Kong Construction Association.

### **Li Chi Keung, Evans**

aged 45, is the general manager - finance and accounts of the Company. He joined the Shui On Group in 1991. He holds a Master's degree in Business Administration from the University of Leicester. He is a Fellow of the Association of Chartered Certified Accountants and an Associate of The Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries and the Hong Kong Institute of Certified Public Accountants.

### **Sincere Wong**

aged 42, is chief legal officer and company secretary of the Company and chief legal officer of SOCAM Asset Management (HK) Limited. He joined the Company in November 2006. He has over 10 years of in-house legal counsel experience with major listed conglomerates in Hong Kong prior to joining the Company. He holds a Bachelor of Social Sciences degree in Journalism and Communication from The Chinese University of Hong Kong and is a qualified lawyer in the jurisdictions of Hong Kong, England and Wales since 1993 and 1994 respectively.

The Directors present their annual report and the audited financial statements for the nine months ended 31 December 2006.

## CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company resolved to change the date of its financial year end from 31 March to 31 December in order to align the financial reporting dates within the Group. The consolidated financial statements presented for the current period therefore cover the nine months from 1 April 2006 to 31 December 2006.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries and jointly controlled entities are set out in notes 45 and 46 to the consolidated financial statements respectively.

## RESULTS AND APPROPRIATIONS

The results of the Group for the period are set out in the consolidated income statement on pages 67 and 68.

The Directors now recommend the payment of a final dividend of HK\$0.52 per share to the shareholders on the register of members on 5 June 2007, amounting to HK\$147.6 million.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the period are set out in note 32 to the consolidated financial statements.

## RESERVES

Movements in the reserves of the Group during the period are set out in note 33 to the consolidated financial statements.

Under the Companies Act 1981 of Bermuda (as amended), in addition to retained profits, contributed surplus is also distributable to the shareholders of the Company. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due;  
or
- (ii) 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.

At 31 December 2006, the Company's reserves, including the contributed surplus, available for distribution to shareholders amounted to HK\$354.7 million (31 March 2006: HK\$631.9 million).

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 152.

## INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2006, as set out in note 17 to the consolidated financial statements. The increase in fair value amounting to HK\$1.4 million has been recognised in the consolidated income statement.

## PROPERTY, PLANT AND EQUIPMENT

Details of additions to and other movements during the period in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

## MAJOR PROPERTIES

Details of the major properties of the Group at 31 December 2006 are set out on page 151.

## DIRECTORS

The Directors of the Company during the period and up to the date of this report were:

### **Executive Directors:**

Mr. Lo Hong Sui, Vincent  
Mr. Choi Yuk Keung, Lawrence  
Mr. Wong Yuet Leung, Frankie  
Mr. Wong Fook Lam, Raymond  
Mrs. Lowe Hoh Wai Wan, Vivien  
Mr. Wong Ying Wai, Wilfred (resigned on 1 June 2006)

### **Non-executive Directors:**

Professor Michael John Enright  
Mr. Wong Hak Wood, Louis (resigned on 1 June 2006)

### **Independent Non-executive Directors:**

Mr. Anthony Griffiths  
Mr. Cheng Mo Chi, Moses  
Professor K.C. Chan

In accordance with the Company's Bye-laws, Mr. Anthony Griffiths and Professor Michael John Enright shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The term of office of each Non-executive Director and Independent Non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

At 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are taken or deemed to have been taken under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

### (a) Long position in the shares of the Company

Name of Director	Number of ordinary shares in the Company		Approximate percentage of shareholding in the Company
	Personal interests	Other interests	
Mr. Lo Hong Sui, Vincent	—	189,615,000 (Note)	66.86%
Mr. Choi Yuk Keung, Lawrence	740,000	—	0.26%
Mr. Wong Fook Lam, Raymond	700,000	—	0.25%
Mrs. Lowe Hoh Wai Wan, Vivien	408,000	—	0.14%

Note:

These shares comprise 181,871,000 shares beneficially owned by Shui On Company Limited ("SOCL") and 7,744,000 shares and underlying shares in which SOCL is deemed to be interested under sections 317 and 318 of the SFO.

Among the 181,871,000 shares beneficially owned by SOCL, 166,148,000 shares and 15,723,000 shares were held respectively by SOCL and Shui On Finance Company Limited, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. 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 and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Lo Hong Sui, Vincent, HSBC International Trustee Limited and Bosrich Holdings Inc. are deemed to be interested in such shares under the SFO.

On 27 August 2002, SOCL granted call options over certain existing shares of the Company beneficially owned by SOCL to each of Mr. Wong Ying Wai, Wilfred ("Mr. Wilfred Wong"), Mr. Wong Hak Wood, Louis ("Mr. Louis Wong") and Mr. Wong Yuet Leung, Frankie as part of an incentive reward for their services to the Company. A maximum of 50% of the shares transferred or to be transferred upon exercise of call options are subject to a restriction of disposal within 12 months from the date such shares are transferred. Mr. Wilfred Wong and Mr. Louis Wong have exercised all their call options and accordingly are deemed to be parties to an agreement to acquire shares under sections 317 and 318 of the SFO. As such, SOCL is deemed to be interested in the shares and underlying shares owned by Mr. Wilfred Wong and Mr. Louis Wong.

**(b) Short position in the shares of the Company**

Name of Director	Number of ordinary shares in the Company		Approximate percentage of shareholding in the Company
	Personal interests	Other interests	
Mr. Lo Hong Sui, Vincent	—	1,600,000 (Note)	0.56%

Note:

These shares represent the outstanding balance of the call options granted by SOCL under the call option arrangement mentioned in the note to item (a) above.

**(c) Share options of the Company**

Pursuant to the share option scheme of the Company, certain Directors were granted share options to subscribe for the shares of the Company and details of the Directors' interests in share options were set out under the section headed "Share Options" below.

**(d) Call option over the shares of the Company**

At 31 December 2006, the following Director had a call option granted by SOCL over the shares of the Company pursuant to the arrangement mentioned in the note to item (a) above:

Name of Director	Exercise price	Exercise period	Number of ordinary shares subject to the call option
Mr. Wong Yuet Leung, Frankie	HK\$6.00	27-8-2005 to 26-8-2010	1,600,000

**(e) Long position in the shares of Shui On Land Limited ("SOL")**

Name of Director	Number of ordinary shares in SOL		Approximate percentage of shareholding in SOL
	Personal interests	Other interests	
Mr. Lo Hong Sui, Vincent	—	2,250,565,225 (Note)	53.78%

Note:

These shares are directly held by subsidiaries of SOCL, namely, Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited. 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 under the SFO.

Save as disclosed above, at 31 December 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) or the Model Code or which were required to be entered in the register required to be kept under section 352 of the SFO.

## SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 38 to the consolidated financial statements.

Grants of options on or after 27 August 2002 were made pursuant to the share option scheme of the Company adopted on 27 August 2002. Grants of options prior to 27 August 2002 were made under the share option scheme of the Company ("Old Scheme") adopted on 20 January 1997 and terminated on 27 August 2002. All options granted previously under the Old Scheme continue to be valid and exercisable.

The movements in the share options of the Company during the period are set out as follows:

Name or category of eligible participants	Date of grant	Subscription price per share HK\$	At 1.4.2006	Number of options					Period during which options outstanding at 31.12.2006 are exercisable	Price of Company's shares at exercise date of options (Note c) HK\$
				Transferred from other category during the period (Note b)	Granted during the period (Note a)	Exercised during the period	Lapsed during the period	At 31.12.2006		
<b>Directors</b>										
Mr. Choi Yuk Keung, Lawrence	17.7.2001	9.30	140,000	—	—	(140,000)	—	—	17.1.2002 to 16.7.2006	16.00
	27.8.2002	6.00	168,000	—	—	—	—	168,000	27.2.2003 to 26.8.2007	—
	27.8.2002	6.00	2,175,000	—	—	—	—	2,175,000	27.8.2005 to 26.8.2010	—
Mr. Wong Yuet Leung, Frankie	17.7.2001	9.30	200,000	—	—	(200,000)	—	—	17.1.2002 to 16.7.2006	16.00
	27.8.2002	6.00	160,000	—	—	(160,000)	—	—	27.2.2003 to 26.8.2007	14.04
	27.8.2002	6.00	1,600,000	—	—	—	—	1,600,000	27.8.2005 to 26.8.2010	—
	1.8.2006	14.00	—	—	2,000,000	—	—	2,000,000	1.2.2007 to 31.7.2011	—
Mr. Wong Fook Lam, Raymond	17.7.2001	9.30	160,000	—	—	(160,000)	—	—	17.1.2002 to 16.7.2006	16.00
	27.8.2002	6.00	110,000	—	—	(110,000)	—	—	27.2.2003 to 26.8.2007	13.68
	27.8.2002	6.00	1,300,000	—	—	(1,300,000)	—	—	27.8.2005 to 26.8.2010	14.84
	1.8.2006	14.00	—	—	176,000	—	—	176,000	1.2.2007 to 31.7.2011	—
Mrs. Lowe Hoh Wai Wan, Vivien	17.7.2001	9.30	160,000	—	—	(160,000)	—	—	17.1.2002 to 16.7.2006	18.00
	27.8.2002	6.00	66,000	—	—	(66,000)	—	—	27.2.2003 to 26.8.2007	15.18
	27.8.2002	6.00	900,000	—	—	(240,000)	—	—	27.8.2005 to 26.8.2010	14.08
	1.8.2006	14.00	—	—	150,000	—	—	150,000	1.2.2007 to 31.7.2011	—
Mr. Wong Ying Wai, Wilfred (resigned on 1 June 2006)	27.8.2002	6.00	80,000	—	—	—	—	(80,000)	27.2.2003 to 26.8.2007	—
	27.8.2002	6.00	3,500,000	—	—	—	—	(3,500,000)	27.8.2005 to 26.8.2010	—
Mr. Wong Hak Wood, Louis (resigned on 1 June 2006)	17.7.2001	9.30	280,000	—	—	—	—	(280,000)	17.1.2002 to 16.7.2006	—
	27.8.2002	6.00	88,000	—	—	—	—	(88,000)	27.2.2003 to 26.8.2007	—
	27.8.2002	6.00	1,000,000	—	—	—	—	(1,000,000)	27.8.2005 to 26.8.2010	—
Sub-total			12,087,000	—	2,326,000	(2,536,000)	—	(4,948,000)	6,929,000	
<b>Employees (in aggregate)</b>	17.7.2001	9.30	96,000	—	—	(96,000)	—	—	17.1.2002 to 16.7.2006	18.38
	27.8.2002	6.00	382,000	—	—	(266,000)	(12,000)	—	27.2.2003 to 26.8.2007	14.47
	27.8.2002	6.00	610,000	—	—	(610,000)	—	—	27.8.2005 to 26.8.2010	17.96
	4.8.2003	5.80	314,000	—	—	(124,000)	—	—	4.2.2004 to 3.8.2008	14.97
	26.7.2004	7.25	632,000	—	—	(178,000)	—	—	26.1.2005 to 25.7.2009	14.46
	29.7.2005	9.30	986,000	—	—	(210,000)	—	—	29.1.2006 to 28.7.2010	15.41
	1.8.2006	14.00	—	—	1,780,000	—	—	1,780,000	1.2.2007 to 31.7.2011	—
Sub-total			3,020,000	—	1,780,000	(1,484,000)	(12,000)	—	3,304,000	
<b>Others</b>	17.7.2001	9.30	—	280,000	—	(280,000)	—	—	17.1.2002 to 16.7.2006	18.00
	27.8.2002	6.00	—	168,000	—	(168,000)	—	—	27.2.2003 to 26.8.2007	15.06
	27.8.2002	6.00	—	4,500,000	—	(4,500,000)	—	—	27.8.2005 to 26.8.2010	16.21
Sub-total			—	4,948,000	—	(4,948,000)	—	—	—	
			15,107,000	4,948,000	4,106,000	(8,968,000)	(12,000)	(4,948,000)	10,233,000	

Notes:

- The closing price of the Company's shares preceding the date on which the options were granted was HK\$13.60.
- The share options held by Mr. Wilfred Wong and Mr. Louis Wong, former Directors of the Company, were re-classified under the category "Others" after their resignation as Directors of the Company on 1 June 2006.
- 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 period for each category of eligible participants.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and under the section headed "Interests of directors and chief executive" above, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, at 31 December 2006, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Aggregate interests	
	Number of ordinary shares in the Company	Percentage of shareholding in the Company
Mr. Louis Wong	189,615,000 (Note i)	66.86%
Mr. Wilfred Wong	189,615,000 (Note i)	66.86%
Mr. John Zwaanstra	25,185,251 (Note ii)	8.88%

Notes:

- (i) These shares include the aggregate interests of SOCL deemed under sections 317 and 318 of the SFO as mentioned in the note to item (a) under the section headed "Interests of directors and chief executive" above.
- (ii) These shares are held by Penta Investment Advisers Limited which is wholly owned by Mr. John Zwaanstra.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the period was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

The Company has complied throughout the nine months ended 31 December 2006 with the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviations from Code Provisions A.4.1 and A.4.2. Details are set out in the Corporate Governance Report on pages 30 to 40.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, the Directors confirmed that they had complied with the required standard set out in the Model Code during the nine months ended 31 December 2006.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent.

## CONNECTED TRANSACTIONS

- (1) 上海瑞安建築有限公司 (Shanghai Shui On Construction Co., Ltd.) ("SSOC") became a subsidiary of the Company on 1 October 2006. Since then, construction contracts awarded by SOL and its subsidiaries in favour of SSOC under a framework agreement dated 4 June 2006 made between SOL and SSOC (the "Framework Agreement") constitute continuing connected transactions of the Company. Mr. Lo Hong Sui, Vincent is the chairman of the Company and has a substantial interest in the issued share capital of the Company. Mr. Lo is also the chairman and a substantial shareholder of SOL. SOL is therefore an associate of a connected person of the Company. The Framework Agreement, the continuing connected transactions contemplated thereunder and the cap for the three financial years ending 31 December 2008 are subject to independent shareholders' approval, which has been obtained at a special general meeting of the Company held at the date hereof. Details of the transactions are set out in an announcement and a circular of the Company dated 15 February 2007 and 8 March 2007 respectively.

The Directors, including the Independent Non-executive Directors, confirm that the transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the Framework Agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

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(2) During the period, the management fee and performance fee payable by On Capital China Tech Fund ("On Capital") to the investment management company controlled and owned by Mr. Laurie Kan were estimated to be HK\$2.1 million and HK\$8.4 million respectively. On Capital is a company in which the Group owns one management share, representing 50% of the voting share capital, and approximately 66.83% interest in participating shares without voting rights. Mr. Laurie Kan is a director of On Capital and brother-in-law of Mr. Wilfred Wong, a former Director of the Company. The board composition of On Capital was controlled by the Group and as such, On Capital was treated as a subsidiary of the Group. The aforesaid payment of management fee and performance fee for the period from 1 April 2006 to 29 December 2006 constitutes continuing connected transaction of the Company and is subject to the disclosure requirement under the Listing Rules. An announcement will be issued by the Company in this respect. Following the change of the composition of the board of On Capital on 29 December 2006, On Capital has become a jointly controlled entity of the Group.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as aforesaid under the section headed "Connected Transactions", no contracts of significance, to which the Company, its ultimate holding company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## **REMUNERATION POLICY**

The remuneration policy of the Group to reward its employees is based on their performance, qualifications and competence displayed.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 38 to the consolidated financial statements.

## **PROVIDENT AND RETIREMENT FUND SCHEMES**

Details of the Group's provident and retirement fund schemes are shown in note 35 to the consolidated financial statements.

## MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The five largest suppliers of the Group accounted for less than 25% of the total purchases of the Group in the period.

The five largest customers of the Group accounted for approximately 72% of the total turnover of the Group in the period with the largest customer, HKSAR Government - Architectural Services Department, accounting for approximately 43% of the turnover of the Group.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has a beneficial interest in the Group's five largest customers.

## DONATIONS

During the period, the Company and its subsidiaries made donations of HK\$4.2 million to business associations and institutions.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the nine months ended 31 December 2006.

