



瑞安房地產
SHUI ON LAND

Shui On Land Limited

瑞安房地產有限公司*
(incorporated in the Cayman Islands with limited liability)
(Stock code: 272)

ANNOUNCEMENT OF 2006 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

HIGHLIGHTS

- Successfully listed on the main board of the Hong Kong Stock Exchange in October 2006
- Turnover increased significantly by 3.6 times to RMB 4,729 million (2005: RMB 1,018 million)
- Gross profit increased significantly by 3.3 times to RMB 2,984 million (2005: RMB 691 million)
- Profit attributable to shareholders before revaluation of investment properties and Fair Value Adjustment on Derivative Financial Instruments increased significantly by 14.8 times to approximately RMB 1,536 million (2005: approximately RMB 97 million) and exceeded the profit forecast of RMB 1,450 million by 5.9% for 2006 as stated in the Company's prospectus dated 20 September 2006
- Profit attributable to shareholders after revaluation of investment properties and Fair Value Adjustment on Derivative Financial Instruments increased significantly by 2.0 times to approximately RMB 1,146 million (2005: approximately RMB 380 million) and also exceeded the profit forecast of RMB 982 million by 16.7% for 2006 as stated in the Company's prospectus dated 20 September 2006
- Earnings of RMB 48 cents per share (2005: RMB 22 cents per share)
- Recommend a final dividend of HK 6 cents per share
- Total assets increased by 40% to approximately RMB 26 billion (2005: approximately RMB 18.6 billion)
- Net gearing ratio at a low level of approximately 5% as at 31 December 2006, making us well positioned to consider various funding options for new projects as the needs arise
- A landbank of approximately 8.4 million sq.m. of gross floor area providing an aggregate leasable and saleable gross floor area of approximately 6.9 million sq.m.
- Selected as a constituent of the Morgan Stanley Capital International ("MSCI") Standard Index Series and Global Growth Index Series in February 2007 and as a constituent of the 200-Stock Hang Seng Composite Index Series and Hang Seng Freefloat Index Series in March 2007

The Board of Directors (the "Board") of Shui On Land Limited (the "Company" or "Shui On Land") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2006

	Notes	(Expressed in Rmb'000)	
		2006	2005
Turnover		4,729,266	1,017,798
Cost of sales	4	(1,745,404)	(326,698)
Gross profit		2,983,862	691,100
Other income	5	255,890	101,827
Staff costs		(145,788)	(77,650)
Depreciation and release of prepaid lease payments		(27,474)	(23,987)
Other expenses		(512,497)	(252,208)
Share of profit of associates		694	—
Share of loss of a jointly controlled entity		—	(52)
Net loss on change in fair value of derivative financial instruments	6	(477,504)	(1,180)
Increase in fair value of investment properties		144,849	606,565
Gain on partial disposal of equity interest in subsidiaries		582,337	—
Finance costs	7	(218,777)	(166,873)
Profit before taxation		2,585,592	877,542
Income tax expense	8	(946,052)	(331,856)
Profit for the year		1,639,540	545,686
Attributable to:			
Equity holders of the Company		1,145,797	379,962
Minority interests		493,743	165,724
		1,639,540	545,686
Proposed dividend	9	248,065	—
Earnings per share	10		
Basic		RMB 48 cents	RMB 22 cents
Diluted		RMB 38 cents	RMB 14 cents

