**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser for independent advice.

**If you have sold or transferred** all your shares in Shui On Land Limited, you should at once hand this Circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).



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)**

# MAJOR TRANSACTION

# ACQUISITION OF LAND IN FOSHAN

A letter from the Board is set out on pages 3 to 7 of this Circular.

* *for identification purposes only*

6 February 2008

# CONTENTS

*Page*

*In this Circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:*

| | |
|---|---|
| "Acquisition" | the acquisition of the land use rights of the Land pursuant to the successful bid on 30 November 2007; |
| "Announcement" | the announcement made by the Company dated 30 November 2007 in relation to the Acquisition; |
| "associate" | has the meaning ascribed to it in the Listing Rules; |
| "Board" | the board of Directors; |
| "Company" | Shui On Land Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange; |
| "Confirmation Agreement" | the agreement dated 30 November 2007 between the HK Companies and the Land Exchange Center; |
| "Directors" | the directors of the Company; |
| "Group" | the Company and its subsidiaries; |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong; |
| "HK Companies" | Crown Fame Limited, Eastern View Limited, Info Union Limited, Land Pacific Limited, Oriental Host Limited, Regal Victory Limited, Rich Prime Limited and Smart Century Limited, companies incorporated in Hong Kong with limited liability, each being an indirect wholly owned subsidiary of the Company; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |
| "Land" | a piece of land with an area of approximately 639,320 square metres, within which the planned net developable land area is approximately 517,471 square metres, located at south of Ren Min Road (Liao Yuan Road), both sides of Zu Miao Road, both sides of Cheng Men Tou Road, north of Jian Xin Road (Zhao Xiang Road), both sides of Shi Dong Road in Chancheng District, Foshan City, Guangdong Province, the PRC; |
| "Land Exchange Center" | Land Exchange Center, Chancheng District, Foshan City (佛山市禪城區土地交易中心) in the PRC, an agent of the Foshan government, the PRC under the Foshan Bureau of Land and Resources; |

| | |
|---|---|
| "Latest Practicable Date" | 31 January 2008, being the latest practicable date prior to the printing of this Circular for ascertaining certain information herein; |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange; |
| "PRC" | the People's Republic of China, for the purpose of this Circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan; |
| "Project" | the project in relation to the development of the Land; |
| "RMB" | Renminbi, the lawful currency of the PRC; |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| "Share(s)" | ordinary share(s) of US$0.0025 each of the issued share capital of the Company; |
| "Shareholder(s)" | holders of Share(s); |
| "SOCAM" | Shui On Construction and Materials Limited; |
| "SOCAM Share(s)" | ordinary share(s) of HK$1.00 each of the issued share capital of SOCAM; |
| "SOD" | Shui On Development (Holding) Limited, a wholly owned subsidiary of the Company; |
| "SOCL" | Shui On Company Limited, the controlling Shareholder interested in approximately 54.15% of the issued share capital of the Company; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "subsidiary" | has the meaning ascribed to it in the Listing Rules; |
| "US$" | United States dollar, the lawful currency of the United States of America; and |
| "%" | per cent. |

Unless otherwise specified in this Circular and for the purpose of illustration only, RMB is translated to HK$ at the rate of HK$1.00 = RMB0.95. No representation is made that any amount in RMB has been or could be converted at the above rate or at any other rates or at all.

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)**

*Executive Directors:*
Mr. Vincent H. S. LO
*(Chairman and Chief Executive Officer)*
Mr. William T. ADDISON

*Non-Executive Director:*
The Honourable LEUNG Chun Ying

*Independent Non-Executive Directors:*
Sir John R. H. BOND
Dr. Edgar W. K. CHENG
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Dr. Roger L. McCARTHY
Mr. David J. SHAW

*Registered Office:*
Walker House
87 Mary Street
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Grand Cayman KY1-9002
Cayman Islands

*Place of Business in Hong Kong:*
34/F, Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

6 February 2008

*To the Shareholders,*

Dear Sir or Madam,

## MAJOR TRANSACTION

## ACQUISITION OF LAND IN FOSHAN

### 1. INTRODUCTION

The Board announced on 30 November 2007 that the HK Companies, the indirect wholly owned subsidiaries of the Company, had been successful in their bid for the Land located in the city centre of Foshan, the PRC at a price of RMB7,510 million (approximately HK$7,905 million). On 30 November 2007, the HK Companies entered into the Confirmation Agreement with the Land Exchange Center confirming the HK Companies' successful bid for the Land.

* *for identification purposes only*

The Acquisition constitutes a major acquisition for the Company under the Listing Rules. The purpose of this Circular is to provide (i) further details of the Acquisition and the Confirmation Agreement, and (ii) the recommendations of the Board.