## DISCLOSURE UNDER RULES 13.21 AND 13.22 OF THE LISTING RULES

### (i) Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$1,324.7 million at 31 December 2006, details of which are as follows:

Affiliated companies	Effective percentage of interest	Balance at 31 December 2006				Total HK\$ million	
		Unsecured loans		Guarantees given (Note b)			
		Interest free with no fixed repayment terms	Interest bearing with no fixed repayment terms				
		HK\$ million	HK\$ million				
Brisfull Limited	50%	1.3	42.7	—	—	44.0	
Channel Pacific Limited	50%	0.2	—	—	—	0.2	
Chengdu Shui On Huida Property Co., Ltd.	50%	—	—	120.0	—	120.0	
Coral Waters (Barbados) SRL	50%	2.0	—	—	—	2.0	
Guangzhou On Track Construction Precast Products Company Ltd.	40%	1.7	—	—	—	1.7	
Guizhou Bijie Shui On Cement Co. Ltd.	80%	7.1	44.0	—	—	51.1	
Guizhou Changda Shui On Cement Co. Ltd.	51%	4.3	—	—	—	4.3	
Guizhou Kaili Ken On Concrete Co. Ltd.	75%	3.4	1.9	—	—	5.3	
Guizhou Kaili Shui On Cement Co. Ltd.	90%	31.7	20.0	—	—	51.7	
Guizhou Xinpu Shui On Cement Co. Ltd.	36%	0.7	—	—	—	0.7	
Guizhou Xishui Shui On Cement Co. Ltd.	90%	30.4	—	—	—	30.4	
Guizhou Yuqing Shui On Cement Co. Ltd.	80%	1.3	—	—	—	1.3	
Guizhou Zunyi Ken On Concrete Co. Ltd.	75%	2.9	2.8	—	—	5.7	
Guizhou Zunyi Shui On Cement Co. Ltd.	80%	76.7	—	—	—	76.7	
Lafarge Shui On Cement Limited	45%	382.8	—	—	—	382.8	
Lamma Yue Jie Company Limited	60%	17.0	—	—	—	17.0	
Mountain Breeze (Barbados) SRL	50%	121.1	—	—	—	121.1	
Mountain Mist (Barbados) SRL	45%	4.2	—	—	—	4.2	
Nanjing Jiangnan Cement Company Limited	60%	129.7	—	—	—	129.7	
Prime Allied Enterprises Limited	45%	0.2	—	—	—	0.2	
Prosper Idea Limited	50%	175.9	—	—	—	175.9	
Sichuan Hejiang Shui On Cement Co. Ltd.	90%	2.2	20.4	—	—	22.6	
Somerset Investments Limited	45%	0.7	—	—	—	0.7	
The Yangtze Ventures II Limited	75%	75.4	—	—	—	75.4	
		1,072.9	131.8	120.0	—	1,324.7	

**(i) Financial assistance and guarantees to affiliated companies**  
(continued)

The proforma combined balance sheet of the above affiliated companies at 31 December 2006 is as follows:

	HK\$ million
Non-current assets	9,637.9
Current assets	4,925.0
Current liabilities	(5,862.4)
Net current liabilities	(937.4)
Non-current liabilities	(3,253.7)
Minority interests	(1,022.7)
Shareholders' funds	4,424.1

Details of the above affiliated companies are set out in note 46 to the consolidated financial statements.

Notes:

a. Loans made by the Group to the following affiliated companies are charged at various interest rates.

<b>Affiliated companies</b>	<b>Interest rate per annum</b>
Brisfull Limited	Fixed at 2.5%
Guizhou Bijie Shui On Cement Co. Ltd.	HIBOR + 2%
Guizhou Kaili Ken On Concrete Co. Ltd.	HIBOR + 2%
Guizhou Kaili Shui On Cement Co. Ltd.	HIBOR + 2%
Guizhou Zunyi Ken On Concrete Co. Ltd.	HIBOR + 2%
Sichuan Hejiang Shui On Cement Co. Ltd.	HIBOR + 2%

b. The Group has arranged a standby letter of credit of HK\$120 million to secure a bank loan of Rmb110 million granted to the affiliated company.

c. All affiliated companies are accounted for as jointly controlled entities of the Group.

Loans to the aforesaid affiliated companies, funded by internal resources and bank borrowings, were made for the purposes of investment in and/or working capital for these companies.

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**(ii) Banking facilities with covenants relating to specific performance of the controlling shareholders**

The Company was granted the following banking facilities:

- a. a 3-year revolving loan of HK\$150 million in April 2004;
- b. two 3-year revolving loans, each amounting to HK\$200 million and totalling HK\$400 million, in October 2004;
- c. a 2-year revolving loan of HK\$200 million in January 2005; and
- d. a 3-year term loan of HK\$200 million in February 2005.

These loans require SOCL and/or Mr. Lo Hong Sui, Vincent, who is a discretionary beneficiary of a discretionary trust which holds SOCL, to retain an equity interest of not less than 50 per cent. in the Company throughout the tenure of the related loan agreements. A breach of such obligation will cause a default in respect of these loans.

**AUDITOR**

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Lo Hong Sui, Vincent**  
*Chairman*

12 April 2007

# Independent Auditor's Report

# Deloitte. 德勤

TO THE SHAREHOLDERS OF  
**SHUI ON CONSTRUCTION AND MATERIALS LIMITED**  
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shui On Construction and Materials Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") on pages 67 to 150 which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the period from 1 April 2006 to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the period from 1 April 2006 to 31 December 2006 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong

12 April 2007

# Consolidated Income Statement

For the Period from 1 April 2006 to 31 December 2006

Notes	Nine months ended 31 December 2006		Year ended 31 March 2006
	HK\$ million	HK\$ million	
<b>Continuing operations</b>			
Turnover			
The Company and its subsidiaries	1,680.4	1,400.2	
Share of jointly controlled entities	1,606.2	989.2	
	3,286.6	2,389.4	
<b>Group turnover</b>	7	1,680.4	1,400.2
Other income	8	70.7	59.4
Changes in inventories of finished goods, work in progress, contract work in progress and properties held for sale		25.2	64.9
Raw materials and consumables used		(244.8)	(210.7)
Staff costs		(215.4)	(240.3)
Depreciation and amortisation expenses		(5.6)	(9.7)
Subcontracting, external labour costs and other expenses		(1,308.6)	(1,037.6)
Increase (decrease) in fair value of investment properties		1.4	(0.3)
Net increase in fair value of financial assets at fair value through profit or loss		48.1	139.2
Net increase in fair value of financial instruments	9	593.3	—
Finance costs	10	(165.9)	(93.5)
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries		—	(26.2)
Impairment loss recognised in respect of interests in jointly controlled entities		—	(73.7)
Change in fair value of net assets contributed to a jointly controlled entity		—	38.7
Loss on partial disposal of interest in a subsidiary		(9.7)	—
Gain (loss) on deemed disposal of an associate		119.1	(10.3)
Share of impairment loss of jointly controlled entities		(84.3)	—
Share of results of jointly controlled entities		83.5	154.2
Share of results of associate		48.8	209.9
Profit before taxation		636.2	364.2
Taxation	11	(7.7)	(7.6)
Profit for the period/year from continuing operations		628.5	356.6
<b>Discontinued operations</b>			
Loss for the period/year from discontinued operations	13	(6.1)	(5.2)
<b>Profit for the period/year</b>	14	622.4	351.4

## Consolidated Income Statement

For the Period from 1 April 2006 to 31 December 2006

	Notes	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Attributable to:			
Equity holders of the Company		602.1	314.8
Minority interests		20.3	36.6
		622.4	351.4
Dividends	15		
Paid or declared		120.3	113.7
Proposed		147.6	69.2
Earnings per share	16		
<i>From continuing and discontinued operations</i>			
Basic		HK\$2.17	HK\$1.16
Diluted		HK\$0.06	HK\$0.69
<i>From continuing operations</i>			
Basic		HK\$2.19	HK\$1.18
Diluted		HK\$0.08	HK\$0.71

During the period, the Group recognised gain on fair value changes of available-for-sale investments, representing the Group's shareholding in Shui On Land Limited ("SOL"), amounting to HK\$2,188.1 million directly in Investment Revaluation Reserve, in accordance with Hong Kong Accounting Standard 39 ("HKAS 39") "Financial Instruments: Recognition and Measurement", details of which are set out on page 71.

# Consolidated Balance Sheet

At 31 December 2006

	Notes	31 December 2006 HK\$ million	31 March 2006 HK\$ million
<b>Non-current Assets</b>			
Investment properties	17	63.2	58.5
Property, plant and equipment	18	29.4	28.5
Prepaid lease payments	19	40.8	53.9
Interests in jointly controlled entities	20	2,548.9	2,272.4
Available-for-sale investments	21	5,070.0	—
Interests in associates	21	—	1,643.6
Convertible redeemable participating junior preference shares	21	—	300.0
Club memberships		1.2	1.2
Financial assets at fair value through profit or loss	22	—	223.4
Deferred tax assets	34	—	1.0
Defined benefit assets	35	83.0	65.8
		7,836.5	4,648.3
<b>Current Assets</b>			
Inventories	24	21.5	17.2
Prepaid lease payments	19	0.9	1.2
Properties held for sale		55.1	55.3
Debtors, deposits and prepayments	25	811.6	474.1
Derivative financial instruments	21 & 31	8.6	89.8
Amounts due from customers for contract work	24	108.9	71.5
Amounts due from jointly controlled entities	23	1,204.7	506.6
Amounts due from associates		—	0.3
Amounts due from related companies	27	1.3	3.1
Taxation recoverable		0.4	0.4
Pledged bank deposits	26	200.5	—
Bank balances, deposits and cash	25	64.8	83.0
		2,478.3	1,302.5
Non-current assets held for sale	28	31.0	31.7
		2,509.3	1,334.2
<b>Current Liabilities</b>			
Creditors and accrued charges	29	864.6	539.1
Amounts due to customers for contract work	24	142.6	127.7
Amounts due to jointly controlled entities	23	156.1	75.3
Amounts due to associates		—	0.2
Amounts due to related companies	27	0.1	0.1
Taxation payable		10.7	5.7
Derivative financial instruments	31	175.3	—
Bank borrowings due within one year	30	2,394.8	1,294.3
		3,744.2	2,042.4
<b>Net Current Liabilities</b>		(1,234.9)	(708.2)
<b>Total Assets Less Current Liabilities</b>		6,601.6	3,940.1

Consolidated Balance Sheet

At 31 December 2006

	Notes	31 December 2006 HK\$ million	31 March 2006 HK\$ million
<b>Capital and Reserves</b>			
Share capital	32	<b>283.6</b>	274.6
Reserves	33	<b>4,880.3</b>	2,048.0
Total equity attributable to equity holders of the Company		<b>5,163.9</b>	2,322.6
Minority interests		<b>52.2</b>	98.5
		<b>5,216.1</b>	2,421.1
<b>Non-current Liabilities</b>			
Bank borrowings	30	<b>567.4</b>	1,519.0
Convertible bonds	31	<b>817.6</b>	—
Deferred tax liabilities	34	<b>0.5</b>	—
		<b>1,385.5</b>	1,519.0
		<b>6,601.6</b>	3,940.1

The consolidated financial statements on pages 67 to 150 were approved and authorised for issue by the Board of Directors on 12 April 2007 and are signed on its behalf by:

**Wong Yuet Leung, Frankie**  
*Chief Executive Officer*

**Wong Fook Lam, Raymond**  
*Executive Director*

# Consolidated Statement of Recognised Income and Expense

For the Period from 1 April 2006 to 31 December 2006

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Gain on fair value changes of available-for-sale investments (note)	<b>2,188.1</b>	—
Exchange differences arising on translation of financial statements of operations outside Hong Kong	<b>47.1</b>	36.5
Recognition of actuarial gain	<b>10.8</b>	36.1
Share of translation reserve of an associate	<b>28.8</b>	9.0
Net income recognised directly in equity	<b>2,274.8</b>	81.6
Profit for the period/year	<b>622.4</b>	351.4
Total recognised income and expense for the period/year	<b>2,897.2</b>	433.0
Attributable to:		
Equity holders of the Company	<b>2,876.9</b>	396.4
Minority interests	<b>20.3</b>	36.6
	<b>2,897.2</b>	433.0

Note:

During the period, the Group recognised total gains of HK\$2,188.1 million directly in Investment Revaluation Reserve in accordance with HKAS 39, as set out in note 33, of which (i) HK\$1,112.9 million arose from the listing of the shares of SOL (see note 21) on 4 October 2006, which represented an increase in fair value of the Group's interest in SOL over the carrying book value on that date, and (ii) HK\$1,075.2 million arose due to increase in fair value of the Group's shareholding in SOL which was marked to the market price at 31 December 2006.

# Consolidated Cash Flow Statement

For the Period from 1 April 2006 to 31 December 2006

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	<b>636.2</b>	364.2
Adjustments for:		
Loss for the period/year from discontinued operations	(6.1)	(5.2)
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries	—	26.2
Impairment loss recognised in respect of interests in jointly controlled entities	—	73.7
Change in fair value of net assets contributed to a jointly controlled entity	—	(38.7)
Loss on partial disposal of interest in a subsidiary	9.7	—
(Gain) loss on deemed disposal of an associate	(119.1)	10.3
Share of impairment loss of jointly controlled entities	84.3	—
Share of results of jointly controlled entities	(83.5)	(154.2)
Share of results of associates	(48.8)	(209.9)
Interest income	(24.5)	(29.4)
Finance costs	165.9	93.7
Interest from convertible redeemable participating junior preference shares	(14.8)	(20.1)
Dividends from listed investments	—	(0.6)
(AIncrease) decrease in fair value of investment properties	(1.4)	0.3
Net increase in fair value of financial assets at fair value through profit or loss	(48.1)	(139.2)
Net increase in fair value of financial instruments	(593.3)	—
Depreciation on property, plant and equipment	4.1	8.9
Amortisation of prepaid lease payments	1.5	0.8
Net loss on disposal of property, plant and equipment and leasehold land	4.5	0.6
Impairment loss on property, plant and equipment	—	0.5
(Written back of) impairment loss on other receivables	(6.6)	9.6
Share-based payment expense	6.1	1.8
Discount on acquisition of a subsidiary (note 39)	(3.7)	—
Expenses in relation to defined benefit scheme	0.3	3.6

Consolidated Cash Flow Statement

For the Period from 1 April 2006 to 31 December 2006

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Operating cash flows before movements in working capital	<b>(37.3)</b>	(3.1)
Increase in inventories	<b>(3.6)</b>	—
Decrease in properties held for sale	<b>0.2</b>	0.2
(Increase) decrease in debtors, deposits and prepayments	<b>(342.4)</b>	121.4
(Increase) decrease in amounts due from customers for contract work	<b>(37.4)</b>	2.4
Decrease (increase) in amounts due from related companies	<b>1.8</b>	(2.6)
Decrease (increase) in amounts due from associates	<b>0.3</b>	(0.2)
Decrease (increase) in amounts due from jointly controlled entities	<b>8.1</b>	(6.9)
Increase in defined benefit assets	<b>(6.7)</b>	(14.5)
Increase in creditors and accrued charges	<b>286.9</b>	1.5
Increase (decrease) in amounts due to customers for contract work	<b>14.9</b>	(66.8)
Increase (decrease) in amounts due to jointly controlled entities	<b>80.8</b>	(1.9)
(Decrease) increase in amounts due to associates	<b>(0.2)</b>	0.2
Increase in amounts due to related companies	<b>—</b>	0.1
Decrease in non-current assets held for sale	<b>1.6</b>	—
 Cash (used in) from operations	<b>(33.0)</b>	29.8
Hong Kong Profits Tax paid	<b>(0.9)</b>	(5.4)
Hong Kong Profits Tax refunded	<b>—</b>	8.0
Income tax of other regions in the PRC paid	<b>(0.3)</b>	—
 NET CASH (USED IN) FROM OPERATING ACTIVITIES	<b>(34.2)</b>	32.4

## Consolidated Cash Flow Statement

For the Period from 1 April 2006 to 31 December 2006

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
<b>INVESTING ACTIVITIES</b>		
Investments in jointly controlled entities	(103.8)	(459.2)
Advance to jointly controlled entities	(644.2)	(293.0)
Contribution to a jointly controlled entity (note 41)	—	(240.3)
Investment in convertible redeemable participating junior preference shares	—	(146.2)
Purchases of financial assets at fair value through profit or loss	(21.5)	(66.5)
Acquisition of subsidiaries (note 39)	21.1	(47.8)
Purchases of property, plant and equipment	(10.2)	(6.9)
Purchases of investment property	(1.1)	—
Dividends received from jointly controlled entities	33.2	106.7
Interest received from convertible redeemable participating junior preference shares	13.7	23.5
Proceeds on sales of investment securities	—	12.4
Interest received	26.8	8.7
Proceeds from sales of property, plant and equipment and leasehold land	15.5	3.4
Dividends received from listed investments	—	0.6
Proceeds from partial disposal of interest in a subsidiary	8.6	—
Net cash outflow arising from disposal of a subsidiary (note 40)	(42.3)	—
Pledged bank deposits	(200.5)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(904.7)</b>	<b>(1,104.6)</b>
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	745.8	1,883.1
Net proceeds received on issue of shares	58.3	35.6
Net proceeds received on issue of convertible bonds	915.7	—
Repayments of bank loans	(599.8)	(624.3)
Interest paid	(112.7)	(89.0)
Other borrowing costs paid	(12.7)	(4.7)
(Repayment to) capital contribution from minority shareholders	(1.7)	10.7
Dividends paid	(69.2)	(113.7)
Dividends paid to minority shareholders	(6.4)	(1.4)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>917.3</b>	<b>1,096.3</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(21.6)</b>	<b>24.1</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR</b>	<b>83.0</b>	<b>58.3</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>0.7</b>	<b>0.6</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR</b>	<b>62.1</b>	<b>83.0</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances, deposits and cash	64.8	83.0
Bank overdrafts	(2.7)	—
	<b>62.1</b>	<b>83.0</b>

# Notes to the Consolidated Financial Statements

For the Period from 1 April 2006 to 31 December 2006

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## 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 addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The principal activity of the Company is investment holding. Its subsidiaries and jointly controlled entities are principally engaged in construction and contracting, renovation and fitting out, manufacturing and sales of cement, property development and investment and investment holding.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

## 2. CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company resolved to change the date of its financial year end from 31 March to 31 December in order to align financial reporting dates within the Group. The consolidated financial statements presented for the current period therefore covered nine months period from 1 April 2006 to 31 December 2006. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of recognised income and expense, consolidated cash flow statement and related notes cover twelve months period from 1 April 2005 to 31 March 2006 and therefore may not be comparable with amounts shown for the current period.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated balance sheet.