CONSOLIDATED BALANCE SHEET As at 31 December 2006

	Notes	(Expressed in Rmb'000)	
		2006	2005
Non-current assets			
Investment properties		6,204,900	5,877,300
Property, plant and equipment		188,265	168,006
Prepaid lease payments		3,710,446	2,664,625
Properties under development		1,759,836	1,126,833
Interests in associates		3,194	2,500
Accounts receivable	11	146,907	33,214
Pledged bank deposits		367,791	1,619
Defined benefit assets		4,541	3,433
Deferred tax assets		4,439	94,260
		12,390,319	9,971,790
Current assets			
Inventories		2,330	2,222
Properties under development		4,749,259	5,244,106
Properties held for sale		1,799,400	156,744
Accounts receivable, deposits and prepayments	11	1,444,008	678,747
Loan receivable		227,067	—
Amount due from an associate		1,758	1,821
Amounts due from related parties		99,924	164,053
Amount due from a minority shareholder of a subsidiary		5,624	5,624
Early redemption rights		29,829	7,058
Pledged bank deposits		833,716	407,839
Bank balances and cash		4,452,011	1,988,944
		13,644,926	8,657,158
Current liabilities			
Accounts payable, related parties and accrued charges	12	1,752,878	1,739,473
Amounts due to related parties		72,806	138,002
Amounts due to minority shareholders of subsidiaries		267,003	272,699
Warrants		—	231,474
Tax liabilities		75,592	106,962
Bank borrowings — due within one year		1,683,314	2,657,022
		3,851,593	5,145,632
Net current assets		9,793,333	3,511,526
Total assets less current liabilities		22,183,652	13,483,316
Capital and reserves			
Share capital		84,415	36,164
Reserves		13,867,457	4,719,630
Equity attributable to equity holders of the Company		13,951,872	4,755,794
Minority interests		1,212,860	306,059
Total equity		15,164,732	5,061,853
Non-current liabilities			
Loan from a minority shareholder of a subsidiary		182,869	173,714
Notes		2,762,124	2,787,811
Bank borrowings — due after one year		2,031,634	1,262,794
Deferred tax liabilities		2,034,636	1,321,908
Convertible redeemable preference shares		—	2,875,236
Derivative financial instrument designated as hedging instrument		7,657	—
		7,018,920	8,421,463
		22,183,652	13,483,316

Notes to the accounts:

- General**
Shui On Land was incorporated on 12 February 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The ordinary shares of nominal value of US\$ 0.0025 per share (the "shares") of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 4 October 2006.
- Application of New and Revised International Financial Reporting Standards ("IFRSs") Not Yet Effective**
The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

IAS 1 (Amendment)	Capital Disclosures ¹
IFRS 7	Financial Instruments: Disclosures ¹
IFRS 8	Operating Segments ²
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies ³
IFRIC 8	Scope of IFRS 2 ⁴
IFRIC 9	Reassessment of Embedded Derivatives ⁵
IFRIC 10	Interim Financial Reporting and Impairment ⁶
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions ⁷
IFRIC 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007
² Effective for annual periods beginning on or after 1 January 2009
³ Effective for annual periods beginning on or after 1 March 2006
⁴ Effective for annual periods beginning on or after 1 May 2006
⁵ Effective for annual periods beginning on or after 1 June 2006

- Effective for annual periods beginning on or after 1 November 2006
- Effective for annual periods beginning on or after 1 March 2007
- Effective for annual periods beginning on or after 1 January 2008

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. 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. The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the prospectus dated 20 September 2006.

4. Turnover and Segmental Information

An analysis of the Group's turnover for the year is as follows:

	2006	2005
	RMB'000	RMB'000
Property sales	4,283,412	603,989
Rental income received from investment properties	358,239	333,736
Income from operations of serviced apartments	25,250	24,802
Property management fees	22,166	16,888
Others	40,199	38,383
	4,729,266	1,017,798

Business segment

For management purposes, the Group is currently organised into two operating divisions - property development and property investment. These divisions are the basis on which the Group reports its primary segment information.

For the year ended 31 December 2006

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER				
Segment sales	4,283,412	428,867	16,987	4,729,266
RESULTS				
Segment results	2,395,349	471,083	(9,344)	2,857,088
Interest income				96,253
Finance costs				(218,777)
Share of profit of associates				694
Net loss on change in fair value of derivative financial instruments				(477,504)
Gain on partial disposal of equity interest in subsidiaries				582,337
Net unallocated expenses				(254,499)
Profit before taxation				2,585,592
Income tax expense				(946,052)
Profit for the year				1,639,540

OTHER INFORMATION

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Allowance for amount due from a jointly controlled entity	—	—	1,294	1,294
Allowance for bad and doubtful debts	—	657	—	657
Capital additions	4,462,738	134,571	18,147	4,615,456
Depreciation of property, plant and equipment charged to consolidated income statement	1,698	14,073	10,591	26,362
Release of prepaid lease payments charged to consolidated income statement	—	1,112	—	1,112
Loss on disposal of property, plant and equipment	74	2,208	1,017	3,299