## 2. DETAILS OF THE TENDER AND THE ACQUISITION

| | | |
|---|---|---|
| Bidding opening date | : | 21 November 2007 |
| Bidding closing date | : | 30 November 2007 |
| Parties | : | the Land Exchange Center as the tenderer. The Company confirmed that to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Land Exchange Center and its ultimate beneficial owner are third parties independent of the Company and its connected persons.<br><br>the HK Companies as the successful bidders. |
| Subject matter | : | the Land |
| Purpose | : | development of the Project. Details of the Land and the Project are set out in the section headed "Particulars of the Land and the Project" below. |

**Confirmation Agreement**

On 30 November 2007, the HK Companies entered into the Confirmation Agreement with the Land Exchange Center confirming the HK Companies' successful bid for the Land. Pursuant to the terms of the Confirmation Agreement, the Acquisition is conditional upon (a) the development of the Land in line with the PRC government relocation plan, (b) the approval by the PRC government with respect to the master planning of the Project, (c) the payment of the consideration for the Land, (d) the formation of the PRC project company(ies) within 6 months, and (e) signing of the land use rights contract for the Land.

**Consideration and payment terms**

Under the Confirmation Agreement, the total consideration for acquiring, through the successful bid, the land use rights of the Land is RMB7,510 million (approximately HK$7,905 million), and will be payable in cash as follows:-

| **Date of payment** | **Amount payable** |
|---|---|
| On or before 19 November 2007 | RMB1,200 million (approximately HK$1,263 million) (being deposit for the bidding) |
| On or before 29 January 2008 | RMB1,053 million (approximately HK$1,108 million) |

| | |
|---|---|
| Balance of the consideration (representing 70% of the total consideration) will be paid in stages in line with the relocation progress of the Land | RMB5,257 million (approximately HK$5,534 million) |

The consideration was the amount bid by the HK Companies under the public bidding held by the Land Exchange Center during the period from 21 to 30 November 2007 in accordance with the relevant PRC laws and regulations. The amount was determined with reference to the average market price of similar plots of land in the proximity. The Group will fund the consideration partly by its internal resources and partly by bank borrowings. 30% of the consideration will be paid in cash, and the remaining 70% of the consideration will be funded by the proceeds from the sales of equity interests of the Wuhan and Taipingqiao Lot 116 projects and banking facilities.

## 3. PARTICULARS OF THE LAND AND THE PROJECT

The Land covers an area of approximately 639,320 square metres, within which the planned net developable land area is approximately 517,471 square metres. The Foshan government has already commenced relocation process over the Land, and the first plot of cleared land of approximately 24,410 square metres is expected to be delivered to the Group within one month after the payment of 30% of the total consideration for the Acquisition. The remaining plots constituting the Land are expected to be cleared and delivered in stages and the entire Land is expected to be delivered to the Group by or around 2010. However, the timing of the delivery of each plot of the Land is subject to change depending on the progress of the relocation. Pursuant to the form of the land use rights contract for the Land attached to the bidding documents issued by the Land Exchange Center, cleared land will be delivered to the successful bidder(s) which means the Foshan government will be responsible for all the relocation costs and related costs with respect to the relocation of the Land.

The Project will be a large scale city centre redevelopment project for Foshan with a comprehensive mixed use community comprising approximately 1,500,000 square metres gross floor area of office, retail, hotel, cultural facilities and residential property and a "Foshan Tiandi", a restoration project similar to the Shanghai Xintiandi. The Project is named after two protected relics located adjacent to the Land, known as Zumiao (an ancient temple) and Donghuali (a lane inhabited by rich people during the Qing Dynasty). In line with the business model of the Group, the Group may also invite strategic partners to co-invest in the Project if and when suitable opportunity arises, but no definite plan or term has been fixed.

## 4. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Project aligns well with the Group's business model and core competence in developing large scale multiphase integrated property projects. The Directors believe that the Acquisition is a good investment opportunity for the Group to broaden its asset and earning base, and to further develop another landmark in the PRC.

The Directors consider that the terms of the Acquisition are fair and reasonable, and that the Acquisition is on normal commercial terms and in the best interests of the Company and the Shareholders as a whole.

## 5. EFFECTS OF THE ACQUISITION ON THE GROUP

Set out in Appendix II to this Circular is the unaudited pro forma financial information which illustrates the impact of the Acquisition on the assets and liabilities of the Group. The Acquisition has no immediate impact on the earnings of the Group.

## 6. INFORMATION REGARDING THE LAND EXCHANGE CENTER

The Land Exchange Center is an agent of the Foshan government, PRC. The main functions of the Land Exchange Center include (i) being in charge of preliminary examination of the transfer of, lease of and mortgage over the land within Chancheng District, witnessing land transactions and calculating and collecting relevant taxes and fees; and (ii) accepting requests from the PRC government authorities and other enterprises or individuals to conduct tenders, auctions and public quotations relating to land use rights transactions.

## 7. INFORMATION REGARDING THE COMPANY

The Company through its subsidiaries and associates is one of the leading property developers in the PRC. The Group engages principally in the development, sale, leasing, management and the long-term ownership of high-quality residential, office, retail, entertainment and cultural properties in the PRC.

## 8. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As a result of the completion of the Acquisition, the Group would diversify its market segment to Guangdong Province and would have increased its land bank in the PRC, and the Directors believe that the Group would increase its future earnings from the Acquisition by taking advantage of the development and increase in demand in the property market in the PRC.

## 9. IMPLICATIONS OF THE LISTING RULES

On the basis that the applicable percentage ratios in respect of the Acquisition are greater than 25% but less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Acquisition constitutes a major transaction for the Company under the Listing Rules.