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### 3A. POTENTIAL IMPACT ARISING ON THE NEW OR REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new standards, amendment and interpretations which have not been adopted early by the Group. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating segment <sup>2</sup>
HK(IFRIC) — INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) — INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK(IFRIC) — INT 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) — INT 11	HKFRS 2: Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC) — INT 12	Service Concession Arrangements <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period/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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

#### Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on acquisitions of subsidiaries prior to 1 April 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

#### Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

#### **Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("Discount on acquisition")**

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Investments in associates and jointly controlled entities**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

Joint venture arrangements that involve the establishment of a separate entity in which the venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of associates or jointly controlled entities are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates or jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate or the jointly controlled entity, less any identified impairment loss. When the Group's share of losses equals or exceeds its interest in the associate or the jointly controlled entities (which includes any long-term interest that, in substance, form part of the Group's net investment in the associates or jointly controlled entities), the Group discontinues recognising its share of further losses except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.

For goodwill arising on acquisition of a jointly controlled entity, the goodwill included in the carrying amount of interests in a jointly controlled entity is not separately tested for impairment. Instead, the entire carrying amount of the interests in a jointly controlled entity is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entity with its carrying amount. Any impairment loss identified is recognised and is allocated first to goodwill.

When a group entity transacts with an associate or a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the associate or the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (or disposal groups') previous carrying amount and fair value less costs to sell.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

#### Sales of properties

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from purchasers prior to this stage are recorded as sales deposits under current liabilities.

#### Others

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Rental income 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 property including land under operating lease arrangements, represents property held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model and stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included as profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, if any, using the straight-line method. Both the useful life of an asset and its residual value, if any, are reviewed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### Club memberships

On initial recognition, club memberships are stated at cost. After initial recognition, club memberships with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Club memberships are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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. An impairment loss is recognised as an expense immediately.

When 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.

### 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.

### Prepaid lease payments on land use rights

Prepaid lease payments on land use rights are amortised on a straight-line basis over the shorter of the relevant land use right or the operation period of the relevant company.

### Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises property interest in leasehold land and development costs including attributable borrowings costs and charges capitalised during the development period that have been incurred in bringing the properties held for sale to their present location and condition. Net realisable value represents the estimated selling price less all anticipated costs of completion and costs to be incurred in marketing, selling and distribution.

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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses 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 received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated 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 in profit or loss in the period in which they are incurred.

### Impairment of assets (other than goodwill and club memberships with indefinite useful life)

At each balance sheet date, the 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 in the consolidated income statement.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years.

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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 future 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 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.

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 as profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### The Group as lessee

Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised as profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included as profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). The cumulative exchange differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 April 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

### Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme"), which is a defined contribution scheme, are charged as an expense as they fall due.

For the defined benefit retirement plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. All actuarial gains and losses of defined benefit plans are recognised immediately in actuarial gain and loss in equity in the period in which they occur.

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 benefits become vested.

The retirement benefit obligation recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately as profit or loss.

#### Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial assets (continued)

##### Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, amounts due from jointly controlled entities, associates and related companies, loan portion of convertible redeemable participating junior preference shares, bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised as profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### Available-for-sale investments

Available-for-sale investments are non-derivatives that are neither designated nor classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

#### Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

##### Borrowings

Bank borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

##### Other financial liabilities

Other financial liabilities including creditors, amounts due to jointly controlled entities, associates and related companies are subsequently measured at amortised cost, using the effective interest method.

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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial liabilities and equity (continued)

##### Convertible bonds

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into the respective components on initial recognition. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

##### Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

##### Embedded derivatives and derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Derivatives (including embedded derivatives which are separated from non-derivatives host contracts) that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value except for derivative instruments which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less impairment, if applicable.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

#### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Equity-settled share-based payment transactions

##### Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Construction contracts

The Group recognises contract revenue and profit on a construction contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

## 6. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, debtors, amounts due from jointly controlled entities, pledged bank deposits, bank balances, creditors, amounts due to jointly controlled entities, bank borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### (a) Market risk

##### (i) Foreign currency risk

Most of the Group's assets and liabilities are denominated in Hong Kong dollars and Renminbi, which are the same as the functional currency of the relevant group entity. The Group does not expect any significant exposure to foreign exchange fluctuations.

##### (ii) Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Group's cash flow interest rate risk relates primarily to the Group's borrowing obligations at floating rate. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates. The Group currently does not have an interest rate hedging policy.

##### (iii) Equity price risk

The Group is exposed to equity security price risk through its available-for-sale investments. The Group manages the exposure by closely monitoring the market price of the investments and taking appropriate action when it is required.

## 6. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

#### (b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

With respect to credit risk arising from amounts due from jointly controlled entities, the Group's exposure to credit risk arising from default of the counterparty is limited as the counterparty has good reputation and the Group does not expect to incur a significant loss for uncollected amounts due from these jointly controlled entities.

#### (c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. At 31 December 2006, the Group's net current liabilities were HK\$1,234.9 million. In the opinion of the Directors of the Company, most of the borrowings that mature within one year can be renewed on the strength of the Group's earnings and asset base and the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position.

## 6. FINANCIAL INSTRUMENTS (continued)

### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management reporting purposes, the Group is currently organised into four operating divisions – construction and building maintenance, cement operations, property development and property investment and others. These divisions are the basis on which the Group reports its primary segment information.

The Group was also involved in the trading of building materials and sale of construction materials, which were discontinued during the year ended 31 March 2005 (note 13).

Turnover represents the revenue arising on construction contracts and building maintenance, 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 period/year.

## Notes to the Consolidated Financial Statements

For the Period from 1 April 2006 to 31 December 2006

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

Segment information about these businesses is presented below.

Period from 1 April 2006 to 31 December 2006

	Continuing operations						Discontinued operations				
	Construction and building maintenance HK\$ million	Cement operations		Property development HK\$ million	Property investment and others HK\$ million	Total HK\$ million	Sale of construction materials HK\$ million	Trading of building materials HK\$ million	Total HK\$ million	Eliminations HK\$ million	Consolidated HK\$ million
		Through LSOC# HK\$ million	Other cement operations HK\$ million								
<b>TURNOVER</b>											
External sales	1,605.3	—	—	—	75.1	1,680.4	—	—	—	—	1,680.4
Inter-segment sales	1.4	—	—	—	—	1.4	—	—	—	(1.4)	—
<b>Group turnover</b>	<b>1,606.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>75.1</b>	<b>1,681.8</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1.4)</b>	<b>1,680.4</b>
Share of jointly controlled entities	66.6	1,169.7	352.4	—	17.5	1,606.2	—	—	—	—	1,606.2
<b>Total</b>	<b>1,673.3</b>	<b>1,169.7</b>	<b>352.4</b>	<b>—</b>	<b>92.6</b>	<b>3,288.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1.4)</b>	<b>3,286.6</b>

Inter-segment sales are charged at mutually agreed prices.

# LSOC denotes Lafarge Shui On Cement Limited, a jointly controlled entity of the Group.

<b>RESULTS</b>											
Segment results	36.5	8.9	(16.6)	(24.6)	7.9	12.1	(5.8)	(0.3)	(6.1)	6.0	
Interest income	3.0	1.4	4.1	—	16.0	24.5	—	—	—	24.5	
Interest income from preference shares	—	—	—	14.8	—	14.8	—	—	—	14.8	
Finance costs	(0.5)	—	(0.8)	—	(164.6)	(165.9)	—	—	—	(165.9)	
Net increase in fair value of financial instruments	—	—	—	621.4	(28.1)	593.3	—	—	—	593.3	
Loss on disposal of interest in a subsidiary	—	—	—	—	(9.7)	(9.7)	—	—	—	(9.7)	
Gain on deemed disposal of interest in an associate	—	—	—	119.1	—	119.1	—	—	—	119.1	
Share of results of jointly controlled entities	—	—	—	—	—	—	—	—	—	—	
Cement operations in											
- LSOC	—	6.8	—	—	—	6.8	—	—	—	6.8	
- Guizhou	—	—	24.2	—	—	24.2	—	—	—	24.2	
Venture capital investments	—	—	—	—	51.7	51.7	—	—	—	51.7	
Distressed asset development	—	—	—	2.5	—	2.5	—	—	—	2.5	
Others	(2.6)	—	0.9	—	—	(1.7)	—	—	—	(1.7)	
						83.5				83.5	
Share of impairment loss of jointly controlled entities	—	—	—	—	—	—	—	—	—	—	
Cement operations in											
- LSOC	—	(77.8)	—	—	—	(77.8)	—	—	—	(77.8)	
- Guizhou	—	—	(6.5)	—	—	(6.5)	—	—	—	(6.5)	
						(84.3)				(84.3)	
Share of results of associates	—	—	—	48.8	—	48.8	—	—	—	48.8	
Profit (loss) before taxation						636.2			(6.1)	630.1	
Taxation						(7.7)			—	(7.7)	
Profit (loss) for the period						628.5			(6.1)	622.4	

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

At 31 December 2006

#### BALANCE SHEET

	Continuing operations				Discontinued operations				Consolidated HK\$ million	
	Construction and building maintenance HK\$ million	Cement operations			Property development HK\$ million	Property investment and others HK\$ million	Sale of construction materials HK\$ million	Trading of building materials HK\$ million		
		Through LSOC HK\$ million	Other cement operations HK\$ million	Property development HK\$ million						
<b>ASSETS</b>										
Segment assets	722.5	—	126.1	1.6	546.6	29.4	4.0	—	1,430.2	
Amounts due from jointly controlled entities	3.3	384.3	438.4	289.9	88.8	—	—	—	1,204.7	
Interests in jointly controlled entities	(6.8)	1,630.4	253.2	139.6	532.5	—	—	—	2,548.9	
Inter-segment receivables	936.2	—	113.6	—	5,272.2	—	7.8	(6,329.8)	—	
Available-for-sale investments	—	—	—	5,070.0	—	—	—	—	5,070.0	
Unallocated assets									92.0	
Consolidated total assets									10,345.8	
<b>LIABILITIES</b>										
Segment liabilities	903.0	—	14.4	—	88.0	0.4	1.5	—	1,007.3	
Amounts due to jointly controlled entities	2.9	—	29.3	—	123.9	—	—	—	156.1	
Inter-segment payables	128.7	—	3,145.2	2,223.9	618.5	95.6	117.9	(6,329.8)	—	
Unallocated liabilities									3,966.3	
Consolidated total liabilities									5,129.7	

#### OTHER INFORMATION

	Continuing operations				Discontinued operations				Consolidated HK\$ million	
	Construction and building maintenance HK\$ million	Cement operations			Property development HK\$ million	Property investment and others HK\$ million	Sale of construction materials HK\$ million	Trading of building materials HK\$ million		
		Through LSOC HK\$ million	Other cement operations HK\$ million	Property development HK\$ million						
<b>Capital expenditure</b>										
Capital expenditure	4.4	—	4.7	—	3.3	—	—	—	12.4	
Depreciation and amortisation expenses	1.5	—	3.5	—	0.6	—	—	—	5.6	
Share-based payment expense	—	—	—	—	6.1	—	—	—	6.1	
Increase in fair value of investment properties	—	—	—	—	1.4	—	—	—	1.4	
Net loss on disposal of property, plant and equipment and leasehold land	4.6	—	—	—	(0.1)	—	—	—	4.5	

## Notes to the Consolidated Financial Statements

For the Period from 1 April 2006 to 31 December 2006

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

Year ended 31 March 2006

	Continuing operations					Discontinued operations					
	Construction and building maintenance HK\$ million	Cement operations Through LSOC HK\$ million	Other cement operations HK\$ million	Property development HK\$ million	Property investment and others HK\$ million	Total HK\$ million	Sale of construction materials HK\$ million	Trading of building materials HK\$ million	Total HK\$ million	Eliminations HK\$ million	Consolidated HK\$ million
<b>TURNOVER</b>											
External sales	1,364.1	—	4.8	—	31.3	1,400.2	—	3.7	3.7	—	1,403.9
Inter-segment sales	0.6	—	—	—	22.6	23.2	—	—	—	(23.2)	—
<b>Group turnover</b>	<b>1,364.7</b>	<b>—</b>	<b>4.8</b>	<b>—</b>	<b>53.9</b>	<b>1,423.4</b>	<b>—</b>	<b>3.7</b>	<b>3.7</b>	<b>(23.2)</b>	<b>1,403.9</b>
Share of jointly controlled entities	97.9	130.6	755.0	—	5.7	989.2	2.7	—	2.7	—	991.9
<b>Total</b>	<b>1,462.6</b>	<b>130.6</b>	<b>759.8</b>	<b>—</b>	<b>59.6</b>	<b>2,412.6</b>	<b>2.7</b>	<b>3.7</b>	<b>6.4</b>	<b>(23.2)</b>	<b>2,395.8</b>

Inter-segment sales are charged at mutually agreed prices.

<b>RESULTS</b>										
Segment results	54.6	—	(50.5)	(0.1)	111.7	115.7	(9.3)	3.6	(5.7)	110.0
Interest income	2.9	4.7	21.2	—	0.5	29.3	—	0.1	0.1	29.4
Interest income from preference shares	—	—	—	20.1	—	20.1	—	—	—	20.1
Finance costs	(0.8)	—	(4.3)	—	(88.4)	(93.5)	—	(0.2)	(0.2)	(93.7)
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries	—	—	(26.2)	—	—	(26.2)	—	—	—	(26.2)
Impairment loss recognised in respect of interests in jointly controlled entities	(2.1)	—	(71.6)	—	—	(73.7)	—	—	—	(73.7)
Change in fair value of net assets contributed to a jointly controlled entity	—	—	38.7	—	—	38.7	—	—	—	38.7
Loss on deemed disposal of an associate	—	—	—	(10.3)	—	(10.3)	—	—	—	(10.3)
Share of results of jointly controlled entities										
Cement operations in										
- LSOC	—	(17.6)	—	—	—	(17.6)	—	—	—	(17.6)
- Guizhou	—	—	33.5	—	—	33.5	—	—	—	33.5
- Nanjing	—	—	(8.0)	—	—	(8.0)	—	—	—	(8.0)
- Chongqing	—	—	(93.2)	—	—	(93.2)	—	—	—	(93.2)
Venture capital investments	—	—	—	—	193.5	193.5	—	—	—	193.5
Distressed asset development	—	—	—	—	55.0	55.0	—	—	—	55.0
Others	(9.3)	—	0.3	—	—	(9.0)	0.6	—	0.6	(8.4)
						154.2			0.6	154.8
Share of results of associates	—	—	—	209.9	—	209.9	—	—	—	209.9
Profit (loss) before taxation						364.2		(5.2)		359.0
Taxation						(7.6)		—		(7.6)
Profit (loss) for the year						356.6		(5.2)		351.4

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

**At 31 March 2006**

#### CONSOLIDATED BALANCE SHEET

	Continuing operations				Discontinued operations				Consolidated HK\$ million	
	Construction and building maintenance HK\$ million	Cement operations			Property development HK\$ million	Sale of construction materials HK\$ million	Trading of building materials HK\$ million	Eliminations HK\$ million		
		Through LSOC HK\$ million	Other cement operations HK\$ million	Property and others HK\$ million						
<b>ASSETS</b>										
Segment assets	419.1	—	306.2	9.2	320.3	35.8	12.0	—	1,102.6	
Amounts due from jointly controlled entities/associates	51.3	19.7	322.9	15.0	98.0	—	—	—	506.9	
Interests in jointly controlled entities/associates	16.5	1,609.3	250.6	1,643.6	396.0	—	—	—	3,916.0	
Convertible redeemable participating junior preference shares	—	—	—	300.0	—	—	—	—	300.0	
Derivative financial instruments	—	—	—	89.8	—	—	—	—	89.8	
Inter-segment receivables	907.0	—	124.7	—	4,120.4	—	7.8	(5,159.9)	—	
Unallocated assets									67.2	
Consolidated total assets									5,982.5	
<b>LIABILITIES</b>										
Segment liabilities	621.5	—	17.5	—	25.7	0.4	1.8	—	666.9	
Amounts due to jointly controlled entities/associates	0.8	—	71.1	—	3.6	—	—	—	75.5	
Inter-segment payables	152.8	—	2,301.6	1,867.1	624.3	88.5	125.6	(5,159.9)	—	
Unallocated liabilities									2,819.0	
Consolidated total liabilities									3,561.4	

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

At 31 March 2006 (continued)

#### OTHER INFORMATION

	Continuing operations				Discontinued operations			
	Cement operations				Property investment and others	Sale of construction materials	Trading of building materials	
	Construction and building maintenance	Through LSOC	Other cement operations	Property development				
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	
Capital expenditure	3.4	—	95.5	—	0.9	7.0	—	106.8
Depreciation and amortisation expenses	1.4	—	7.5	—	0.8	—	—	9.7
Share-based payment expense	—	—	—	—	1.8	—	—	1.8
Decrease in fair value of investment properties	—	—	0.3	—	—	—	—	0.3
Impairment of goodwill	—	—	26.2	—	—	—	—	26.2
Loss on disposal of property, plant and equipment	—	—	—	—	0.6	—	—	0.6
Impairment loss on property, plant and equipment	—	—	0.9	—	—	—	—	0.9
Impairment loss on other receivables	—	—	9.6	—	—	—	—	9.6

### Geographical segments

The Group's operations are located in Hong Kong and other regions in the PRC.

An analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods/services, is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	Nine months ended 31 December 2006	Year ended 31 March 2006	Nine months ended 31 December 2006	Year ended 31 March 2006	Nine months ended 31 December 2006	Year ended 31 March 2006
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Hong Kong	1,494.9	1,303.7	—	3.7	1,494.9	1,307.4
Other regions in the PRC	185.5	96.5	—	—	185.5	96.5
	1,680.4	1,400.2	—	3.7	1,680.4	1,403.9

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets and total assets, and additions to investment properties and property, plant and equipment analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Carrying amount of total assets		Additions to investment properties and property, plant and equipment	
	31 December 2006 HK\$ million	31 March 2006 HK\$ million	31 December 2006 HK\$ million	31 March 2006 HK\$ million	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Hong Kong	870.3	869.2	1,168.7	1,155.1	7.2	3.5
Other regions in the PRC	559.9	233.4	9,177.1	4,827.4	5.2	103.3
	1,430.2	1,102.6	10,345.8	5,982.5	12.4	106.8

## 8. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Included in other income are:						
Interest income	24.5	29.3	—	0.1	24.5	29.4
Interest from convertible redeemable participating junior preference shares	14.8	20.1	—	—	14.8	20.1
Dividends from investments in listed securities	—	0.6	—	—	—	0.6

Notes to the Consolidated Financial Statements

For the Period from 1 April 2006 to 31 December 2006

**9. NET INCREASE IN FAIR VALUE OF FINANCIAL INSTRUMENTS**

	Continuing operations	
	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Increase in fair value of embedded derivatives in relation to - Convertible redeemable participating junior preference shares issued by an associate (note 21) - Convertible bonds issued by the Company (note 31)	621.4 (28.1)	— —
	593.3	—

**10. FINANCE COSTS**

	Continuing operations		Discontinued operations		Consolidated	
	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Interest on bank loans and overdrafts and other loans wholly repayable within 5 years	112.7	88.8	—	0.2	112.7	89.0
Effective interest expense on convertible bonds (note 31)	40.5	—	—	—	40.5	—
Other borrowing costs	12.7	4.7	—	—	12.7	4.7
	165.9	93.5	—	0.2	165.9	93.7

## 11. TAXATION

Continuing operations		
	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	5.4	7.2
Income tax of other regions in the PRC	0.8	0.6
Deferred taxation		
	6.2	7.8
	1.5	(0.2)
	7.7	7.6

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the period/year.

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 34.

The tax charge for the period/year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Profit before taxation		
Continuing operations	636.2	364.2
Discontinued operations	(6.1)	(5.2)
	630.1	359.0
Tax at Hong Kong Profits Tax rate of 17.5%	110.3	62.8
Effect of share of results of jointly controlled entities	0.1	(27.0)
Effect of share of results of associates	(8.5)	(36.7)
Effect of different tax rates on operations in other jurisdictions	0.9	(0.3)
Tax effect of expenses not deductible for tax purposes	58.2	39.2
Tax effect of income not taxable for tax purposes	(165.1)	(39.4)
Tax effect of tax losses not recognised	13.4	11.4
Tax effect of utilisation of tax losses previously not recognised	(2.2)	(1.6)
Others	0.6	(0.8)
Tax charge for the period/year	7.7	7.6

## 12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

### Directors

The emoluments paid or payable to each of the eleven (year ended 31 March 2006: twelve) Directors were as follows:

Name of Director	Notes	Nine months ended 31 December 2006						Year ended 31 March 2006
		Salaries and other		Retirement benefit scheme		Share based payments		Total HK\$'000
		Fees HK\$'000	benefits HK\$'000	Bonuses HK\$'000	contributions HK\$'000	HK\$'000	HK\$'000	
Lo Hong Sui, Vincent		8	—	—	—	—	8	10
Choi Yuk Keung, Lawrence		8	2,433	1,500	153	—	4,094	4,817
Wong Yuet Leung, Frankie		8	3,779	3,000	227	2,518	9,532	5,575
Wong Fook Lam, Raymond		8	2,042	650	112	225	3,037	2,689
Lowe Hoh Wai Wan, Vivien		8	1,515	500	82	189	2,294	2,251
Wong Ying Wai, Wilfred	(a)	2	—	—	—	—	2	10
Michael John Enright	(b)	206	—	—	—	—	206	200
Wong Hak Wood, Louis	(b) & (d)	33	—	—	—	—	33	10
Anthony Griffiths	(c)	263	—	—	—	—	263	200
Cheng Mo Chi, Moses	(c)	206	—	—	—	—	206	200
K. C. Chan	(c) & (f)	206	—	—	—	—	206	148
Cheung Kin Tung, Marvin	(c) & (e)	—	—	—	—	—	—	52
Total		956	9,769	5,650	574	2,932	19,881	16,162
Year ended 31 March 2006		870	10,831	3,513	948	—	16,162	

Notes:

- (a) Mr. Wong Ying Wai, Wilfred resigned as Executive Director on 1 June 2006.
- (b) Non-executive Directors.
- (c) Independent Non-executive Directors.
- (d) Mr. Wong Hak Wood, Louis resigned as Non-executive Director on 1 June 2006.
- (e) Mr. Cheung Kin Tung, Marvin resigned as Independent Non-executive Director on 4 July 2005.
- (f) Professor K. C. Chan was appointed as Independent Non-executive Director on 4 July 2005.

## 12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

Of the five individuals with the highest emoluments in the Group, four (year ended 31 March 2006: four) are executive directors of the Company whose emoluments are set out above. The emolument of the remaining one (year ended 31 March 2006: one) individual was as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Salaries, bonuses and allowances	2.3	2.4
Retirement benefits cost	0.1	0.1
Share based payments	0.2	—
	2.6	2.5

## 13. DISCONTINUED OPERATIONS

The Group ceased its construction materials and materials trading operations in Hong Kong and the Pearl River Delta during the financial year ended 31 March 2005.

The results of the discontinued operations which have been included in the consolidated financial statements are as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Turnover	—	3.7
Other income	0.4	0.5
Subcontracting, external labour costs and other expenses	(6.5)	(9.8)
Finance costs	—	(0.2)
Share of results of jointly controlled entities	—	0.6
Loss before taxation	(6.1)	(5.2)
Taxation	—	—
Loss after taxation	(6.1)	(5.2)

During the nine months ended 31 December 2006, the discontinued operations had HK\$0.6 million net operating cash outflows (year ended 31 March 2006: inflows of HK\$19.4 million) and paid HK\$25.3 million for the year ended 31 March 2006 in respect of financing activities.

The carrying amounts of the assets and liabilities of the discontinued operations at 31 December 2006 are HK\$41.2 million (31 March 2006: HK\$55.6 million) and HK\$215.4 million (31 March 2006: HK\$216.3 million), respectively.

Notes to the Consolidated Financial Statements

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**14. PROFIT FOR THE PERIOD/YEAR**

	Continuing operations		Discontinued operations		Consolidated	
	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Profit for the period/year has been arrived at after charging (crediting):						
Depreciation and amortisation:						
Prepaid lease payments	1.5	0.8	—	—	1.5	0.8
Property, plant and equipment	4.1	8.9	—	—	4.1	8.9
	5.6	9.7	—	—	5.6	9.7
Auditors' remuneration	4.0	3.8	—	—	4.0	3.8
Operating lease payments in respect of rented premises	4.7	5.8	—	—	4.7	5.8
Net loss on disposal of property, plant and equipment and leasehold land	4.5	0.6	—	—	4.5	0.6
Impairment loss on property, plant and equipment (included in subcontracting, external labour costs and other expenses)	—	0.5	—	—	—	0.5
(Written back of) impairment loss on other receivables (included in subcontracting, external labour costs and other expenses)	(6.6)	7.0	—	2.6	(6.6)	9.6
Discount on acquisition of a subsidiary	(3.7)	—	—	—	(3.7)	—
Dividend income from unlisted investments	(52.0)	—	—	—	(52.0)	—
Staff costs (including directors' emoluments):						
Salaries, bonuses and allowances	206.3	232.1	—	—	206.3	232.1
Retirement benefits cost	3.0	6.4	—	—	3.0	6.4
Share-based payment expense	6.1	1.8	—	—	6.1	1.8
	215.4	240.3	—	—	215.4	240.3
Gross rental revenue from an investment property and car park spaces	(1.7)	(1.9)	—	—	(1.7)	(1.9)
Less: Direct expenses from investment properties that generated rental income	0.3	0.4	—	—	0.3	0.4
Net rental income	(1.4)	(1.5)	—	—	(1.4)	(1.5)
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	5.3	4.1	—	—	5.3	4.1
Share of tax of associates (included in share of results of associates)	177.3	82.8	—	—	177.3	82.8

## 15. DIVIDENDS

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Paid:		
Final dividend in respect of the year ended 31 March 2006: HK\$0.25 per share (Year ended 31 March 2005: HK\$0.30)	<b>69.2</b>	80.8
Interim dividend in respect of the year ended 31 March 2006: HK\$0.12 per share	—	32.9
Declared:		
Interim dividend in respect of the nine months ended 31 December 2006: HK\$0.18 per share	<b>51.1</b>	—
	<b>120.3</b>	113.7
Proposed:		
Final dividend in respect of the nine months ended 31 December 2006: HK\$0.52 per share (Year ended 31 March 2006: HK\$0.25)	<b>147.6</b>	69.2

The final dividend in respect of the nine months ended 31 December 2006 of HK\$0.52 per share has been proposed by the Directors and is subject to approval by shareholders at the annual general meeting.

## 16. EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Earnings:		
Earnings for the purposes of basic earnings per share	602.1	314.8
Effect of dilutive potential ordinary shares from convertible bonds:		
Finance costs	40.5	—
Fair value changes on derivative financial instruments	28.1	—
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible redeemable participating junior preference shares	(14.8)	(20.1)
Fair value changes on convertible redeemable participating junior preference shares	(621.4)	—
Adjustment to the share of results of an associate based on dilution of its earnings per share	(12.8)	(101.0)
Earnings for the purposes of diluted earnings per share	21.7	193.7
Number of shares:	Million	Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	277.6	271.3
Effect of dilutive potential ordinary shares:		
Convertible bonds	54.3	—
Share options	7.1	7.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share	339.0	279.0
Earnings per share	HK\$	HK\$
Basic	2.17	1.16
Diluted	0.06	0.69

## 16. EARNINGS PER SHARE (continued)

### From continuing and discontinued operations (continued)

The dilutive effect on the Group's earnings and number of ordinary shares arising from the convertible bonds issued by the Company and convertible redeemable participating junior preference shares in SOL held by the Group have to be accounted for in the calculation of diluted earnings per share. These convertible bonds and junior preference shares are assumed to have been converted into shares of the relevant issuer on the date of issue and, in particular, the accounting effects of such financial instruments are reversed in the determination of diluted earnings. The significant decrease in the diluted earnings per share for the period under review was largely due to the reversal of the fair value changes on the conversion of the redeemable participating junior preference shares in SOL into shares of that company.

### From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

Earnings figures are calculated as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Profit for the period/year attributable to equity holders of the Company	<b>602.1</b>	314.8
Less: Loss for the period/year from discontinued operations	<b>(6.1)</b>	(5.2)
 Earnings for the purposes of basic earnings per share from continuing operations	<b>608.2</b>	320.0
Effect of dilutive potential ordinary shares from convertible bonds:		
Finance costs	<b>40.5</b>	—
Fair value changes on derivative financial instruments	<b>28.1</b>	—
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible redeemable participating junior preference shares	<b>(14.8)</b>	(20.1)
Fair value changes on convertible redeemable participating junior preference shares	<b>(621.4)</b>	—
Adjustment to the share of results of an associate based on dilution of its earnings per share	<b>(12.8)</b>	(101.0)
 Earnings for the purposes of diluted earnings per share from continuing operations	<b>27.8</b>	198.9

## 16. EARNINGS PER SHARE (continued)

### From continuing operations (continued)

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

Earnings per share	HK\$	HK\$
Basic	<b>2.19</b>	1.18
Diluted	<b>0.08</b>	0.71

### From discontinued operations

For the nine months ended 31 December 2006, the basic loss per share for the discontinued operations is HK\$0.02 per share (year ended 31 March 2006: HK\$0.02 per share) and the diluted loss per share for the discontinued operations is HK\$0.02 per share (year ended 31 March 2006: HK\$0.02 per share), based on the loss for the period from the discontinued operations of HK\$6.1 million (year ended 31 March 2006: HK\$5.2 million) and the denominators detailed above for both basic and diluted earnings per share.

## 17. INVESTMENT PROPERTIES

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
<b>FAIR VALUE</b>		
At the beginning of the period/year	<b>58.5</b>	—
Exchange adjustments	<b>2.1</b>	—
Acquisition of subsidiaries	—	58.8
Addition	<b>1.2</b>	—
Increase (decrease) in fair value recognised	<b>1.4</b>	(0.3)
At the end of the period/year	<b>63.2</b>	58.5

All the Group's property interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The carrying value of the investment properties at 31 December 2006 and 31 March 2006 represents properties situated in the PRC under medium-term leases.

The fair value has been arrived at based on a valuation carried out by Chongqing Tong Cheng Real Estate Appraisal Co., Ltd, an independent professionally qualified valuer not connected with the Group. The valuation was arrived at by reference to recent market prices for similar properties.

## 18. PROPERTY, PLANT AND EQUIPMENT

	Properties in other regions of the PRC	Properties in other regions of the PRC	Plant and machinery	Motor vehicles	Equipment, furniture and other assets	Total
	Properties in Kong Kong located on land held under medium- term leases	Properties in Kong Kong located on land held under medium- term leases	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<b>AT COST</b>						
At 1 April 2005	12.2	5.3	86.5	16.5	29.1	149.6
Exchange adjustments	—	0.1	0.1	—	0.1	0.3
Additions	—	—	8.4	1.1	4.4	13.9
Acquisition of subsidiaries (note)	—	2.2	28.5	1.9	1.5	34.1
Disposals	—	—	(35.6)	(4.8)	(1.1)	(41.5)
Reclassified to non-current assets held for sale	—	—	(31.7)	—	—	(31.7)
At 31 March 2006	12.2	7.6	56.2	14.7	34.0	124.7
Exchange adjustments	—	0.3	0.3	0.1	0.1	0.8
Additions	—	0.2	0.2	4.2	5.6	10.2
Acquisition of a subsidiary (note 39(a))	—	—	1.0	—	—	1.0
Disposals	(8.8)	—	(0.3)	(1.7)	(0.4)	(11.2)
At 31 December 2006	3.4	8.1	57.4	17.3	39.3	125.5
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
At 1 April 2005	3.1	2.4	78.8	12.2	27.7	124.2
Exchange adjustments	—	—	0.1	—	—	0.1
Charge for the year	0.3	0.5	5.1	1.4	1.6	8.9
Impairment loss recognised in consolidated income statement	—	—	0.5	—	—	0.5
Eliminated on disposals	—	—	(34.4)	(2.3)	(0.8)	(37.5)
At 31 March 2006	3.4	2.9	50.1	11.3	28.5	96.2
Exchange adjustments	—	0.1	0.2	—	—	0.3
Charge for the period	0.2	0.5	0.5	1.0	1.9	4.1
Eliminated on disposals	(2.4)	—	(0.3)	(1.5)	(0.3)	(4.5)
At 31 December 2006	1.2	3.5	50.5	10.8	30.1	96.1
<b>CARRYING VALUES</b>						
At 31 December 2006	2.2	4.6	6.9	6.5	9.2	29.4
At 31 March 2006	8.8	4.7	6.1	3.4	5.5	28.5

Note: As mentioned in note 39(b), property, plant and equipment with fair value of HK\$1,655.3 million were acquired through the acquisition of subsidiaries, of which HK\$1,621.2 million has been contributed to a jointly controlled entity as mentioned in note 41 and the remaining HK\$34.1 million has been retained by the Group.