BALANCE SHEET ASSETS

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	13,306,449	6,439,571	61,607	19,807,627
Interests in associates				3,194
Unallocated corporate assets				6,224,424
				26,035,245

LIABILITIES

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment liabilities	(1,500,350)	(172,638)	(3,490)	(1,676,478)
Unallocated corporate liabilities				(9,194,035)
Consolidated total liabilities				(10,870,513)

For the year ended 31 December 2005

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER				
Segment sales	603,989	397,289	16,520	1,017,798
RESULTS				
Segment results	271,112	932,134	(9,733)	1,193,513
Interest income				15,701
Finance costs				(166,873)
Share of loss of a jointly controlled entity				(52)
Net loss on change in fair value of derivative financial instruments				(1,180)
Net unallocated expenses				(163,567)
Profit before taxation				877,542
Income tax expense				(331,856)
Profit for the year				545,686

OTHER INFORMATION

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Allowance for amount due from a jointly controlled entity	—	—	10,143	10,143
Allowance for bad and doubtful debts	—	984	—	984
Capital additions	4,588,144	146,684	21,574	4,756,402
Depreciation of property, plant and equipment charged to consolidated income statement	282	16,485	6,108	22,875
Release of prepaid lease payments charged to consolidated income statement	—	1,112	—	1,112

BALANCE SHEET LIABILITIES

	Property development	Property investment	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment liabilities	(720,529)	(301,818)	(2,931)	(1,025,278)
Unallocated corporate liabilities				(12,541,817)
Consolidated total liabilities				(13,567,095)

Geographical segment

Over 90% of the Group's turnover and contribution to operating profit is attributable to customers in the People's Republic of China ("PRC"). Accordingly, no analysis of geographical segment is presented.

No geographical segment information of the Group's assets and liabilities is shown as the Group's assets and liabilities are substantially located in the PRC.

5. Other Income

	2006	2005
	RMB'000	RMB'000
Interest income	89,770	15,701
Imputed interest income on consideration receivable on disposal of equity interest in subsidiaries	6,483	—
Sundry income	13,637	9,843
Net exchange gain	78,395	44,670
Grant received from local government	67,605	31,453
Gain on disposal of property, plant and equipment	—	160
	255,890	101,827

6. Net Loss on Change in Fair Value of Derivative Financial Instruments

	2006	2005
	RMB'000	RMB'000
Loss on change in fair value of warrants	357,349	3,132
Loss on change in fair value of conversion option of senior preference shares	143,168	—
Gain on change in fair value of early redemption rights	(23,013)	(1,952)
	477,504	1,180

7. Finance Costs

	2006	2005
	RMB'000	RMB'000
Interest on bank loans and overdrafts wholly repayable within five years	212,693	130,959
Interest on amounts due to shareholders and a fellow subsidiary wholly repayable within five years	1,174	26,306
Interest on amount due to a minority shareholder of a subsidiary wholly repayable within five years	4,200	4,200
Imputed interest on loan from a minority shareholder of a subsidiary wholly repayable within five years	9,155	2,948
Interest on consideration payable on acquisition of additional interests in subsidiaries	31,765	—
Interest on convertible redeemable preference shares	273,102	296,398
Interest on notes	322,204	73,144
Other finance costs	7,996	9,036
	862,289	542,991
Less: Amount capitalised to properties under development	(643,512)	(376,118)
	218,777	166,873

Borrowing cost capitalised during the year ended 31 December 2006 arose on the general borrowing pool of the Group were calculated by applying a capitalisation rate of approximately 12% (2005: 12%) to expenditure on the qualifying assets.