Under the Listing Rules, the Acquisition is subject to the approval of the Shareholders. As at the date of the Announcement, Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited, a closely allied group of Shareholders, each being a subsidiary of SOCL, holds 940,000,000 Shares, 788,845,761 Shares and 526,279,964 Shares respectively. Together, they hold approximately 53.87% in the issued share capital of the Company. Since none of the Shareholders is required to abstain from voting on the Acquisition, written approval of Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited has been obtained for the purpose of approving the Acquisition in lieu of an approval from the Shareholders at a shareholders' meeting pursuant to Rule 14.44 of the Listing Rules.

## 10. RECOMMENDATION

The Directors consider that the terms of the Acquisition and the Confirmation Agreement are fair and reasonable, and that the transaction is on normal commercial terms and in the best interests of the Company and the Shareholders as a whole. The Directors would recommend the Shareholders to vote in favour of the Acquisition and the entering into of the Confirmation Agreement if physical meeting were to be held.

## 11. OTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

Yours faithfully,
By Order of the Board
**Shui On Land Limited**
**Vincent H. S. LO**
*Chairman*

## SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

### 1. FINANCIAL INFORMATION

The financial information for the interim results of the Group for the six months ended 30 June 2006 and 2007 have been extracted from the interim report of the Group for the six months ended 30 June 2007, the financial information for the audited annual results of the Group for the year ended 31 December 2004 and 31 December 2005 have been extracted from the prospectus of the Company, and the financial information for the audited annual results of the Group for the year ended 31 December 2006 have been extracted from the annual report of the Group for the year ended 31 December 2006.

(i) **Results**

| | **31 December 2004** | **31 December 2005** | **31 December 2006** | **30 June 2006** | **30 June 2007** |
|---|---|---|---|---|---|
| | *RMB' million* | *RMB' million* | *RMB' million* | *RMB' million (unaudited)* | *RMB' million (unaudited)* |
| Turnover | 1,039 | 1,018 | 4,729 | 2,158 | 2,178 |
| Cost of sales | (600) | (327) | (1,745) | (646) | (665) |
| Gross profit | 439 | 691 | 2,984 | 1,512 | 1,513 |
| Other income | 17 | 102 | 256 | 61 | 128 |
| Staff costs | (66) | (78) | (146) | (64) | (134) |
| Depreciation and release of prepaid lease payments | (16) | (24) | (27) | (13) | (13) |
| Other expenses | (194) | (252) | (512) | (100) | (181) |
| Share of results of associates | — | — | 1 | — | — |
| Net (loss) gain on change in fair value of derivate financial instruments | — | (1) | (478) | 15 | (14) |
| Gain on disposal of equity interest in subsidiaries | — | — | 582 | — | 1 |
| Increase in fair value of investment properties | 1,687 | 607 | 145 | 168 | 267 |
| Finance costs | (109) | (167) | (219) | (167) | (56) |
| Profit before taxation | 1,758 | 878 | 2,586 | 1,412 | 1,511 |
| Income tax expense | (648) | (332) | (946) | (578) | (180) |
| Profit for the year | 1,110 | 546 | 1,640 | 834 | 1,331 |

| | 31 December 2004 RMB' million | 31 December 2005 RMB' million | 31 December 2006 RMB' million | 30 June 2006 RMB' million (unaudited) | 30 June 2007 RMB' million (unaudited) |
|---|---|---|---|---|---|
| Attribute to: | | | | | |
| — Equity holders of the Company | 786 | 380 | 1,146 | 558 | 1,098 |
| — Minority interests | 324 | 166 | 494 | 276 | 233 |
| | 1,110 | 546 | 1,640 | 834 | 1,331 |
| Dividends | — | — | 248 | — | 203 |
| Earnings per shares | | | | | |
| Basic | RMB 0.46 | RMB 0.22 | RMB 0.48 | RMB 0.31 | RMB 0.26 |
| Diluted | RMB 0.39 | RMB 0.14 | RMB 0.38 | RMB 0.19 | RMB 0.26 |

(ii) **Assets and liabilities**

| | 31 December 2004 | 31 December 2005 | 31 December 2006 | 30 June 2007 |
|---|---|---|---|---|
| | *RMB' million* | *RMB' million* | *RMB' million* | *RMB' million* (*unaudited*) |
| Investment properties | 5,142 | 5,877 | 6,205 | 7,652 |
| Property, plant and equipment | 146 | 168 | 188 | 184 |
| Prepaid lease payments | 855 | 2,665 | 3,710 | 4,198 |
| Properties under development | 455 | 1,127 | 1,760 | 1,368 |
| Investment in associates | — | 3 | 3 | 4 |
| Accounts receivables | 12 | 33 | 147 | 296 |
| Pledged bank deposits | 611 | 2 | 368 | 336 |
| Defined benefit assets | — | 3 | 5 | 4 |
| Deferred tax assets | 73 | 94 | 4 | — |
| | 7,294 | 9,972 | 12,390 | 14,042 |
| Current assets | 4,955 | 8,657 | 13,645 | 13,682 |
| Current liabilities | (3,038) | (5,145) | (3,852) | (4,515) |
| Net current assets | 1,917 | 3,512 | 9,793 | 9,167 |
| Non-current liabilities | (4,100) | (8,421) | (7,019) | (6,960) |
| Net assets | 5,111 | 5,063 | 15,164 | 16,249 |

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Group and the balance sheet of the Company and notes to the accounts reproduced from the audited accounts published in the Company's annual report for the year ended 31 December 2006.