## 18. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold properties in Hong Kong and other regions	
of the PRC held under medium-term leases	2.5%
Plant and machinery	10 - 25%
Motor vehicles, equipment, furniture and other assets	20 - 33%

## 19. PREPAID LEASE PAYMENTS

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Leasehold land under medium-term lease:		
In Hong Kong	3.3	17.4
Outside Hong Kong	38.4	37.7
	41.7	55.1
Analysed for reporting purposes as:		
Non-current	40.8	53.9
Current	0.9	1.2
	41.7	55.1

Amortisation of prepaid lease payments amounting to HK\$1.5 million (year ended 31 March 2006: HK\$0.8 million) was charged to the consolidated income statement.

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Cost of unlisted investments in jointly controlled entities, net of impairment (note)	2,371.2	2,089.2
Share of post-acquisition profits and reserves	177.7	183.2
	2,548.9	2,272.4

Note: Goodwill of HK\$121.8 million (31 March 2006: HK\$121.8 million) is included in the cost of unlisted investments in jointly controlled entities. The goodwill arose from the contribution to a jointly controlled entity, LSOC, during the year ended 31 March 2006 (see note 41). The recoverable amounts of the cash-generating units ("CGUs") attributable to LSOC in cement operations are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and expected changes to selling prices and direct costs during the period. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

Particulars of the principal jointly controlled entities are set out in note 46.

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the Group's share of interest in assets, liabilities, income and expenses of jointly controlled entities for the years ended 31 December 2006 and 31 December 2005 attributable to the Group is as follows:

	2006 HK\$ million	2005 HK\$ million
Current assets	2,462.5	1,531.4
Non-current assets	4,921.6	3,196.3
Current liabilities	(2,942.5)	(1,653.3)
Non-current liabilities	(1,554.8)	(539.5)
Minority interests	(471.7)	(389.9)
Income	1,782.1	1,429.0
Expenses	(1,782.9)	(1,279.8)

The summary of aggregate financial information of the Group's significant jointly controlled entities engaged in the manufacture and sale of cement in Guizhou, Nanjing and LSOC and based on the adjusted financial statements prepared under the accounting principles generally accepted in Hong Kong for the years ended 31 December 2006 and 31 December 2005, is as follows:

	2006 HK\$ million	2005 HK\$ million
<b>Results for the year ended 31 December</b>		
Turnover	3,071.9	1,442.7
Loss before taxation	(140.1)	(200.4)
Loss before taxation attributable to the Group	(48.4)	(81.2)

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

	2006 HK\$ million	2005 HK\$ million
<b>Financial position at 31 December</b>		
Non-current assets	8,007.4	5,926.6
Current assets	3,390.8	2,388.1
Current liabilities	(5,202.0)	(2,940.8)
Non-current liabilities	(1,367.3)	(785.9)
Minority interests	(963.2)	(769.3)
Net assets	3,865.7	3,818.7
Net assets attributable to the Group	1,887.5	1,865.0

The summary of aggregate financial information of the Group's significant jointly controlled entities engaged in venture capital investments, based on the adjusted financial statements prepared under HKFRSs for the years ended 31 December 2006 and 31 December 2005, is as follows:

	2006 HK\$ million	2005 HK\$ million
<b>Results for the year ended 31 December</b>		
Turnover	0.2	8.8
Profit before taxation	74.5	273.4
Profit before taxation attributable to the Group	51.7	193.5
	2006 HK\$ million	2005 HK\$ million
<b>Financial position at 31 December</b>		
Non-current assets	901.0	636.4
Current assets	150.5	19.4
Current liabilities	(125.5)	(69.0)
Non-current liabilities	(100.0)	(100.0)
Minority interests	(59.5)	(70.0)
Net assets	766.5	416.8
Net assets attributable to the Group	532.5	288.4

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The Group has discontinued recognition of its share of loss of a jointly controlled entity. The amounts of the unrecognised share of losses of the jointly controlled entity, both for the period and cumulatively, are as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Unrecognised share of losses of the jointly controlled entity for the period/year	6.4	5.6
Accumulated unrecognised share of losses of the jointly controlled entity	12.0	5.6

## 21. AVAILABLE-FOR-SELL INVESTMENTS/INTERESTS IN ASSOCIATES

### Available-for-sale investments

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Available-for-sale investments comprise:		
Listed equity securities in Hong Kong (at market price)	5,070.0	—

On 4 October 2006, Shui On Land Limited ("SOL"), a company incorporated in the Cayman Islands, in which 28.7% of the issued ordinary share capital and US\$50 million convertible redeemable participating junior preference shares ("Junior Preference Shares") were indirectly held by the Company, had its shares listed on the Stock Exchange. On the date of listing, the US\$50 million Junior Preference Shares, together with other convertible instruments issued by SOL, were converted into ordinary shares of SOL. The Group recognised a gain of HK\$621.4 million upon the conversion of these Junior Preference Shares, based on the offer price of the shares of SOL in the consolidated income statement for the period ended 31 December 2006.

Subsequent to the listing of the shares of SOL, the Company's indirect ordinary shareholding in SOL was diluted to 17.8%. The securities were then classified as "Available-for-sale investments" since the ordinary shares are not held for trading purpose and the Directors of the Company consider that the Group is no longer able to exercise significant influence on the operating and financial policies of SOL.

The dilution of the Group's interest in SOL as a result of the listing of SOL was accounted for as a deemed disposal of an associate, and a total gain on this deemed disposal of HK\$119.1 million has been recognised in the consolidated income statement for the period ended 31 December 2006.

## 21. AVAILABLE-FOR-SELL INVESTMENTS/INTERESTS IN ASSOCIATES (continued)

In addition, the Group has recognised total gains of HK\$2,188.1 million on fair value increase of its available-for-sale investments directly in the Investment Revaluation Reserve, of which (i) HK\$1,112.9 million arose from the listing of the shares of SOL on 4 October 2006, which represented an increase in fair value of the Group's interest in SOL over the carrying book value on that date, and (ii) HK\$1,075.2 million arose due to the increase in fair value of the Group's shareholding in SOL which was marked to the market price at 31 December 2006.

At 31 December 2006, the Group holds a 17.8% equity interest in SOL.

### Interests in associates

The Group's interest in SOL at 31 March 2006 is set out below:

	HK\$ million
Interests in associates	
Cost of unlisted investments in associates	1,405.1
Share of post-acquisition profits and reserves (note (a))	238.5
	1,643.6
Junior Preference Shares (note (b))	300.0
Derivative financial instruments (note (c))	89.8
	2,033.4
Classified as:	
Interests in associates	1,643.6
Junior Preference Shares (note (b))	300.0
Derivative financial instruments (note (c))	89.8
	2,033.4

Notes:

- (a) Included in the share of results of associates was a discount on acquisition of SOL of HK\$87.7 million. The discount on acquisition was due to the allotment of 8,800,000 ordinary shares to the Group by SOL in satisfaction of the Group's entitlement to receive performance-based consideration during the year ended 31 March 2006.
- (b) The loan portion of Junior Preference Shares was stated at amortised cost and the effective interest rate for the loan portion was estimated to be approximately 12% per annum. At 31 March 2006, the carrying amount approximated its fair value.
- (c) The conversion options of Junior Preference Shares and the early redemption option were recorded as derivative financial instruments in the balance sheet at 31 March 2006. The Group engaged independent valuers to assess the fair value of the conversion options and the early redemption option. The valuers concluded that the fair value of the early redemption option, which was valued based on the Dividend Adjusted Black-Scholes Option Pricing Model, was negligible and the fair value of the conversion options relied extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which could be quantified or ascertained. Accordingly, the fair value of the conversion options at 31 March 2006 was considered to be not reliably measurable and was stated at cost less impairment.

## 21. AVAILABLE-FOR-SELL INVESTMENTS/INTERESTS IN ASSOCIATES (continued)

A summary of the financial information of the Group's associate at 31 December 2005 and for the year then ended is as follows:

### Results for the year ended 31 December 2005

	HK\$ million
Turnover	978.7
Profit for the year	317.0
Profit for the year attributable to the Group	122.2

### Financial position at 31 December 2005

	HK\$ million
Total assets	20,374.2
Total liabilities	(13,873.8)
Net assets	6,500.4
Net assets attributable to the Group (note)	1,643.6

The above information was derived from the audited consolidated financial statements of SOL for the year ended 31 December 2005 which was prepared using International Financial Reporting Standards issued by the International Accounting Standards Board.

Note: Adjustments to the audited consolidated financial statements of SOL were made in order to have the information conform to the Group's accounting policies.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at fair value through profit or loss of HK\$223.4 million at 31 March 2006 represented the fair value of the unlisted securities held by an indirect subsidiary of the Company, On Capital China Tech Fund ("On Capital"). During the period, following the change in the composition of the Board of Directors of On Capital, the Group's equity interest in On Capital has been reclassified to and accounted for as an interest in jointly controlled entities (see note 40).

The fair values of the unlisted securities at 31 March 2006 were arrived at by reference to the prices recently paid for similar assets or on the basis of valuations carried out by American Appraisal China Limited, independent qualified professional valuers not connected with the Group. On the assumption that there were no major changes in the economic and business environments in which the appraised investments operated, the values were derived using a market approach whereby different value measures or market multiple of comparable companies are adopted to produce a set of multiples that are considered representative of the industry average with suitable amendments, if appropriate, being made to these industry multiples to reflect the particular circumstances of the appraised investments relative to market comparables.

## 23. AMOUNTS DUE FROM/TO JOINTLY CONTROLLED ENTITIES

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Amounts due from jointly controlled entities (note a)	1,204.7	506.6
Amounts due to jointly controlled entities (note b)	156.1	75.3

Notes:

- (a) The balances are unsecured and with no fixed terms of repayment. Out of the total balance, a total of HK\$131.8 million (31 March 2006: HK\$122.4 million) bears interest at prevailing market rates. The remaining balance is interest-free.
- (b) The balances are unsecured, interest-free and repayable on demand.

## 24. INVENTORIES AND CONTRACTS IN PROGRESS

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
<b>Inventories</b>		
Raw materials	5.0	5.3
Work-in-progress	6.5	5.5
Finished goods	6.8	3.2
Spare parts	3.2	3.2
	21.5	17.2
<b>Contracts in progress</b>		
Costs incurred to date	3,592.0	3,201.7
Recognised profits less recognised losses	106.4	96.1
	3,698.4	3,297.8
Less: Progress billings	(3,732.1)	(3,354.0)
Net contract work	(33.7)	(56.2)
Represented by:		
Amounts due from customers for contract work	108.9	71.5
Amounts due to customers for contract work	(142.6)	(127.7)
	(33.7)	(56.2)

## 25. OTHER FINANCIAL ASSETS

### Debtors, deposits and prepayments

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

Included in debtors, deposits and prepayments are debtors with an aged analysis at the balance sheet date as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Within 90 days	325.7	143.2
91 days to 180 days	12.0	1.9
181 days to 360 days	0.7	0.6
Over 360 days	5.0	10.1
	<b>343.4</b>	<b>155.8</b>
Retention receivable	90.4	102.0
Prepayments, deposits and other receivables	377.8	216.3
	<b>811.6</b>	<b>474.1</b>
Retention receivable is analysed as follows:		
Due within one year	54.4	74.5
Due more than one year	36.0	27.5
	<b>90.4</b>	<b>102.0</b>

### Bank balances, deposits and cash

Bank balances, deposits and cash comprise cash held by the Group and deposits with maturity of three months or less held with banks not restricted as to use. Bank balances carry interest at market rates which range from 2.25% to 5.3% per annum.

## 26. PLEDGED BANK DEPOSITS

The amount at 31 December 2006 represents deposits pledged to banks to secure a short term bank loan amounting to RMB80 million (equivalent to HK\$79.8 million) granted to the Group (note 30) and a HK\$120 million standby letter of credit issued relating to a bank loan granted to a jointly controlled entity. The pledged deposits carry fixed interest rate of 5.1% per annum.

## 27. AMOUNTS DUE FROM/TO RELATED COMPANIES

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Amounts due from related companies	1.3	3.1
Amounts due to related companies	0.1	0.1

The related companies are subsidiaries of SOCL.

The balances are unsecured, interest-free and with no fixed terms of repayment.

## 28. NON-CURRENT ASSETS HELD FOR SALE

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Property, plant and equipment	31.0	31.7

The proceeds on disposal of the above asset is expected to exceed the carrying amount of the relevant asset and, accordingly, no impairment loss has been recognised. The relevant asset is expected to be sold within one year.

## 29. CREDITORS AND ACCRUED CHARGES

The aged analysis of creditors of HK\$265.8 million (31 March 2006: HK\$71.0 million) which are included in the Group's creditors and accrued charges is as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Creditors aged analysis:		
Within 30 days	246.0	55.5
31 days to 90 days	9.7	5.7
91 days to 180 days	2.6	1.7
Over 180 days	7.5	8.1
Retention payable	265.8	71.0
Dividend payable	111.7	94.2
Accruals and other payables	51.1	—
	436.0	373.9
	864.6	539.1

## 30. BANK BORROWINGS

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Bank overdrafts	2.7	—
Secured bank loan (note 26)	79.8	—
Unsecured bank loans	2,879.7	2,813.3
	<b>2,962.2</b>	2,813.3
Less: Amounts due within 12 months	(2,394.8)	(1,294.3)
Amounts due for settlement after 12 months	<b>567.4</b>	1,519.0
The floating-rate borrowings are repayable as follows:		
Within one year (note)	2,394.8	1,294.3
More than one year but not exceeding two years	507.4	1,319.0
More than two years but not exceeding five years	60.0	200.0
	<b>2,962.2</b>	2,813.3

The Directors consider that the current interest rates represent prevailing market rates and therefore, the fair values of the bank borrowings at 31 December 2006 estimated by discounting their future cash flows at the prevailing market borrowing rates approximate to the corresponding carrying amounts.

The average effective interest rates of the borrowings range from 4.43% to 5.63% (year ended 31 March 2006: 4.08% to 5.86%) per annum.

All the Group's borrowings are denominated in the functional currencies of the relevant group entities.

Note: Subsequent to the balance sheet date, the Group has renewed and obtained additional banking facilities of approximately HK\$2,030 million from financial institutions.

## 31. CONVERTIBLE BONDS

On 31 July 2006, the Company issued HK\$930 million zero coupon convertible bonds due 22 July 2009. The convertible bonds are denominated in Hong Kong dollars and are listed on the Stock Exchange. Details of the transaction are set out in an announcement of the Company dated 20 July 2006.

The net proceeds received from the issue of the convertible bonds have been split between a straight debt component and a number of derivative financial instruments. The effective interest rate of the straight debt component is 12.5% per annum.

The movement of the convertible bonds for the period is as follows:

	Derivative financial instruments	Early redemption option	Conversion option
	Straight debt	HK\$ million	HK\$ million
Convertible bonds issued on 31 July 2006, net of transaction costs	777.1	(10.6)	149.2
Amortised interest charged during the period (note 10)	40.5	—	—
Changes in fair value (note 9)	—	2.0	26.1
At 31 December 2006	817.6	(8.6)	175.3

The convertible bonds are constituted by a trust deed dated 31 July 2006 (the "Trust Deed"). The principal terms of the convertible bonds include the following:

### Conversion

At the option of the holders, the convertible bonds will be converted into fully paid ordinary shares of the Company from 9 September 2006 to 22 July 2009, both days inclusive, at an initial conversion price of HK\$17.134 per share. The conversion price is subject to adjustments in certain events set out in the Trust Deed.

If the arithmetic average of the closing price of the Company's shares for each day during the 15 consecutive Stock Exchange trading days immediately before 31 July 2007, 31 July 2008 and 31 May 2009 is less than the initial conversion price, the conversion price will automatically be adjusted downwards with reference to the 15-day average trading prices prior to adjustment, save that the adjusted conversion price shall in no event be less than 72% of the initial conversion price.