8. Income Tax Expense

	2006	2005
	RMB'000	RMB'000
PRC Enterprise Income Tax: Current taxation		
- Provision for the year	166,525	115,355
- Underprovision in prior year	17,427	—

12. Accounts Payable, Deposits Received and Accrued Charges

	2006 RMB'000	2005 RMB'000
Accounts payable aged analysis:		
Trade payable:		
Not yet due	721,649	399,064
Within 30 days	14,366	24,419
31 - 60 days	—	308
Retention payables	736,015	423,791
Deed tax, business tax and other tax payables	75,986	95,953
Deposits received and receipt in advance from property sales	673,375	323,770
Deposits received and receipt in advance in respect of rental of investment properties	20,018	12,340
Consideration payable on acquisition of additional interests in subsidiaries	124,210	110,280
Other payables and accrued charges	—	625,970
	123,274	147,369
	1,752,878	1,739,473

13. Capital Commitments

At 31 December 2006, the Group has capital commitments in respect of properties under development in the PRC of RMB 3,874 million (2005: RMB 5,356 million) and the acquisition of property, plant and equipment of RMB 2 million (2005: RMB 0.7 million).

14. Contingent Liabilities

- (i) Pursuant to an agreement entered into with the district government (the "Hongkou government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB 324 million (2005: RMB 324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 December 2006, no amount had been drawn down under this arrangement.
- (ii) At 31 December 2006, certain subsidiaries of the Company had outstanding guarantees issued in favour of banks amounting to RMB 414 million (2005: RMB 16 million) in respect of mortgage facilities granted to the buyers of its residential properties.

DIVIDENDS

The Directors recommended the payment of a final dividend of HK 6 cents per share for the year ended 31 December 2006. Such final dividend is subject to shareholders' approval at the Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 1 June 2007 to 8 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend payable on 29 June 2007 and to determine who are entitled to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by registration not later than 4:30 p.m. on 31 May 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2006 was a year of continued high growth trajectory for the Group. Turnover was RMB 4,729 million (2005: RMB 1,018 million), representing an increase of 3.6 times over 2005.

Profit attributable to shareholders before revaluation of investment properties and Fair Value Adjustment on Derivative Financial Instruments increased significantly by 14.8 times to approximately RMB 1,536 million (2005: approximately RMB 97 million) and exceeded the profit forecast of RMB 1,450 million by 5.9% for 2006 as stated in the Company's prospectus dated 20 September 2006.

Profit attributable to shareholders after revaluation of investment properties and Fair Value Adjustment on Derivative Financial Instruments increased significantly by 2.0 times to approximately RMB 1,146 million (2005: approximately RMB 380 million) and also exceeded the profit forecast of RMB 982 million by 16.7% for 2006 as stated in the Company's prospectus dated 20 September 2006.

Set out below is a comparison of the profits achieved to the profit forecasts for 2006 and the profits for 2005.

	2006		2005	
	Actual	Forecast	Actual	Forecast
	RMB million	RMB million	RMB million	RMB million
Net profit attributable to equity holders of the Company before (i) revaluation of investment properties and (ii) Fair Value Adjustment on Derivative Financial Instruments	1,536	1,450	97	—
Revaluation increase on investment properties (net of deferred tax effect and share of minority interests)	88	76	284	—
Fair Value Adjustment on Derivative Financial Instruments	(478)	(544)	(1)	—
Net profit attributable to equity holders of the Company after (i) revaluation of investment properties and (ii) Fair Value Adjustment on Derivative Financial Instruments	1,146	982	380	—

We continue to focus on our unique business model of creating value through master planning in city-core development and integrated residential development projects. We have five city-core development projects and one integrated residential development project in our portfolio with a combined approximately 8.4 million sq.m. of gross floor area ("GFA") including open areas and other public facilities, all located in prime locations, three in Shanghai, and one each in Chongqing, Wuhan and Hangzhou. Through this unique business model and our premium branding and reputation we have been able to establish in China accelerated capital value appreciation in our property portfolio and premium pricing of our residential projects.

Property Development and Sales

For the year under review, the Group completed properties for sale with a total saleable GFA of 229,000 sq.m. that comprised:

All GFA figures are in sq.m. rounded to the nearest thousand

Project	Total GFA	Residential		Office GFA	Other* GFA	Group's interest
		GFA	GFA			
Shanghai Taipingqiao Lot 114 ("Lakeville Regency")	136,000	127,000	—	9,000	69%	
Shanghai Rui Hong Xin Cheng Phase 2 (Blocks 15 & 16)	31,000	31,000	—	—	99%	
Shanghai Knowledge and Innovation Community R1	71,000	41,000	30,000	—	70%	
Total GFA	238,000	199,000	30,000	9,000		
Less: Non-Saleable GFA	(9,000)	—	—	(9,000)		
Total Saleable GFA	229,000	199,000	30,000	—		

* Other includes GFA from clubhouse, which is not for sale.