**Consolidated Income Statement**

*For the year ended 31 December 2006*

| | NOTES | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Turnover | 6 | 4,729,266 | 1,017,798 |
| Cost of sales | | (1,745,404) | (326,698) |
| Gross profit | | 2,983,862 | 691,100 |
| Other income | 7 | 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 | 8 | (477,504) | (1,180) |
| Increase in fair value of investment properties | | 144,849 | 606,565 |
| Gain on partial disposal of equity interest in subsidiaries | 38 | 582,337 | — |
| Finance costs | 9 | (218,777) | (166,873) |
| Profit before taxation | | 2,585,592 | 877,542 |
| Income tax expense | 10 | (946,052) | (331,856) |
| Profit for the year | 11 | 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 | 13 | 248,065 | — |
| Earnings per share | 14 | | |
| — Basic | | RMB0.48 | RMB0.22 |
| — Diluted | | RMB0.38 | RMB0.14 |

**Consolidated Balance Sheet**

*As at 31 December 2006*

| | NOTES | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | 6,204,900 | 5,877,300 |
| Property, plant and equipment | 16 | 188,265 | 168,006 |
| Prepaid lease payments | 17 | 3,710,446 | 2,664,625 |
| Properties under development | 18 | 1,759,836 | 1,126,833 |
| Interests in associates | 19 | 3,194 | 2,500 |
| Accounts receivable | 21 | 146,907 | 33,214 |
| Pledged bank deposits | 22 | 367,791 | 1,619 |
| Defined benefit assets | 39 | 4,541 | 3,433 |
| Deferred tax assets | 34 | 4,439 | 94,260 |
| | | 12,390,319 | 9,971,790 |
| **Current assets** | | | |
| Inventories | 24 | 2,330 | 2,222 |
| Properties under development | 18 | 4,749,259 | 5,244,106 |
| Properties held for sale | 25 | 1,799,400 | 156,744 |
| Accounts receivable, deposits and prepayments | 21 | 1,444,008 | 678,747 |
| Loan receivable | 23 | 227,067 | — |
| Amount due from an associate | 19 | 1,758 | 1,821 |
| Amounts due from related parties | 26 | 99,924 | 164,053 |
| Amount due from a minority shareholder of a subsidiary | 27 | 5,624 | 5,624 |
| Early redemption rights | 28 | 29,829 | 7,058 |
| Pledged bank deposits | 22 | 833,716 | 407,839 |
| Bank balances and cash | 22 | 4,452,011 | 1,988,944 |
| | | 13,644,926 | 8,657,158 |
| **Current liabilities** | | | |
| Accounts payable, deposits received and accrued charges | 29 | 1,752,878 | 1,739,473 |
| Amounts due to related parties | 26 | 72,806 | 138,002 |
| Amounts due to minority shareholders of subsidiaries | 27 | 267,003 | 272,699 |
| Warrants | 28 | — | 231,474 |
| Tax liabilities | | 75,592 | 106,962 |
| Bank borrowings — due within one year | 30 | 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 |

| | NOTES | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 31 | 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 | 33 | 182,869 | 173,714 |
| Notes | 28 | 2,762,124 | 2,787,811 |
| Bank borrowings — due after one year | 30 | 2,031,634 | 1,262,794 |
| Deferred tax liabilities | 34 | 2,034,636 | 1,321,908 |
| Convertible redeemable preference shares | 35 | — | 2,875,236 |
| Derivative financial instrument designated as hedging instrument | 36 | 7,657 | — |
| | | 7,018,920 | 8,421,463 |
| | | 22,183,652 | 13,483,316 |