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## 31. CONVERTIBLE BONDS (continued)

### Redemption

Unless previously redeemed, purchased and cancelled or converted, the convertible bonds will be redeemed by the Company at 118.971% of their principal amount on 31 July 2009 (the "Maturity Date").

The Company may redeem the convertible bonds, in whole but not in part, (i) on or at any time after 31 January 2008 but not less than 7 business days prior to the Maturity Date, if the closing price of the Company's shares for any 20 Stock Exchange trading days out of the 30 consecutive Stock Exchange trading days prior to the date upon which notice of such redemption is given was at least 125% of the applicable Early Redemption Amount (as defined below) divided by the Conversion Ratio (as defined below) in effect on such trading day or (ii) when more than 95% in principal amount of the convertible bonds has already been converted, redeemed or purchased and cancelled or as a result of regulatory change impacting on the payment obligations of the Company under the convertible bonds.

The "Early Redemption Amount" is the principal amount of the convertible bonds plus a gross yield of 5.875% per annum, calculated on a semi-annual basis, from 31 July 2006, the closing date of the convertible bond issue, to the Maturity Date. The "Conversion Ratio" is the principal amount of the convertible bonds divided by the then conversion price.

### Cash settlement option

The obligation of the Company to issue shares on the exercise of any conversion rights attaching to the convertible bonds may, at the sole discretion of the Company, be settled by cash payment. The cash settlement payment shall be the product of the number of the Company's shares otherwise deliverable under the then conversion price and the average closing price of the Company's shares for the 10 Stock Exchange trading days immediately before the date the Company elects to exercise its cash settlement option in respect of the relevant convertible bonds.

## 32. SHARE CAPITAL

	Number of shares			
	31 December 2006	31 March 2006	31 December 2006	31 March 2006
			HK\$ million	HK\$ million
Ordinary shares of HK\$1 each:				
<b>Authorised</b>				
At the beginning of the period/year	1,000,000,000	400,000,000	1,000.0	400.0
Increase during the period/year	—	600,000,000	—	600.0
At the end of the period/year	1,000,000,000	1,000,000,000	1,000.0	1,000.0
<b>Issued and fully paid</b>				
At the beginning of the period/year	274,632,000	269,380,000	274.6	269.4
Exercise of share options	8,968,000	5,252,000	9.0	5.2
At the end of the period/year	283,600,000	274,632,000	283.6	274.6

By an ordinary resolution passed at a special general meeting of the Company on 1 November 2005, the authorised share capital of the Company was increased from HK\$400,000,000 to HK\$1,000,000,000 by the creation of 600,000,000 new shares of HK\$1 each.

All the new shares issued during the period/year rank pari passu in all respects with the existing shares.

### 33. RESERVES

	Attributable to equity holders of the Company												
	Share premium account	Translation reserve	Contributed surplus (Note a)	Goodwill	Retained profits	Reserve funds	Share option reserve	Actuarial gain and loss	Investment reserve	Other reserve (Note b)	Total	Minority interests	Total equity
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 1 April 2005	565.3	—	197.6	(2.7)	782.7	1.3	1.1	28.4	—	231.1	1,804.8	29.1	1,833.9
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	36.5	—	—	—	—	—	—	—	—	36.5	—	36.5
Recognition of actuarial gain	—	—	—	—	—	—	36.1	—	—	—	36.1	—	36.1
Share of translation reserve of an associate	—	9.0	—	—	—	—	—	—	—	—	9.0	—	9.0
Net income recognised directly in equity	—	45.5	—	—	—	—	36.1	—	—	—	81.6	—	81.6
Profit for the year	—	—	—	—	314.8	—	—	—	—	—	314.8	36.6	351.4
Total recognised income and expense for the year	—	45.5	—	—	314.8	—	—	36.1	—	—	396.4	36.6	433.0
Acquisition of subsidiaries (note 39(b))	—	—	—	—	—	—	—	—	—	23.8	23.8	147.6	171.4
Acquisition of subsidiaries (note 39(c))	—	—	—	—	—	—	—	—	—	—	—	10.8	10.8
Asset contribution to LSOC (note 41)	—	—	—	—	—	—	—	—	—	—	—	(134.9)	(134.9)
Premium on issue of shares	30.4	—	—	—	—	—	—	—	—	—	30.4	—	30.4
Recognition of share-based payment expense	—	—	—	—	—	—	1.8	—	—	—	1.8	—	1.8
Transfer upon exercise of share options	1.0	—	—	—	—	—	(1.0)	—	—	—	—	—	—
Dividends paid	—	—	—	—	(113.7)	—	—	—	—	—	(113.7)	(1.4)	(115.1)
Capital contribution from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	10.7	10.7
Share of reserves of an associate	—	—	—	—	(5.3)	—	—	—	—	(90.2)	(95.5)	—	(95.5)
At 31 March 2006	596.7	45.5	197.6	(2.7)	978.5	1.3	1.9	64.5	—	164.7	2,048.0	98.5	2,146.5
Gain on fair value changes of available-for-sale investments	—	—	—	—	—	—	—	—	2,188.1	—	2,188.1	—	2,188.1
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	47.1	—	—	—	—	—	—	—	—	47.1	—	47.1
Recognition of actuarial gain	—	—	—	—	—	—	10.8	—	—	—	10.8	—	10.8
Share of translation reserve of an associate	—	28.8	—	—	—	—	—	—	—	—	28.8	—	28.8
Net income recognised directly in equity	—	75.9	—	—	—	—	—	10.8	2,188.1	—	2,274.8	—	2,274.8
Profit for the period	—	—	—	—	602.1	—	—	—	—	—	602.1	20.3	622.4
Total recognised income and expense for the period	—	75.9	—	—	602.1	—	—	10.8	2,188.1	—	2,876.9	20.3	2,897.2
Acquisition of a subsidiary (note 39(a))	—	—	—	—	—	—	—	—	—	—	—	17.7	17.7
Disposal of partial interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	18.3	18.3
Premium on issue of shares	49.3	—	—	—	—	—	—	—	—	—	49.3	—	49.3
Recognition of share-based payment expense	—	—	—	—	—	—	6.1	—	—	—	6.1	—	6.1
Transfer upon exercise of share options	0.9	—	—	—	—	—	(0.9)	—	—	—	—	—	—
Transfer to statutory reserve	—	—	—	—	(0.2)	0.2	—	—	—	—	—	—	—
Dividends paid and declared	—	—	—	—	(120.3)	—	—	—	—	—	(120.3)	(6.4)	(126.7)
Other movements with minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(0.7)	(0.7)
Share of reserves of an associate	—	—	—	—	—	—	—	—	—	—	6.4	6.4	6.4
Disposal of a subsidiary (note 40)	—	—	—	—	—	—	—	—	—	—	—	(95.5)	(95.5)
Deemed disposal of an associate	—	(69.9)	—	—	—	—	—	—	—	83.8	13.9	—	13.9
At 31 December 2006	646.9	51.5	197.6	(2.7)	1,460.1	1.5	7.1	75.3	2,188.1	254.9	4,880.3	52.2	4,932.5

### 33. RESERVES (continued)

Notes:

- (a) 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.
- (b) Other reserve of the Group included an amount of HK\$231.1 million which arose when the Group entered into agreements with SOCL to co-invest in SOL during the year ended 31 March 2005.

### 34. 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 HK\$ million	Tax losses HK\$ million	Other temporary differences HK\$ million	Total HK\$ million
At 1 April 2005	(1.8)	2.0	0.6	0.8
Credit (charge) to consolidated income statement for the year	0.8	(0.6)	—	0.2
<b>At 31 March 2006</b>	<b>(1.0)</b>	<b>1.4</b>	<b>0.6</b>	<b>1.0</b>
Credit (charge) to consolidated income statement for the period	0.1	(1.0)	(0.6)	(1.5)
<b>At 31 December 2006</b>	<b>(0.9)</b>	<b>0.4</b>	<b>—</b>	<b>(0.5)</b>

For the purposes of balance sheet presentation certain deferred tax assets and liabilities have been offset.

At 31 December 2006, the Group has unused tax losses of HK\$326.8 million (31 March 2006: HK\$268.7 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK\$2.0 million (31 March 2006: HK\$7.9 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$324.8 million (31 March 2006: HK\$260.8 million) due to the unpredictability of future profit streams.

### 35. 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.

## 35. PROVIDENT FUND SCHEME AND DEFINED BENEFIT PLAN (continued)

### Mandatory Provident Fund Scheme

For members of the MPF Scheme, contributions are made by the employee at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employee's salary, depending on the employee's 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 period from 1 April 2006 to 31 December 2006 amounted to HK\$2.7 million (year ended 31 March 2006: HK\$2.8 million). The amount of employer's voluntary contributions to MPF schemes forfeited for the period/year ended 31 December 2006 and 31 March 2006 was immaterial and was 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 at rates which are based on recommendations made by the actuary of the Plan. The current employer contribution rate is 5% (31 March 2006: 8%) 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 scheduled contribution plus the member's contribution (both contributions being calculated on the basic salary of the member) 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 years 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 December 2006 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 at the balance sheet dates used are as follows:

	31 December 2006	31 March 2006
Discount rate	3.75%	4.5%
Expected rate of salary increase	3% p.a.	2% p.a. for the next three years commencing from 1 April 2006 and 3% p.a. thereafter

The expected rate of return on plan assets for the period is 8.25% per annum (year ended 31 March 2006: 6.5%). The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held.

The actual return on plan assets for the period ended 31 December 2006 was HK\$53.6 million (year ended 31 March 2006: HK\$64.0 million).

## 35. PROVIDENT FUND SCHEME AND DEFINED BENEFIT PLAN (continued)

### Defined Benefit Plan (continued)

Amounts recognised in the consolidated income statement for the period/year in respect of the Plan are as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Current service cost	7.7	11.1
Interest cost	8.6	12.1
Expected return on plan assets	(16.0)	(19.6)
Net amount charged to consolidated income statement as staff costs	0.3	3.6

The amount included in the consolidated balance sheet arising from the Group's obligations in respect of the Plan is as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Present value of funded obligations	(288.6)	(261.2)
Fair value of plan assets	371.6	327.0
Defined benefit asset included in the consolidated balance sheet	83.0	65.8

The plan assets did not have any equity shares of the Company (31 March 2006: nil).

Movements of the present value of funded obligations are as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
At the beginning of the period/year	261.2	275.1
Current service cost	7.7	11.1
Interest cost	8.6	12.1
Employees' contributions	5.0	7.2
Benefits paid	(20.7)	(52.6)
Actuarial loss	26.8	8.3
At the end of the period/year	288.6	261.2

## 35. PROVIDENT FUND SCHEME AND DEFINED BENEFIT PLAN (continued)

### Defined Benefit Plan (continued)

Movements of the fair value of plan assets are as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
At the beginning of the period/year	327.0	293.9
Expected return on plan assets	16.0	19.6
Actuarial gain	37.6	44.4
Employers' contributions	6.7	14.3
Employees' contributions	5.0	7.2
Benefits paid	(20.7)	(52.4)
At the end of the period/year	371.6	327.0

Additional disclosure in respect of the Plan is as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Experience adjustment on plan liabilities	(3.6)	(1.0)
Experience adjustment on plan assets	37.6	44.4

The major categories of plan assets as a percentage of total plan assets are as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Equities	71.5%	68.6%
Hedge funds	20.4%	13.7%
Bonds and cash	8.1%	17.7%
	100%	100%

The Group expects to make a contribution of HK\$6.3 million to the Plan during the next financial year.

The Group recognised actuarial gains amounted to HK\$10.8 million for the period ended 31 December 2006 (year ended 31 March 2006: HK\$36.1 million) directly in the consolidated statement of recognised income and expense. The cumulative amount of actuarial gains recognised in the consolidated statement of recognised income and expense amounted to HK\$75.3 million at 31 December 2006 (31 March 2006: HK\$64.5 million).

## 36. LEASE ARRANGEMENTS

### As lessor

Property rental income in respect of the investment property and car park spaces earned during the period from 1 April 2006 to 31 December 2006 was HK\$1.7 million (year ended 31 March 2006: HK\$1.9 million).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Within one year	0.7	0.6

### As lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Within one year	4.5	2.7
In the second to fifth years inclusive	1.9	2.3
	6.4	5.0

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms ranging from one to ten years.

## 37. CAPITAL COMMITMENTS

(a) At 31 December 2006, the Group's share of the capital commitments of its jointly controlled entities is as follows:

	31 December 2006 HK\$ million	31 March 2006 HK\$ million
Authorised but not contracted for	0.2	—
Contracted but not provided for	393.6	1,608.7

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## 37. CAPITAL COMMITMENTS (continued)

(b) At 31 December 2006, the Group had no significant capital commitments. At 31 March 2006, the Group had commitments in respect of the acquisition of property, plant and equipment and certain investments contracted but not provided for in the financial statements amounting to approximately HK\$1.1 million and HK\$17.3 million, respectively.

## 38. SHARE-BASED PAYMENTS

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") was terminated and replaced by a new share option scheme on 27 August 2002 (the "New Scheme"). Since then, no further option could be granted under the Old Scheme, but all options granted prior to such termination continue to be valid and exercisable.

Under the Old Scheme, the Board of Directors could offer 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 was HK\$1. The maximum entitlement of each eligible participant was not permitted to exceed 25% of the aggregate number of ordinary shares in respect of options that could be granted under existing option schemes. Options granted were exercisable in stages over 5 years and up to 10 years from the date of grant.

On 27 August 2002, the Company adopted the New Scheme which continues in force until the 10th anniversary of such date. The principal terms of the New Scheme are summarised below:

### 1. Purpose

- (a) The New Scheme is a share incentive scheme and was established to recognise and acknowledge the contributions which eligible participants have made or may make to the Group.
- (b) The New Scheme provides eligible participants an opportunity to have a personal stake in the Company with a view to achieving the following objectives:
  - (i) motivating eligible participants to utilise their performance and efficiency for the benefit of the Group; and
  - (ii) attracting and retaining eligible participants whose contributions are or will be beneficial to the long term growth of the Group.

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## 38. SHARE-BASED PAYMENTS (continued)

### 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 for the grant of any option is determined by the Board from time to time on the basis of his contribution to the development and growth of the Group. The Company is 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 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.

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## 38. SHARE-BASED PAYMENTS (continued)

### 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. Exercise price

The exercise price is determined by the Board and 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 options, to be paid within 28 days from the date of the offer.

## Notes to the Consolidated Financial Statements

For the Period from 1 April 2006 to 31 December 2006

### 38. SHARE-BASED PAYMENTS (continued)

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

Date of grant	Subscription price per share HK\$	At 1 April 2006	Number of options				At 31 December 2006	Period during which share options outstanding at 31 December 2006 are exercisable	Price of Company's shares at exercise date of options HK\$ (Note)
			Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period			
<b>Old Scheme</b>									
17 July 2001	9.30	1,036,000	—	(1,036,000)	—	—	—	17 January 2002 to 16 July 2006	17.07
<b>New Scheme</b>									
27 August 2002	6.00	1,054,000	—	(770,000)	—	(12,000)	272,000	27 February 2003 to 26 August 2007	14.46
27 August 2002	6.00	11,085,000	—	(6,650,000)	—	—	4,435,000	27 August 2005 to 26 August 2010	16.03
4 August 2003	5.80	314,000	—	(124,000)	—	—	190,000	4 February 2004 to 3 August 2008	14.97
26 July 2004	7.25	632,000	—	(178,000)	—	—	454,000	26 January 2005 to 25 July 2009	14.46
29 July 2005	9.30	986,000	—	(210,000)	—	—	776,000	29 January 2006 to 28 July 2010	15.41
1 August 2006	14.00	—	4,106,000	—	—	—	4,106,000	1 February 2007 to 31 July 2011	—
		15,107,000	4,106,000	(8,968,000)	—	(12,000)	10,233,000		
Number of options exercisable at the end of the period							4,899,000		

Date of grant	Subscription price per share HK\$	At 1 April 2005	Number of options				At 31 March 2006	Period during which share options outstanding at 31 March 2006 are exercisable	Price of Company's shares at exercise date of options HK\$ (Note)
			Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year			
<b>Old Scheme</b>									
4 July 2000	9.56	1,858,000	—	(6,000)	(26,000)	(1,826,000)	—	4 January 2001 to 3 July 2005	9.15
17 July 2001	9.30	2,064,000	—	(988,000)	(40,000)	—	1,036,000	17 January 2002 to 16 July 2006	14.22
<b>New Scheme</b>									
27 August 2002	6.00	1,530,000	—	(432,000)	(44,000)	—	1,054,000	27 February 2003 to 26 August 2007	11.99
27 August 2002	6.00	22,000,000	—	(3,190,000)	(1,700,000)	(6,025,000)	11,085,000	27 August 2005 to 26 August 2010	10.27
4 August 2003	5.80	484,000	—	(154,000)	(16,000)	—	314,000	4 February 2004 to 3 August 2008	10.28
26 July 2004	7.25	986,000	—	(334,000)	(20,000)	—	632,000	26 January 2005 to 25 July 2009	11.73
29 July 2005	9.30	—	1,154,000	(148,000)	(20,000)	—	986,000	29 January 2006 to 28 July 2010	16.62
		28,922,000	1,154,000	(5,252,000)	(1,866,000)	(7,851,000)	15,107,000		
Number of options exercisable at the end of the year							12,761,000		

## 38. SHARE-BASED PAYMENTS (continued)

The vesting period of the share option is as follows:

- 20%: 6 months after the date of grant
- 20%: 1st anniversary of the date of grant
- 20%: 2nd anniversary of the date of grant
- 20%: 3rd anniversary of the date of grant
- 20%: 4th anniversary of the date of grant

**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 period/year for each category of eligible participants.

The fair values of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial model. The inputs into the model were as follows:

Date of grant	4 August 2003	26 July 2004	29 July 2005	1 August 2006
Average fair value	HK\$1.3274	HK\$1.7923	HK\$2.2705	<b>HK\$3.8344</b>
Share price on the date of grant	HK\$5.70	HK\$7.30	HK\$9.30	<b>HK\$14.00</b>
Exercise price	HK\$5.80	HK\$7.25	HK\$9.30	<b>HK\$14.00</b>
Expected volatility	40% p.a.	40% p.a.	40% p.a.	<b>40% p.a.</b>
Average expected life	3.84 years	3.82 years	3.81 years	<b>4.21 years</b>
Average risk-free rate	2.86% p.a.	3.25% p.a.	3.53% p.a.	<b>4.40% p.a.</b>
Expected dividend yield	5% p.a.	5% p.a.	5% p.a.	<b>5% p.a.</b>
Rate of leaving service	2% p.a.	2% p.a.	2% p.a.	<b>2% p.a.</b>

Expected volatility was determined by using the historical volatility of the Company's share price during the period from February 1997 to August 2006. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Total consideration received during the period from employees, including directors, for taking up the options granted was HK\$63 (year ended 31 March 2006: HK\$51).