Saleable GFA completed and unsold as of 1 January 2006 was approximately 16,000 sq.m. As such, the total GFA available for sale in 2006 was 245,000 sq.m.

Turnover from property sales was RMB 4,283 million in 2006, representing approximately 123,000 sq.m. of GFA. The majority of our 2006 property sales were derived from Lakeville Regency, phase 2 of our Shanghai Taipingqiao project and from our Shanghai Rui Hong Xin Cheng project which is located in Hongkou.

An analysis of our GFA sold and our average selling prices in 2006 is set out below:

All GFA figures are in sq.m. rounded to the nearest thousand

Project	Date completed	Total GFA	Office GFA	Average selling price		Group's interest
				GFA sold (sq.m.)	(RMB/sq.m.)	
Shanghai Taipingqiao Lot 114 ("Lakeville Regency")	Sept 2006	74,000	50,000	—	69%	
Shanghai Rui Hong Xin Cheng Phase 2	Sept 2006	44,000	16,000	—	99%	
Shanghai Knowledge and Innovation Community R1	Aug 2006	5,000	16,000	—	70%	
Total		123,000				

Lot 113 of our Shanghai Taipingqiao project and the first phases of our Chongqing Tiandi and Wuhan Tiandi projects are currently under construction. We expect pre-sale and leasing activities to commence towards the end of 2007 or early 2008.

The Chongqing Tiandi project is a city-core development, situated on the south bank of Jialing River, with an expected total leasable and saleable GFA of approximately 2.8 million sq.m. upon completion. It comprises a large residential area, entertainment and cultural properties, modern high quality office buildings, an exhibition centre and luxury hotels, as well as a man-made lake and is expected to be completed in phases over the next eight years. The Wuhan Tiandi project is also a city-core development project with an expected total leasable and saleable GFA of approximately 1.4 million sq.m. upon completion. The project comprises two main sites and will contain Grade A office buildings, high-end retail facilities and hotels and residential properties, also expected to be completed in phases over the next eight years.

Property Investments

For the year under review, the Group completed investment properties with a GFA of 70,000 sq.m., bringing the Group's total investment properties GFA to 239,000 sq.m. The Group's portfolio of investment properties as at 31 December 2006 comprises:

All GFA figures are in sq.m. rounded to the nearest thousand

Project	Date completed	Total GFA	Office GFA	Retail GFA	Others GFA	Group's interest
Shanghai Xintiandi	Aug 2002	57,000	5,000	46,000	6,000	97%
Corporate Avenue (Lot 110)	Mar 2004	83,000	76,000	7,000	—	99%
Shanghai Rui Hong Xin Cheng Phase 2 Commercial Complex, North Building	Sept 2004	30,000	—	25,000	5,000	99%
Hangzhou Xihu Tiandi Phase 1	May 2003	6,000	—	5,000	1,000	100%
Sub-total		176,000	81,000	83,000	12,000	
Completed in 2006						
Shanghai Rui Hong Xin Cheng Phase 2 Commercial Complex, South Building	Sept 2006	3,000	—	3,000	—	99%
Shanghai Knowledge and Innovation Community R1	Aug 2006	15,000	8,000	7,000	—	70%
Shanghai Knowledge and Innovation Community Hub 1	Nov 2006	52,000	29,000	23,000	—	70%
Sub-total		70,000	37,000	33,000	—	
Total investment property GFA		246,000	118,000	116,000	12,000	
Less: Non-leasable GFA*		(7,000)	—	—	(7,000)	
Total leasable GFA as at 31 December 2006		239,000	118,000	116,000	5,000	

* Represented by clubhouse which is not for sale nor for lease

As at 31 December 2006, the occupancy rates of our investment properties were as follows:

Project	Occupancy rate
Shanghai Xintiandi	94%
Corporate Avenue	98%
Shanghai Rui Hong Xin Cheng Phase 2 Commercial Complex	86%
Shanghai Knowledge and Innovation Community R1	9%
Xihu Tiandi Phase 1	98%

Rental income from our investment properties in 2006 was RMB 358 million, representing an increase of RMB 24 million or approximately 7% over 2005, primarily due to an increase in average rental rates for Corporate Avenue and Shanghai Xintiandi.