## Consolidated Statement of Changes in Equity

*For the year ended 31 December 2006*

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Share premium *RMB'000* | Merger reserve *RMB'000* *(note 32(a))* | Special reserve *RMB'000* *(note 32(b))* | Capital reserve *RMB'000* | Exchange reserve *RMB'000* | Hedge reserve *RMB'000* | Other reserves *RMB'000* *(note 32(c))* | Accumulated profits *RMB'000* | Total *RMB'000* | Minority interests *RMB'000* | Total *RMB'000* |
| At 1 January 2005 | 35,689 | 2,314,911 | 121,988 | (91,573) | 266,600 | 792 | — | 483,330 | 1,387,035 | 4,518,772 | 592,285 | 5,111,057 |
| Exchange difference arising on translation of foreign operations and net income recognised directly in equity | — | — | — | — | — | 31,116 | — | — | — | 31,116 | 5,713 | 36,829 |
| Profit for the year | — | — | — | — | — | — | — | — | 379,962 | 379,962 | 165,724 | 545,686 |
| Total recognised income for the year | — | — | — | — | — | 31,116 | — | — | 379,962 | 411,078 | 171,437 | 582,515 |
| Issue of shares (note 44(g)) | 475 | (475) | — | — | — | — | — | — | — | — | — | — |
| Capital injection | — | — | — | — | — | — | — | — | — | — | 4,380 | 4,380 |
| Capital contribution in relation to an interest free loan advanced by a minority shareholder (note 33) | — | — | — | — | — | — | — | 20,464 | — | 20,464 | 8,770 | 29,234 |
| Deemed distribution to a shareholder upon acquisition of subsidiaries | — | — | — | — | — | — | — | — | (18,112) | (18,112) | — | (18,112) |
| Equity component of preference shares (note 35) | — | — | — | — | 155,974 | — | — | — | — | 155,974 | — | 155,974 |
| Acquisition of additional interests in subsidiaries | — | — | — | (332,382) | — | — | — | — | — | (332,382) | (470,813) | (803,195) |
| At 31 December 2005 | 36,164 | 2,314,436 | 121,988 | (423,955) | 422,574 | 31,908 | — | 503,794 | 1,748,885 | 4,755,794 | 306,059 | 5,061,853 |
| Exchange difference arising on translation of foreign operations | — | — | — | — | (28) | 76,954 | — | — | — | 76,926 | 3,390 | 80,316 |
| Deferred tax on intra-group balances | — | — | — | — | — | (40,449) | — | — | — | (40,449) | — | (40,449) |
| Loss on cash flow hedge | — | — | — | — | — | — | (7,657) | — | — | (7,657) | — | (7,657) |
| Net income/expense recognised directly in equity | — | — | — | — | (28) | 36,505 | (7,657) | — | — | 28,820 | 3,390 | 32,210 |
| Profit for the year | — | — | — | — | — | — | — | — | 1,145,797 | 1,145,797 | 493,743 | 1,639,540 |
| Transfer to profit or loss on cash flow hedge | — | — | — | — | — | — | 2,868 | — | — | 2,868 | — | 2,868 |
| Total recognised income and expense for the year | — | — | — | — | (28) | 36,505 | (4,789) | — | 1,145,797 | 1,177,485 | 497,133 | 1,674,618 |
| Issue of shares at premium | 16,176 | 4,433,055 | — | — | — | — | — | — | — | 4,449,231 | — | 4,449,231 |
| Issue of shares (note 44(f) and (g)) | 5,617 | (5,617) | — | — | — | — | — | — | — | — | — | — |
| Issue of shares on conversion of convertible redeemable preference share (note 35) | 24,334 | 3,507,094 | — | — | (422,546) | — | — | — | — | 3,108,882 | — | 3,108,882 |
| Issue of shares on exercise of warrants (note 28) | 2,124 | 581,160 | — | — | — | — | — | — | — | 583,284 | — | 583,284 |
| Transaction costs attributable to issue of new shares | — | (145,697) | — | — | — | — | — | — | — | (145,697) | — | (145,697) |
| Disposal of equity interest in subsidiaries | — | — | — | — | — | — | — | — | — | — | 404,153 | 404,153 |
| Capitalisation of retained profits by a subsidiary (note 32(c)(iii)) | — | — | — | — | — | — | — | 99,000 | (99,000) | — | — | — |
| Capital injection | — | — | — | — | — | — | — | — | — | — | 5,515 | 5,515 |
| Release of special reserve (note 32(b)) | — | — | — | 22,893 | — | — | — | — | — | 22,893 | — | 22,893 |
| At 31 December 2006 | 84,415 | 10,684,431 | 121,988 | (401,062) | — | 68,413 | (4,789) | 602,794 | 2,795,682 | 13,951,872 | 1,212,860 | 15,164,732 |

**Consolidated Cash Flow Statement**

*For the year ended 31 December 2006*

| | NOTES | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation | | 2,585,592 | 877,542 |
| Adjustments for: | | | |
| Allowance for bad and doubtful debts | | 657 | 984 |
| Allowance for amount due from a jointly controlled entity | | 1,294 | 10,143 |
| Depreciation of property, plant and equipment | | 26,362 | 22,875 |
| Release of prepaid lease payments | | 1,112 | 1,112 |
| Gain on change in fair value of early redemption rights | | (23,013) | (1,952) |
| Loss on change in fair value of conversion option of senior preference shares | | 143,168 | — |
| Loss on change in fair value of warrants | | 357,349 | 3,132 |
| Net foreign exchange gain | | (109,552) | — |
| Loss on cash flow hedge transfer to profit and loss | | 2,868 | — |
| Share of profit of associates | | (694) | — |
| Share of loss of a jointly controlled entity | | — | 52 |
| Gain on partial disposal of equity interest in subsidiaries | | (582,337) | — |
| Finance costs | | 218,777 | 166,873 |
| Loss (gain) on disposal of property, plant and equipment | | 3,299 | (160) |
| Interest income | | (96,253) | (15,701) |
| Increase in fair value of investment properties | | (144,849) | (606,565) |
| Increase in defined benefit assets | | (1,108) | (3,433) |
| Release of special reserve | | 22,893 | — |
| Operating cash flows before movements in working capital | | 2,405,565 | 454,902 |
| Increase in inventories | | (108) | (617) |
| Increase in accounts receivable, deposits and prepayments | | (490,696) | (617,538) |
| Decrease in properties held for sale | | 1,552,401 | 306,330 |
| Increase in accounts payable, deposits received and accrued charges | | 13,405 | 60,190 |
| Cash generated from operations | | 3,480,567 | 203,267 |
| PRC Income Tax paid | | (215,322) | (90,713) |
| **NET CASH FROM OPERATING ACTIVITIES** | | 3,265,245 | 112,554 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | 89,770 | 15,701 |
| Purchase of property, plant and equipment | | (51,632) | (43,813) |
| Proceeds from disposal of property, plant and equipment | | 270 | 341 |
| Additions to investment properties | | (104,322) | (128,488) |