The Group recognised a total expense of HK\$6.1 million for the period ended 31 December 2006 (year ended 31 March 2006: HK\$1.8 million) in relation to share options granted by the Company.

## 39. ACQUISITION OF SUBSIDIARIES

(a) On 1 October 2006, Shui On Granpex Limited, an indirect wholly-owned subsidiary of the Company, increased its interest in Shanghai Shui On Construction Co., Ltd. ("SSOC") from 50% to 70% for a consideration of RMB 20 million (approximately HK\$18.9 million). Consequently, the Group has gained control over the Board of Directors of SSOC and SSOC has become an indirect subsidiary of the Company.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination HK\$ million	Fair value adjustments HK\$ million	Fair value HK\$ million
Property, plant and equipment	1.0	—	1.0
Inventories	0.3	—	0.3
Debtors, deposits and prepayments	68.8	—	68.8
Bank balances, deposits and cash	21.1	—	21.1
Amounts due to related companies	(10.0)	—	(10.0)
Creditors and accrued charges	(22.1)	—	(22.1)
	59.1	—	59.1
Minority interests	(17.7)	—	(17.7)
Total net assets of the subsidiary to be acquired	41.4	—	41.4
Transferred from interests in jointly controlled entities		(18.8)	
Discount on acquisition		(3.7)	
Total consideration		18.9	
Total consideration satisfied by:			
Set-off with amount due from SSOC		18.9	
Net cash inflow arising on acquisition:			
Cash and cash equivalents acquired		21.1	

If the acquisition had been completed on 1 April 2006, the total Group revenue for the period would have been HK\$1,819.6 million, and profit for the period would have been HK\$623.3 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor is it intended to be a projection of future results.

The contributions to the Group's revenue, profit before taxation and cash flows for the period by SSOC since the date of its acquisition to the balance sheet date are immaterial.

### 39. ACQUISITION OF SUBSIDIARIES (continued)

(b) On 11 August 2005, Shui On Building Materials Ltd. ("SOBM"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with Olympio Corporation ("Olympio"), whereby SOBM acquired from Olympio its 50% interest in TH Industrial Management Limited ("THIML"), a jointly controlled entity of the Group as well as the holding company of the Group's cement business in Sichuan and Chongqing in which the Group held the other 50% interest, and the benefit of the balance of THIML's indebtedness to Olympio for a consideration of RMB270.0 million (about HK\$259.3 million). Completion of the acquisition took place on 4 November 2005 and THIML became an indirect wholly-owned subsidiary of the Company.

The net assets acquired in the transaction, and the goodwill arising, were as follows:

	Acquiree's carrying amount before combination HK\$ million	Fair value adjustments HK\$ million	Fair value HK\$ million
Property, plant and equipment	1,736.1	(80.8)	1,655.3
Goodwill	3.1	(3.1)	—
Investment properties	51.7	7.1	58.8
Prepaid lease payments	467.4	(27.4)	440.0
Long term receivables	21.8	—	21.8
Interests in jointly controlled entities	8.4	—	8.4
Amounts due from jointly controlled entities	1.5	—	1.5
Inventories	134.6	3.5	138.1
Debtors, deposits and prepayments	266.6	—	266.6
Bank balances, deposits and cash	199.4	—	199.4
Amounts due to related companies	(714.7)	—	(714.7)
Creditors and accrued charges	(571.2)	(3.9)	(575.1)
Long term payables	(9.6)	9.6	—
Bank borrowings	(1,296.8)	—	(1,296.8)
Deferred tax liabilities	(68.4)	(16.2)	(84.6)
Minority interests	(144.8)	(2.8)	(147.6)
 Total net asset (liabilities) of subsidiaries to be acquired	 85.1	 (114.0)	 (28.9)
Transferred from interests in jointly controlled entities			(14.5)
Goodwill			26.2
 Total consideration	 11.7		
 Total consideration satisfied by:			
Cash consideration paid			259.3
Net-off with amount due to Olympio			(247.6)
			11.7
 Net cash outflow arising on acquisition:			
Cash consideration paid			(259.3)
Cash and cash equivalents acquired			199.4
			(59.9)
50% loss on fair value adjustments			(57.0)
50% unrealised fair value gain			(23.8)
 Impairment loss in jointly controlled entities	 (80.8)		
 Impairment loss on goodwill	 (26.2)		

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### 39. ACQUISITION OF SUBSIDIARIES (continued)

(b) The Group recognised an impairment loss of HK\$26.2m in relation to the goodwill arising on acquisition from Olympio of its 50% interest in THIML with reference to the fair value of the underlying assets and liabilities agreed with Financiere Lafarge for the formation of a jointly controlled entity with the Group and the future profitability of the cement operations in Chongqing Province. The Group considered that the goodwill was fully impaired.

As explained in note 41, the Company subsequently contributed certain of its acquired businesses into LSOC for a 45% stake and continued to operate the retained businesses on its own. If the acquisition of the retained businesses had been completed on 1 April 2005, total revenue for the year ended 31 March 2006 would have been HK\$1,406.3 million, and profit for the year ended 31 March 2006 would have been HK\$333.2 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2005, nor was it intended to be a projection of future results.

The retained businesses contributed revenue of HK\$12.3 million and a loss of HK\$36.4 million to the Group's profit before tax for the period between the date of acquisition and 31 March 2006.

### 39. ACQUISITION OF SUBSIDIARIES (continued)

(c) In April 2005, Peak Fortune Assets Limited, an indirect wholly-owned subsidiary of the Company, acquired the entire equity interest of Patcher Development Limited ("Patcher") in On Capital China Tech Fund ("On Capital") for a consideration of HK\$4.8 million. Following completion of the acquisition, On Capital became an indirect subsidiary of the Company.

The net assets acquired in the transaction were as follows:

	Acquiree's carrying amount before combination HK\$ million	Fair value adjustments HK\$ million	Fair value HK\$ million
Financial assets at fair value through profit or loss	17.7	—	17.7
Debtors, deposits and prepayments	24.4	—	24.4
Bank balances, deposits and cash	16.9	—	16.9
Creditors and accrued charges	(1.2)	—	(1.2)
Minority interests	(10.8)	—	(10.8)
 Total net assets of subsidiary to be acquired	 47.0	 —	 47.0
Transferred from interests in jointly controlled entity			(45.2)
Net-off with amount due to Patcher			3.0
 Total consideration	 4.8		
Total consideration satisfied by:			
Cash			4.8
Net cash inflow arising on acquisition:			
Cash consideration paid			(4.8)
Cash and cash equivalents acquired			16.9
			12.1

On Capital did not contribute revenue but contributed profit of HK\$136.8 million to the Group's profit before tax for the period between the date of acquisition and 31 March 2006.

## 40. DEEMED DISPOSAL OF A SUBSIDIARY

On 29 December 2006, the composition of the Board of Directors of On Capital, an indirect subsidiary of the Company in which the Company holds a 66.83% interest indirectly, has been changed such that On Capital has become a jointly controlled entity of the Group.

The net assets of On Capital at the date of change to a jointly controlled entity were as follows:

	HK\$ million
Financial assets at fair value through profit or loss	293.0
Debtors, deposits and prepayments	0.2
Bank balances, deposits and cash	42.3
Creditors and accrued charges	(47.6)
Minority interests	(95.5)
Net assets disposed of	192.4
Satisfied by:	
Share of net assets of a jointly controlled entity	192.4
Net cash outflow arising on disposal:	
Bank balances, deposits and cash disposed of	(42.3)

For the period from 1 April 2006 to 31 December 2006, On Capital contributed HK\$52.0 million to the Group's turnover and profit of HK\$49.5 million to the Group's profit before taxation.

## 41. CONTRIBUTION TO A JOINTLY CONTROLLED ENTITY

On 11 August 2005, the Company entered into strategic alliance with Financiere Lafarge with the execution of the contribution agreement and joint venture agreement, whereby the Group contributed its dry kiln operations in Chongqing, Sichuan and Guizhou into LSOC for a 45% stake and Financiere Lafarge contributed its cement business in the PRC to LSOC for a 55% stake.

The merger was completed on 9 November 2005, and this constituted contribution of certain subsidiaries of the Company to LSOC, which became a jointly controlled entity of the Group.

	HK\$ million
<b>NET ASSETS CONTRIBUTED TO LSOC</b>	
Property, plant and equipment	1,621.2
Prepaid lease payments	401.9
Long term receivables	21.8
Interests in jointly controlled entities	266.4
Amounts due from jointly controlled entities	119.0
Amounts due from related companies	53.9
Inventories	134.4
Debtors, deposits and prepayments	257.3
Bank balances, deposits and cash	170.7
Creditors and accrued charges	(570.9)
Amount due to related company	(0.8)
Bank borrowings	(996.0)
Deferred tax liabilities	(84.6)
Minority interests	(134.9)
Exchange gain realised	(11.8)
	1,247.6
Cash contribution	39.8
Cost incurred in connection with the formation of LSOC	29.8
	1,317.2
Total consideration before fair value adjustments	1,317.2
Fair value adjustments on interests in jointly controlled entities, net of deferred tax	70.4
	1,387.6
Total consideration after fair value adjustments	1,387.6
Satisfied by:	
Share of net assets of LSOC	1,265.8
Goodwill	121.8
	1,387.6
Total consideration	1,387.6
Net cash outflow arising on contribution:	
Bank balances, deposits and cash contributed to LSOC	(170.7)
Cash contribution	(39.8)
Cost incurred in connection with the contribution	(29.8)
	(240.3)
Fair value adjustments	70.4
Less: unrealised gain	(31.7)
Realised gain on fair value of assets contributed to LSOC	38.7

## 42. CONTINGENT LIABILITIES

At 31 December 2006, performance bonds established amounting to approximately HK\$232.8 million (31 March 2006: HK\$175.9 million) have not been provided for in the financial statements.

The Group has placed a deposit of HK\$120 million to a bank to secure a standby letter of credit of the same amount, issued to secure a bank loan granted to a jointly controlled entity (note 26).

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated balance sheet.

## 43. RELATED PARTY TRANSACTIONS

(a) During the period/year, the Group had the following transactions with SOCL and its subsidiaries and associates other than those of the Group ("SOCL Private Group").

Nature of transactions	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Income received:		
Management and information system services	0.4	0.4
Project management services	2.9	4.6
Construction work	5.9	—
Cost and expenses paid:		
Rental expenses	0.1	0.1
Building management fee	—	0.1
Interest expense	3.2	—

The outstanding balances with SOCL Private Group at the balance sheet date were disclosed in note 27.

### 43. RELATED PARTY TRANSACTIONS (continued)

(b) During the period/year, the Group had the following transactions with jointly controlled entities.

Nature of transactions	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Income received:		
Interest income	4.6	21.0
Management fee	22.5	4.8
Consultancy fee	4.8	—
Rental income	1.3	1.2
Sales of construction materials	4.7	—
Construction/subcontracting work	8.9	8.6
Cost and expenses paid:		
Construction/subcontracting work	8.7	14.0
Supply of construction materials	3.5	2.2

The outstanding balances with jointly controlled entities at the balance sheet date were disclosed in note 23.

(c) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, to use the trademark, trade name of "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.

(d) During the period, SOCL Private Group advanced interest bearing short-term loans of HK\$219.7 million (year ended 31 March 2006: nil) to the Group, which had been fully repaid before 31 December 2006. Interest on such loans, amounting to HK\$3.2 million (year ended 31 March 2006: nil), was paid by the Group during the period.

(e) During the period, the Group received dividend income amounting to HK\$33.2 million (year ended 31 March 2006: HK\$106.7 million) from certain jointly controlled entities.

(f) During the period, the Group received interest in respect of convertible redeemable participating junior preference shares from an associate amounting to HK\$13.7 million (year ended 31 March 2006: HK\$20.1 million).

(g) During the period, management fees and performance bonus payable by an indirect subsidiary of the Company, On Capital, to the investment management company controlled and owned by Mr. Laurie Kan who is also a director of On Capital, amounted to HK\$10.5 million (year ended 31 March 2006: HK\$2.6 million).

## 43. RELATED PARTY TRANSACTIONS (continued)

(h) The remuneration of Directors and other members of key management during the period/year was as follows:

	Nine months ended 31 December 2006 HK\$ million	Year ended 31 March 2006 HK\$ million
Fees	1.0	0.9
Salaries and other benefits	17.9	17.8
Bonuses	7.4	4.4
Retirement benefit scheme contributions	0.9	1.4
Share-based payments	3.4	0.2
	<b>30.6</b>	24.7

The remuneration of Directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

## 44. POST BALANCE SHEET EVENTS

(a) On 2 April 2007, the Company has given a corporate guarantee in favour of a bank with respect to a loan in the amount of RMB730 million (about HK\$730 million) granted by the bank to 北京中天宏業房地產諮詢有限公司 (Beijing ZhongTian HongYe Real Estate Consulting Co., Ltd., "Zhongtian Hongye"), a jointly controlled entity of the Group and a wholly-foreign owned enterprise in the Chinese Mainland that is indirectly owned as to 50% by the Company and 50% by an investor, for the acquisition and construction of Huapu Centre Phase I in Beijing. On the same day, the Company and the investor entered into a back-to-back guarantee agreement, pursuant to which the Company will be indemnified by the investor on a fully back to back basis for 50% of payments (if any) made by the Company under the said corporate guarantee. Details of the transaction are set out in an announcement of the Company dated 3 April 2007.

(b) On 12 April 2007, the Group entered into Asset Injection Agreements whereby the Group and other investors of the five distressed property development projects in the Chinese Mainland namely, Xiwang Building, Central International Plaza Blocks A and C, Huapu Centre, Shengyuan Centre and Huitong Building, will transfer the entire equity in, and a majority of their related shareholders loans to, these projects to Tancherry Holdings Limited (to be renamed China Central Properties (BVI) Limited), a wholly-owned subsidiary of China Central Properties Limited ("CCP") which is contemplating a listing of its shares on an internationally recognised stock exchange ("Listing"), for a consideration to be settled by the issue and allotment of new shares in CCP credited as fully paid to the Group and other investors, subject to Listing and other conditions as set out in the agreements.

On 12 April 2007, the Group also entered into a Subscription Agreement with CCP whereby Brilliance Investments Limited ("BIL"), an indirect wholly-owned subsidiary of the Company will, subject to Listing and other conditions as set out in the agreement, subscribe up to a total amount of HK\$1,200 million in cash for new shares in CCP at its offer price upon Listing.