Shanghai Xintiandi

Shanghai Xintiandi is a portion of Phase 1 of the entire Shanghai Taipingqiao redevelopment area, and is a mixed-use project development project located at the city centre of Shanghai. It has been developed as a low density commercial, residential, entertainment and cultural complex. Shanghai Xintiandi is an award winning historic zone, which has been opened since 2001, and was fully completed in 2002. Shanghai Xintiandi has become popular with both locals and visitors. It also features a boutique hotel (88 Xintiandi). During 2006, we achieved 94% occupancy in Shanghai Xintiandi, with a long waiting list of potential tenants.

Corporate Avenue

Completed in March 2004, Corporate Avenue is the first phase of the Shanghai Taipingqiao corporate headquarters zone and is located overlooking Taipingqiao Lake. The development comprises a 3-storey commercial building and two premium Grade A office towers, both rising above a common 2-storey commercial podium and a 2-level basement, which accommodates car parking spaces and other building facilities.

Shanghai Rui Hong Xin Cheng commercial complex

The commercial complex is located in Phase 2 of Shanghai Rui Hong Xin Cheng, an upper-middle neighbourhood, and is directly connected to a metro station. It includes a 3-level shopping complex and a 2-level commercial podium situated beneath the residential blocks.

Shanghai Knowledge and Innovation Community

Newly opened in 2006, the Shanghai Knowledge and Innovation Community is located close to 17 universities and colleges in the northeast of downtown Shanghai. Shanghai Knowledge Innovation Community is designed to inspire innovation and entrepreneurship, supported by retail, entertainment and sporting facilities to create a "study, live, work and play" lifestyle. Construction of Hub 1 of Shanghai Knowledge and Innovation Community was completed in November 2006 and potential tenants have signed letters of intent indicating that a satisfactory occupancy rate can be achieved in 2007.

Xihu Tiandi

Set in a park on the renowned West Lake in Hangzhou, Xihu Tiandi is another historic restoration project that is similar to Shanghai Xintiandi. Phase 1 of the project comprises 10 retail blocks and amenities completed in May 2003.

Landbank

Landbank comprises properties under relocation, planning and construction. They represent projects for which the Group has entered into a legally binding master agreement or similar arrangement with, or which we have been awarded following a competitive tender by the relevant regulatory authorities.

As at 31 December 2006, the Group's landbank amounted to approximately 8.4 million sq.m. of GFA located in four cities, namely Shanghai, Chongqing, Wuhan and Hangzhou. Of that amount, the Group's saleable and leasable area amounted to approximately 6.5 million sq.m. of GFA. This is sufficient for the Group's development plans up to 2015. This area together with our approximately 0.4 million sq.m. of completed and unsold properties and approximately 1.5 million sq.m. of open areas and other public facilities render a total GFA of approximately 8.4 million sq.m.

The table below sets out the GFA information on the Group's total saleable and leasable area, which excludes open areas and other public facilities, as at 31 December 2006:

All GFA figures are in sq.m. rounded to the nearest thousand

Project	Total GFA	Completed properties				Clubhouse GFA	Group's interest
		Leasable GFA	Saleable GFA	Leasable GFA	Saleable GFA		
Shanghai Taipingqiao	1,017,000	474,000	336,000	139,000	53,000	15,000	69% & 99%*
Shanghai Rui Hong Xin Cheng	1,080,000	181,000	860,000	28,000	3,000	8,000	99%
Shanghai Knowledge and Innovation Community	518,000	193,000	189,000	67,000	66,000	3,000	70%
Chongqing Tiandi	2,849,000	1,314,000	1,526,000	—	—	9,000	79.4%
Wuhan Tiandi	1,406,000	680,000	725,000	—	—	1,000	100%
Xihu Tiandi	52,000	46,000	—	5,000	—	1,000	100%
Total	6,922,000	2,888,000	3,636,000	239,000	122,000	37,000	

* We have a 69.3% interest in our development of Lakeville Regency, a 97% interest in Shanghai Xintiandi and a 99% interest in the remaining lots within the Shanghai Taipingqiao project, except for Lot 116, in which we have a 98% interest.