| | NOTES | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Additions to prepaid lease payments | | (1,194,978) | (1,876,435) |
| Additions to properties under development | | (2,619,626) | (2,329,682) |
| Repayment from (advance to) an associate | | 63 | (492) |
| Advance to a jointly controlled entity | | (1,294) | (10,143) |
| Acquisition of subsidiaries | 37 | — | 2,490 |
| Acquisition of additional interests in subsidiaries | | — | (269,645) |
| Proceeds from disposal of equity interest in subsidiaries | 38 | 604,058 | — |
| Investment in an associate | | — | (2,500) |
| Investment in a jointly controlled entity | | — | (52) |
| (Increase) decrease in pledged bank deposits | | (794,008) | 273,404 |
| Increase in loan receivable | | (227,067) | — |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (4,298,766) | (4,369,314) |
| **FINANCING ACTIVITIES** | | | |
| Net proceeds on issuance of shares | | 4,449,231 | — |
| Net proceeds on issuance of notes | | — | 2,994,334 |
| Net proceeds on issuance of preference shares | | — | 1,220,310 |
| Advance from minority shareholders of subsidiaries | | 3,459 | 202,730 |
| Repayment to an associate | | — | (221) |
| Net repayment to related parties | | (1,067) | (464,399) |
| Capital injected from minority shareholders | | 5,515 | 4,380 |
| New bank loans raised | | 3,476,516 | 1,680,676 |
| Repayment of bank loans | | (3,611,065) | (74,199) |
| Share issue expenses | | (145,697) | — |
| Interest and bank charges paid | | (617,612) | (402,160) |
| **NET CASH FROM FINANCING ACTIVITIES** | | 3,559,280 | 5,161,451 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 2,525,759 | 904,691 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | 1,988,944 | 1,090,706 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | (62,692) | (6,453) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | 4,452,011 | 1,988,944 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Bank balances and cash | | 4,452,011 | 1,988,944 |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2006*

### 1. GENERAL

Shui On Land Limited (the "Company") 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 shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 October 2006. The directors of the Company consider that its parent and ultimate holding company is Shui On Company Limited, 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 the Corporate Information section of the annual report.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 46. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendment 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 IFRS2[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

[6] Effective for annual periods beginning on or after 1 November 2006

[7] Effective for annual periods beginning on or after 1 March 2007

[8] 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 as explained in the accounting policies set out below.

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 principal accounting policies adopted are set out as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or 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 in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses 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.

**Merger accounting for common control combinations**

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

**Acquisition of additional interest in a subsidiary**

When the Group increases its interest in an enterprise that is already an entity controlled by the Company, goodwill arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities. No revaluation surplus or deficit on revaluation of the identifiable assets, liabilities and contingent liabilities of the subsidiary to current fair value is recognised in the consolidated balance sheet. The difference between the fair value, representing the amount of consideration less the amount of goodwill, and the carrying amount of the net assets attributable to the additional interest acquired is recognised as a reserve movement. This difference represents the portion of the revaluation difference that arose since the original acquisition date that is attributable to the Group's increased interest in the subsidiary.

**Investment properties**

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. Gains or losses arising from changes in the fair value of investment property are included in 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 or no future economic benefits are expected from its disposals. 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.

**Property, plant and equipment**

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

Depreciation is provided to write off the cost of buildings over their estimated useful lives or where shorter, the terms of leasehold land where the buildings located, using the straight-line method.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than buildings, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

**Prepaid lease payments**

Prepaid lease payments are charged to the income statements on a straight-line basis over the period of the land use rights.

**Properties under development**

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of the costs of the properties under development. Properties under development are carried at cost, less any identified impairment losses.

Properties under development which are intended to be held for own use or their investment potential are shown as non-current assets.

Properties under development which are intended to be held for sale are shown as current assets.

**Interests in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**Interests in jointly controlled entities**

Joint venture arrangements that involve the establishment of a separate entity in which 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 jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. Where the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entities (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entities), the Group discontinues recognising its share of further losses. An additional share of losses is recognised as liability only to the extent the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a group entity transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity.

**Impairment**

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. An impairment loss is recognised as an expense immediately.

Where 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. A reversal of an impairment loss is recognised as income immediately.

**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 less costs to be incurred in marketing, selling and distribution.

**Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised. Net realised value is determined based on prevailing market conditions.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity 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 or 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 in the income statement.

**Financial assets**

The Group's financial assets are mainly loans and receivables. 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.