## 44. POST BALANCE SHEET EVENTS (continued)

(b) continued

SOCAM Asset Management Limited, an indirect wholly-owned subsidiary of the Company, entered into an Investment Management Agreement on 12 April 2007, subject to Listing, for the provision of project investment management services to CCP and its subsidiaries for an initial term of 10 years and a base fee and a performance fee as set out in the agreement.

Details of the above transactions are set out in an announcement of the Company dated 12 April 2007.

## 45. 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 as at 31 December 2006 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 share/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
<b><i>Construction and building maintenance business</i></b>				
Dynamic Mark Limited	100 ordinary shares of HK\$1 each 3,000,000 non-voting deferred shares of HK\$1 each	—	80%	Supply of metal gates
P.D. (Contractors) Limited	1,000,000 ordinary shares of HK\$1 each	—	98.34%	Renovation work
Pacific Extend Limited	10,000 ordinary shares of HK\$1 each 6,000 special 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	—	98.34%	Interior decoration, fitting out, design and contracting
Pat Davie (Macau) Limited##	1,000,000 ordinary shares of MOP1 each	—	98.34%	Interior decoration, fitting out, design and contracting
Panyu Dynamic Mark Steel & Aluminium Engineering Co. Ltd. **@	Registered and paid up capital HK\$4,000,000	—	64%	Steel fabrication

**45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)**

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities		
		Directly	Indirectly			
<i><b>Construction and building maintenance business – continued</b></i>						
<i><b>Shui On Group</b></i>						
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		
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		
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		
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		
Shui On Plant & Equipment Services Limited	1,611,000 ordinary shares of HK\$1 each 45,389,000 non-voting deferred shares of HK\$1 each	—	100%	Owning and leasing of plant and machinery and structural steel construction work		
Shanghai Shui On Construction Co., Ltd. **@	Registered and paid up capital RMB50,000,000	70%		Buildings construction and maintenance		

**45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)**

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
<b><i>Cement operations</i></b>				
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
First Direction Limited	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	—	100%	Property holding
Glorycrest Holdings Limited *	1 share of US\$1	—	100%	Investment holding
Great Market Limited	100 ordinary shares of HK\$1 each 5 non-voting deferred shares of HK\$1 each	—	100%	Investment holding
Guangdong Lamma Concrete Products Limited **@	Registered and paid up capital RMB5,000,000	—	60%	Manufacture of precast concrete facade
Lamma Concrete Products Limited	10 ordinary shares of HK\$1 each	—	60%	Investment holding
Shui On Building Materials Limited	100 ordinary shares of HK\$1 each 1,000,000 non-voting deferred shares of HK\$1 each	—	100%	Investment holding and sale of construction materials
Shui On Cement (Guizhou) Limited *	100,000 shares of US\$1 each	—	100%	Investment holding
Shui On Materials Limited *	1 share of US\$1	100%	—	Investment holding
Shui On Rock Products Limited	2 ordinary shares of HK\$1 each	—	100%	Site formation

**45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)**

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
<b><i>Cement operations (continued)</i></b>				
Guizhou Shui On Cement Development Management Co., Ltd.**+	Registered and paid up capital US\$670,000	—	100%	Provision of consultancy services
Middleton Investments Limited ***	2 ordinary shares of US\$1 each	—	100%	Investment holding
Smartway Investment Limited ***	2 ordinary shares of US\$1 each	—	100%	Investment holding
Tinsley Holdings Limited ***	2 ordinary shares of US\$1 each	—	100%	Investment holding
Top Bright Investments Limited ***	2 ordinary shares of US\$1 each	—	100%	Investment holding
Winway Holdings Limited ***	2 ordinary shares of US\$1 each	—	100%	Investment holding
Fortune Smooth Investments Limited *	1 share of US\$1	—	100%	Investment holding
<b><i>Property development business</i></b>				
Jade City International Limited	2 ordinary shares of HK\$1 each	—	100%	Property holding
New Rainbow Investments Limited *	1 share of US\$1	100%	—	Investment holding
Fortune Up Investments Limited *	1 share of US\$1	100%	—	Investment holding
Grand More Management Limited *	1 share of US\$1	100%	—	Investment holding
Jumbo China Investments Limited *	1 share of US\$1	100%	—	Investment holding
Keygrow Investments Limited *	1 share of US\$1	100%	—	Investment holding
Peak Fortune Assets Limited *	1 share of US\$1	100%	—	Investment holding
Elite Great Investments Limited *	1 share of US\$1	100%	—	Investment holding
Beijing Shui On Construction and Materials Real Estate Consulting Co., Ltd. **	Registered and paid up capital RMB800,000	100%	—	Provision of consultancy services

**45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)**

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
<b><i>Property investment and other business</i></b>				
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
Kroner Investments Limited *	1 share of US\$1	100%	—	Investment holding
Landstar Development Limited	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Rise Huge International Limited *	1 share of US\$1	100%	—	Investment holding
Shine Honest Investments Limited *	1 share of US\$1	100%	—	Investment holding
Lamma Rock Products Limited	100 ordinary shares of HK\$10 each 3,500,000 non-voting deferred shares of HK\$10 each	—	100%	Investment holding
TH Industrial Management Limited #	2,740 ordinary shares of US\$1 each	—	100%	Investment holding
TH Industry I Limited #	100 ordinary shares of US\$1 each	—	100%	Investment holding
Chongqing T.H. Desheng Engineering Co. Ltd. **@	Registered and paid up capital RMB10,000,000	—	60%	Trading of construction materials equipment
Chongqing T.H. Holding Management Co. Ltd. **	Registered and paid up capital RMB41,500,000	—	100%	Exploration and management of investment projects
Chongqing T.H. White Cement Co. Ltd. **	Registered and paid up capital US\$1,506,000	—	60%	Manufacture and sale of cement
重慶騰建石材開發 有限公司 **@	Registered and paid up capital RMB10,000,000	—	55%	Manufacture and sale of building materials
Chongqing Foreign Investment Consultation and Service Co. Ltd. **	Registered and paid up capital RMB800,000	—	100%	Provision of investment consultation

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

- \* Incorporated in the British Virgin Islands
- \*\* Registered and operated in other regions of the PRC
- \*\*\* Incorporated in Mauritius
- # Incorporated in the Bahamas
- ## Incorporated in Macau, Special Administrative Region of the PRC
- ### Incorporated in the Cayman Islands
- + Wholly-foreign owned enterprises
- @ Equity joint venture

None of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the period.

## 46. 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 as at 31 December 2006. 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 share/ registered capital held by the Group	Principal activities	Notes
<b><i>Construction and building maintenance business</i></b>				
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
Beijing Shui On Joint Venture Construction Co. Ltd. **@	Registered and paid up capital RMB50,000,000	50%	Buildings construction and maintenance	1 and 3

## 46. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)

Indirect jointly controlled entities	Issued and paid-up share capital/ registered capital	Effective percentage of issued share/ registered capital held by the Group	Principal activities	Notes
<b><i>Cement operations</i></b>				
Beijing Chinefarge Cement Co. Ltd. **@	Registered and paid up capital RMB315,000,000	29.25%	Manufacture and sale of cement	3
Beijing Shunfa Lafarge Cement Co. Ltd. **@	Registered and paid up capital RMB150,000,000	31.5%	Manufacture and sale of cement	3
Beijing Yicheng Lafarge Concrete Co. Ltd. **@	Registered and paid up capital RMB30,340,000	34.52%	Supply of ready mixed concrete	3
Chongqing New Building Materials Co. Ltd. **@	Registered and paid up capital RMB41,500,000	33.75%	Manufacture and sale of cement	3
Chongqing T.H. Diwei Cement Co. Ltd. **@	Registered and paid up capital RMB61,680,000	36%	Manufacture and sale of cement	3
Chongqing T.H. Fuling Cement Co. Ltd. **@	Registered and paid up capital RMB44,000,000	45%	Manufacture and sale of cement	3
Chongqing T.H. Logistics Co. Ltd. **@	Registered and paid up capital RMB500,000	36%	Provision of transportation and logistics services	3
Chongqing T.H. Packaging Co. Ltd. **@	Registered and paid up capital RMB2,890,000	36%	Manufacture and sale of knitted bags	3
Chongqing T.H. Special Cement Co. Ltd. **@	Registered and paid up capital RMB160,000,000	36%	Manufacture and sale of cement	3
Chongqing T.H. Concrete Co. Ltd. **@	Registered and paid up capital RMB17,500,000	22.5%	Supply of ready mixed concrete	3
Guangan T.H. Cement Co. Ltd. **@	Registered and paid up capital RMB110,000,000	45%	Manufacture and sale of cement	3
Guizhou Bijie Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB48,000,000	80%	Manufacture and sale of cement	1 and 3
Guizhou Changda Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB106,000,000	51%	Manufacture and sale of cement	1 and 3
Guizhou Dingxiao Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB56,000,000	40.5%	Manufacture and sale of cement	3
Guizhou Kaili Ken On Concrete Co. Ltd. **@	Registered and paid up capital RMB10,000,000	75%	Supply of ready mixed concrete	1 and 3
Guizhou Kaili Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB60,000,000	90%	Manufacture and sale of cement	1 and 3
Guizhou Shuicheng Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB200,000,000	31.5%	Manufacture and sale of cement	3
Guizhou Xinpu Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB60,000,000	36%	Manufacture and sale of cement	3
Guizhou Xishui Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB16,000,000	90%	Manufacture and sale of cement	1 and 3

## 46. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)

Indirect jointly controlled entities	Issued and paid-up share capital/ registered capital	Effective percentage of issued share/ registered capital held by the Group	Principal activities	Notes
<b><i>Cement operations – continued</i></b>				
Guizhou Yuqing Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB12,500,000	80%	Manufacture and sale of cement	1 and 3
Guizhou Zunyi Ken On Concrete Co. Ltd. **@	Registered and paid up capital RMB12,000,000	75%	Supply of ready mixed concrete	1 and 3
Guizhou Zunyi Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB92,000,000	80%	Manufacture and sale of cement	1 and 3
Sichuan Hejiang Shui On Cement Co. Ltd. **@	Registered and paid up capital RMB23,250,000	90%	Manufacture and sale of cement	1 and 3
Lafarge Chongqing Cement Co. Ltd. **@	Registered and paid up capital RMB340,000,000	31.77%	Manufacture and sale of cement	3
Lafarge Dujiangyan Cement Co. Ltd. **@	Registered and paid up capital RMB856,840,000	33.75%	Manufacture and sale of cement	3
Nanchong T.H. Cement Co. Ltd. **@	Registered and paid up capital RMB15,000,000	45%	Manufacture and sale of cement	3
Suining T.H. Cement Co. Ltd. **@	Registered and paid up capital RMB15,000,000	40.5%	Manufacture and sale of cement	3
Lafarge China Offshore Holding Co. *	16,518,148 shares of US\$0.01 each	45%	Investment holding	3
Lafarge Shui On (Beijing) Technical Services Co. Ltd.	Registered and paid up capital US\$8,000,000	45%	Investment holding	3
Lafarge Shui On Cement Limited	1,110,051 ordinary shares of HK\$1 each	45%	Investment holding	3
Nanjing Jiangnan Cement Company Ltd. **@	Registered and paid up capital RMB120,000,000	60%	Manufacture and trading of cement	1 and 3
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	3
Sommerset Investments Limited **	1 share of US\$1	45%	Investment holding	3
TH Industry II Limited #	2,000 ordinary shares of US\$1 each	45%	Investment holding	3
Prime Allied Enterprises Limited ***	2 ordinary shares of US\$1 each	45%	Investment holding	3
Yunnan Shui On Construction Materials Investment Holding Co., Ltd. **	Registered and paid up capital RMB1,000,000,000	36%	Investment holding	3

**46. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)**

Indirect jointly controlled entities	Issued and paid-up share capital/ registered capital	Effective percentage of issued share/ registered capital held by the Group	Principal activities	Notes
<b><i>Property development business</i></b>				
Coral Waters (Barbados) SRL ##	1,000 Class A quotas of US\$1 each	50%	Investment holding	3
Mountain Air (Barbados) SRL ##	1,000 Class A quotas of US\$1 each	50%	Investment holding	3
Mountain Breeze (Barbados) SRL ##	2 Class A quotas of US\$1 each	50%	Investment holding	3
Mountain Mist (Barbados) SRL ##	14,250,000 Class A quotas of US\$1 each 750,000 Class B quotas of US\$1 each	45%	Investment holding	3
Dalian Xiwang Building Co., Ltd. **	Registered and paid up capital US\$40,000,000	45%	Property development	3
Prosper Idea Limited *	50 shares of US\$1 each	50%	Investment holding	3
Channel Pacific Limited	1 share of HK\$1 each	50%	Investment holding	3
Mountain Snow (Barbados) SRL ##	100 quotas of US\$1 each	50%	Investment holding	3
Caperidge Group Limited *	3 shares of HK\$1 each	33.3%	Investment holding	3
Beijing ZhongTian HongYe Real Estate Consulting Co., Ltd. **	Registered and paid up capital RMB120,000,000	50%	Property development	3
Qingdao Zhongcheng Yinchu Development Co., Ltd. **	Registered and paid up capital HK\$30,000,000	50%	Property development	3
Chengdu Shui On Huida Property Co., Ltd. **	Registered and paid up capital RMB100,000,000	50%	Property development	3
Chengdu Shui On Huiyuan Property Co., Ltd. **	Registered and paid up capital US\$60,000,000	50%	Property development	3
<b><i>Property investment and other Business</i></b>				
The Yangtze Ventures Limited ###	1,000 ordinary shares of HK\$0.1 each	65.5%	Venture capital investments	2 and 3
The Yangtze Ventures II Limited ###	1,000 ordinary shares of HK\$0.1 each	75.4%	Venture capital investments	2 and 3
On Capital China Tech Fund ###	4,156 participating shares of US\$1,000 each	66.8%	Venture capital investments	2 and 3

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## 46. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)

- \* Incorporated in the British Virgin Islands
- \*\* Registered and operated in other regions of the PRC
- \*\*\* Incorporated in Mauritius
- # Incorporated in the Bahamas
- ## Incorporated in Barbados
- ### 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 respective board of directors of these entities are jointly controlled by the Group and other investors. Accordingly, the Directors consider they are jointly controlled entities.
3. The results of these jointly controlled entities are accounted for by the Group based on their financial statements made up to 31 December 2006.

# Particulars of Properties

Properties held by the Group at 31 December 2006 are as follows:

Location	Use	Approx. floor area ( <i>Sq. metres</i> )	Lease term	Group's interest
<b>(A) INVESTMENT PROPERTY</b>				
18 Dan Long Lu, Economic-technological Development Zone, Chongqing, the PRC	Office	13,507	Medium	100%
<b>(B) PROPERTIES HELD AS PROPERTY, PLANT AND EQUIPMENT</b>				
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%
<b>(C) PROPERTIES HELD FOR SALE</b>				
Tseung Kwan O Town Lot No.62, Area 65A Bauhinia Garden 11 Tong Chun Street Tseung Kwan O Sai Kung New Territories	Carparking	3,476	Medium	100%

# Group Financial Summary

## 1. RESULTS

	Year ended 31 March				Nine months ended 31 December 2006
	2003 HK\$ million	2004 HK\$ million	2005 HK\$ million	2006 HK\$ million	2006 HK\$ million
Turnover	2,311.3	3,590.9	1,882.9	1,400.2	<b>1,680.4</b>
Profit (loss) before taxation	(44.6)	200.0	545.4	364.2	<b>636.2</b>
Taxation	0.1	(49.4)	(1.2)	(7.6)	<b>(7.7)</b>
Profit (loss) from continuing operations	(44.5)	150.6	544.2	356.6	<b>628.5</b>
Loss from discontinued operations	—	—	(59.6)	(5.2)	<b>(6.1)</b>
Profit (loss) for the year/period	(44.5)	150.6	484.6	351.4	<b>622.4</b>
Attributable to:					
Equity holders of the Company	(44.3)	147.7	481.9	314.8	<b>602.1</b>
Minority interests	(0.2)	2.9	2.7	36.6	<b>20.3</b>
	(44.5)	150.6	484.6	351.4	<b>622.4</b>

## 2. ASSETS AND LIABILITIES

	At 31 March				At 31 December 2006
	2003 HK\$ million	2004 HK\$ million	2005 HK\$ million	2006 HK\$ million	2006 HK\$ million
Total assets	3,244.1	3,738.3	3,987.1	5,982.5	<b>10,345.8</b>
Total liabilities	(2,008.0)	(2,322.5)	(2,014.8)	(3,561.4)	<b>(5,129.7)</b>
	1,236.1	1,415.8	1,972.3	2,421.1	<b>5,216.1</b>
Equity attributable to equity holders of the Company	1,210.0	1,387.2	1,943.2	2,322.6	<b>5,163.9</b>
Minority interests	26.1	28.6	29.1	98.5	<b>52.2</b>
	1,236.1	1,415.8	1,972.3	2,421.1	<b>5,216.1</b>