In response to the market opportunities and development in China, it is our strategy to continue to increase our landbank in prime locations to accelerate our growth. As mentioned in the Initial Public Offering ("IPO") prospectus, we signed an agreement in July 2006 with the Kunming municipal government to collaborate to research and determine the feasibility in the redevelopment of the northern Caohai district of Kunming. The identified site, with a mixed use of entertainment, cultural, live, work and other facilities, is approximately 4 square kilometers in size and is adjacent to the current city centre, the famous Dianchi Lake, and surrounding the Daguang Park. According to our proposed master plan, the project will have an expected GFA of approximately 2.5 million sq.m. upon completion, subject to change and approval.

In November 2006, we also announced plans to acquire development rights to a piece of land in Yangpu district, Shanghai (also known as Plot A of Lot 24), with an aggregate above ground GFA of approximately 137,400 sq.m. for office and commercial use, through the acquisition of a local company.

If we are successful in acquiring the development rights to the above-mentioned projects, the Group's property portfolio is expected to grow from 8.4 million sq.m. to 11.0 million sq.m., representing an increase of approximately 2.6 million sq.m. or 31%.

In addition, we have received recently an invitation from Shui On Company Limited to participate in a joint venture development of the Dalian Software Park Phase 2, a large-scale city-core development in Dalian. This will cater for the software outsourcing industry, a sector identified by the Dalian Municipal Government as an economic priority for the city. The project will have an expected GFA of approximately 3.9 million sq.m. upon completion, subject to change and approval. We are currently evaluating this investment opportunity. The Group is contemplating a non-controlling interest if it decides to participate, although it is expected that the Group will be the largest single shareholder in the company that owns the project.

Accelerate Growth Through Strategic Partnership

In 2006, we sold a 19.8% interest in our Chongqing Tiandi project to two strategic partners for an aggregate consideration of RMB 1,007 million. As a result of this, a gain of RMB 882 million has been reported and is included in the Group's profit in 2006. By seeking opportunities to enter into strategic partnerships with investors, the Company has been able to accelerate capital for other investment opportunities. It has also helped to share the overall risk involved in developing large-scale projects.

We will continue to forge strategic partnership with other developers, contractors, consultants and other investors with a view to realising the value of our existing sites held for future development at an early stage should the opportunity arise. Whenever we develop good working relationships, in a particular project in a particular city, we intend to replicate that relationship, to the extent commercially feasible, in our other projects that we have in the same city or elsewhere, thereby also enhancing our operational efficiency.

Outlook

In 2006, the PRC Government introduced a series of macro control policies designed to stabilise the real estate market with particular focus on the residential sector. China's plan, however, for continuing rapid economic development will continue to further transform and develop its cities (approximately 20 of which have a population of more than five million people). The continued development of its cities should generate significant economic value for China and opportunities for well capitalised and proven property companies such as Shui On Land. We believe an integral part of the transformation of these cities into modern commercial service centres will depend upon efficient innovative master planning of land utilisation. Our business model, built upon large-scale master planned development projects, position us to benefit from the expected emergence of modern cities in China. We are one of the few leading property developers with experience in managing large-scale, complex, long term projects in China. We are also one of the few companies that hold a quality portfolio of the properties that we have developed as strategic, long-term investments. We believe that Shui On Land is well positioned to increase the scale of its operations by leveraging on our master planning expertise, if and when we feel the right opportunity presents itself. As such, the Group intends to grow by acquiring further landbank in the manner that is set out below in the section headed "Future Plans for Material Investments, Capital Assets and Sources of Funding".

The Company has been selected as a constituent of the Morgan Stanley Capital International ("MSCI") Standard Index Series and Global Growth Index Series in February 2007 and also as a constituent of both the 200-Stock Hang Seng Composite Index and the Hang Seng Freefloat Index Series in March 2007.