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 accounts receivable, loan receivable, amount due from an associate, amount due from a jointly controlled entity, amounts due from related parties, amount due from a minority shareholder of a subsidiary and bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in 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.

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Convertible redeemable preference shares*

Junior convertible redeemable preference shares are regarded as compound instruments, consisting of a liability component, an equity component and embedded derivatives which are not closely related to the host contract. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt without the conversion feature. The difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the preference shares into equity of the Company, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible redeemable preference shares is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the embedded option is exercised (in which case the balance stated in capital reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Senior preference shares consist a liability component, embedded derivatives which are not closely related to the host contract (the liability component) and conversion options that are not settled by the exchange of a fixed amount for fixed number of equity instrument. The liability component, embedded derivatives and conversion options are recognised at their fair values at initial recognition. The liability component is subsequently measured at amortised cost by using the effective interest method. The embedded derivatives are subsequently measured at fair value with changes recognised in the income statement. The conversion options which is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured is measured at cost. When, subsequently, the reliable measure is available, the conversion options shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be recognised in the income statement.

Issue costs that relate to the issue of the convertible redeemable preference shares are allocated to the liability and equity/conversion option components in proportion to the allocation of the proceeds. Issue costs relating to the equity component and conversion option derivative are charged directly to equity and the income statement immediately, respectively. Issue 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.

*Notes and Warrants*

At the date of issue, the net proceeds received were assigned to the notes and the warrants according to their fair values. Issue costs are apportioned between the notes and the warrants based on their relative fair value at the date of issue. Notes are subsequently measured at amortised cost, using the effective interest method.

*Other financial liabilities*

The Company's other financial liabilities including accounts payable, amounts due to related parties, amounts due to minority shareholders of subsidiaries, loan from a minority shareholder of a subsidiary and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

**Derivative financial instruments and hedging**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges.

*Embedded derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

*Hedge accounting*

The Group designates certain derivatives as hedging instruments as cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of other expenses or other income. Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

**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 contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 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 the income statement.

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 the income statement.

**Leasing**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. 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.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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 eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the 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 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits 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 realised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**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 exchanges 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 in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in 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 Group (i.e. RMB) 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 exchange reserve). Such exchange differences are recognised in the income statement 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 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 exchange reserve.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. 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 amended benefits become vested. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

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

**Government grants**

Government grants with no further related cost are recognised as income when they are unconditional and become receivable.

**Revenue recognition**

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

Income from properties developed for sale, where there is no pre-sales arrangement prior to completion of the development, is recognised on the execution of a binding sales agreement entered into subsequent to the completion of the development.

Income from properties under pre-sale arrangement prior to completion of the development is recognised on the execution of a binding sales agreement or when the relevant completion certificates are issued by the respective government authorities, whichever is the later. Payments received from the purchasers prior to this stage are recorded as customers' deposits received on sale of properties and presented as current liabilities.

Rental income from operating leases is recognised 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 assets and recognised on straight-line basis over the lease term.

Revenue from serviced apartment operation is recognised upon the provision of the services.

Property management, project management and service fee are recognised on an appropriate basis over the relevant period in which the services are rendered.

Sales of goods are recognised when significant risks and rewards of ownership of goods are transferred to the buyers, generally when goods are delivered and title has passed.

Interest income from a financial assets 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.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

**Critical judgement in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, which are described in note 3, the directors of the Company have made the following judgement and key sources of estimation uncertainty at the balance sheet date. The key assumptions concerning the future that 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.

**Investment properties**

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the income statement.

**Taxation**

As at 31 December 2006, deferred tax assets of RMB61,856,000 (2005: RMB37,597,000) in relation to tax losses have been recognised, as set out in note 34. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The directors of the Company determine the deferred tax assets based on the enacted or substantially enacted tax rates and laws and the best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. The directors of the Company will review the assumptions and profit projections by the balance sheet date. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a recognition or reversal takes place.

**Land Appreciation Tax**

The Group is subject to land appreciation tax in The People's Republic of China ("PRC"). However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of the land appreciation and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the cost of sales and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

**5. FINANCIAL INSTRUMENTS**

a. **Financial risk management objectives and policies**

The Group's major financial instruments include accounts receivable, loan receivable, amount due from an associate, amount due from a jointly controlled entity, amounts due from related parties, amount due from a minority shareholder of a subsidiary, bank deposits, accounts payable, amounts due to related parties, amounts due to minority shareholders of subsidiaries and loan from a minority shareholder of a subsidiary, bank borrowings and notes. 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 management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised below.

*Foreign currency risk*

All of Group's turnover is denominated in RMB. However, the Group has certain debt obligations that are denominated in foreign currency. As a result, the Group is exposed to fluctuations in foreign exchange rates. In order to mitigate the foreign currency risk, the Group has entered into a highly effective cross currency interest swap (which has been designated as an hedging instrument) whereby half of the principal of the US dollar note repayable in October 2008 has been hedged against RMB at an exchange rate close to the balance sheet date. Details of the hedging instrument are set out in note 36. In early January 2007, a similar arrangement has undertaken to hedge the remaining portion of the US dollar note.