Financial Review

Turnover and Operating Results

Turnover increased significantly by 3.6 times to RMB 4,729 million (2005: RMB 1,018 million), primarily due to an increase in the level of property sales.

Gross profit increased significantly by 3.3 times to RMB 2,984 million (2005: RMB 691 million). Gross margin was 63% for 2006 as compared to 68% in 2005. Sufficient provision for Land Appreciation Tax has been made and included in cost of sales.

Other income increased to approximately RMB 256 million (2005: approximately RMB 102 million) due largely to exchange gains from our foreign currency bank loans as a result of Renminbi appreciation in 2006 and an increased interest income as a result of an increased level of deposits with banks after our IPO.

Staff costs increased to approximately RMB 146 million in 2006, compared to approximately RMB 78 million in 2005, due to an increased headcount and general salary increment.

Other expenses increased to approximately RMB 512 million in 2006 from approximately RMB 252 million in 2005. The increase includes professional fees of approximately RMB 151 million that had been incurred in relation to the listing of the shares on the Hong Kong Stock Exchange in 2006. In addition, we have incurred a higher level of sales and marketing expenses in promoting our residential properties in Shanghai, namely Lakeville Regency which is located in our Shanghai Taipingqiao project; phase 1 of our Shanghai Knowledge and Innovation Community project; and phase 2 of our Shanghai Rui Hong Xin Cheng project.

Finance costs increased by 31% to approximately RMB 219 million in 2006 from approximately RMB 167 million in 2005 due to an increase in the average level of borrowings in 2006 related largely to the issuance of notes towards the end of 2005.

Taxation increased to approximately RMB 946 million in 2006 (2005: approximately RMB 332 million) in line with the increase in profits from property sales.

Earnings per share increased by 1.2 times to RMB 48 cents in 2006 from RMB 22 cents in 2005.

Capital Structure, Gearing Ratio and Funding

As at 31 December 2006, our utilised project loans, mortgage loans and notes amounted to approximately RMB 6,477 million (2005: RMB 9,583 million) and our shareholders' equity was approximately RMB 13,592 million (2005: RMB 4,756 million).

The structure of our borrowings as at 31 December 2006 is summarised below:

Currency denomination (in RMB equiv)	Total (in RMB million)	Due within one year (RMB million)	Due more than one year but not exceeding two years (RMB million)	Due more than two years but not exceeding five years (RMB million)
Bank Loans	RMB 1,532	1,462	—	70
	HKD 2,183	221	287	1,675
Notes	USD 2,762	—	2,762	—
Total	6,477	1,683	3,049	1,745

Our cash and bank deposits amounted to RMB 5,654 million as at 31 December 2006 (2005: RMB 2,398 million), which included RMB 1,202 million (2005: RMB 409 million) of deposits pledged to banks. The increase in cash balance during the year was due mainly to (i) the net proceeds raised from the issue of shares under the IPO; (ii) proceeds from the sale of our residential units at Lakeville Regency and phase 2 of our Shanghai Rui Hong Xin Cheng project; (iii) rental income from our investment properties; and (iv) sale of equity interests in subsidiaries to strategic partners.

The Group's net gearing ratio was 5% as at 31 December 2006 (calculated on the basis of dividing the excess of the sum of bank loans and notes payable over the sum of bank balances and cash by total equity).

Total undrawn banking facilities available to the Group were approximately RMB 2,560 million as at 31 December 2006. We will continue to adopt a prudent financial policy so as to sustain an optimal level of borrowings to meet our funding requirements. Our low gearing ratio provided us with ample capacity for leverage to fund future growth. Adequate banking facilities are arranged at the group level to support the funding requirements of all group entities. New banking facilities are being obtained at competitive pricing and terms on a timely basis to match business needs and/or to refinance our existing facilities.

Application of Net IPO Proceeds

In October 2006, the Company issued a total of 671,874,600 shares at HK\$5.35 each for total gross proceeds of HK\$ 3,595 million. The international tranche of the IPO was approximately 17 times over-subscribed and the HK public tranche was 12 times over-subscribed.

The net proceeds from the IPO were approximately HK\$ 3,302 million, after deduction of related expenses. We have utilised our net proceeds from the IPO in the manner contained in the Company's prospectus dated 20 September 2006