The Group continues reviewing the effectiveness of these hedging instruments, and may consider other opportunities to further reduce the currency risk where feasible and cost effective.

*Cash flow interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings at variable rates. The Group has a policy to place surplus funds with creditable financial institutions which offer the best return for the Group on a short-term basis.

The Group continuously monitors the cash flow interest rate risk and may implement effective hedging arrangements when necessary.

*Credit risk*

The Group's principal financial assets are bank balances and cash, accounts receivable, loan receivable and amounts due from related companies, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its accounts receivable and loan receivable. The amounts presented in the balance sheets are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

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

*Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

b. **Fair value**

The fair value 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 bid prices and ask prices respectively;

- 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; and

- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

## 6. 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.

Principal activities are as follows:

| | | |
|---|---|---|
| Property development | — | development and sale of properties |
| Property investment | — | property letting |

**For the year ended 31 December 2006**

| | Property development *RMB'000* | Property investment *RMB'000* | Others *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| **TURNOVER** | | | | |
| External 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** | | | | |
| 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** | | | | |
| Segment assets | 13,306,449 | 6,439,571 | 61,607 | 19,807,627 |
| Interests in associates | | | | 3,194 |
| Unallocated corporate assets | | | | 6,224,424 |
| Consolidated total assets | | | | 26,035,245 |
| **LIABILITIES** | | | | |
| 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 *RMB'000* | Property investment *RMB'000* | Others *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| **TURNOVER** | | | | |
| External 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** | | | | |
| 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** | | | | |
| **ASSETS** | | | | |
| Segment assets | 9,791,730 | 6,112,337 | 36,359 | 15,940,426 |
| Interests in associates | | | | 2,500 |
| Unallocated corporate assets | | | | 2,686,022 |
| Consolidated total assets | | | | 18,628,948 |
| **LIABILITIES** | | | | |
| 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 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.

## 7. 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 *(notes 21 & 44(h)(i))* | 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 |

## 8. 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 *(note 28)* | 357,349 | 3,132 |
| Loss on change in fair value of conversion option of senior preference shares *(note 35)* | 143,168 | — |
| Gain on change in fair value of early redemption rights *(note 28)* | (23,013) | (1,952) |
| | 477,504 | 1,180 |

## 9. 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 *(note 44(h)(i))* | 1,174 | 26,306 |
| Interest on amount due to a minority shareholder of a subsidiary wholly repayable within five years *(notes 27 and 44(h)(i))* | 4,200 | 4,200 |
| Imputed interest on loan from a minority shareholder of a subsidiary wholly repayable within five years *(notes 33 and 44(h)(i))* | 9,155 | 2,948 |
| Interest on consideration payable on acquisition of additional interests in subsidiaries *(notes 29(b) and 44(h)(i))* | 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.

## 10. 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 | — |
| | 183,952 | 115,355 |
| Deferred taxation | 762,100 | 216,501 |
| | 946,052 | 331,856 |

PRC Enterprise Income Tax has been provided at the applicable income tax rate of 33% on the assessable profits of the companies in the Group during the year.

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

Details of the deferred taxation are set out in note 34.

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

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit before taxation | 2,585,592 | 877,542 |
| PRC Enterprise Income Tax at 33% | 853,245 | 289,589 |
| Tax effect of share of profit of associates | (229) | — |
| Tax effect of expenses not deductible for tax purposes | 322,658 | 66,737 |
| Tax effect of income not taxable for tax purposes | (252,385) | (5,186) |
| Tax effect on tax losses not recognised | 12,783 | 25,365 |
| Tax effect on utilisation of tax losses previously not recognised | (4,103) | (10,473) |
| Tax effect on recognition of deferred tax assets arising from tax losses previously not recognised | (3,344) | (34,176) |
| Underprovision in prior year | 17,427 | — |
| Tax charge for the year | 946,052 | 331,856 |

## 11. PROFIT FOR THE YEAR

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit for the year has been arrived at after charging (crediting): | | |
| Allowance for bad and doubtful debts | 657 | 984 |
| Allowance for amount due from a jointly controlled entity | 1,294 | 10,143 |
| Auditors' remuneration | 5,750 | 3,950 |
| Depreciation and release of prepaid lease payments: | | |
| Depreciation of property, plant and equipment | 27,748 | 24,741 |
| Less: Amount capitalised to properties under development | (1,386) | (1,866) |
| | 26,362 | 22,875 |
| Release of prepaid lease payments | 117,858 | 66,784 |
| Less: Amount capitalised to properties under development | (116,746) | (65,672) |
| | 1,112 | 1,112 |
| | 27,474 | 23,987 |
| Loss on disposal of property, plant and equipment | 3,299 | — |
| Staff costs | | |
| Directors' emoluments | 28,736 | 22,740 |
| Other staff costs | | |
| Staff costs excluding retirement benefit costs | 166,787 | 142,387 |
| Retirement benefits costs | 14,599 | 12,975 |
| Total staff costs | 210,122 | 178,102 |
| Less: Amount capitalised to properties under development | (64,334) | (100,452) |
| | 145,788 | 77,650 |
| Cost of properties held for sale recognised as an expense | 1,552,401 | 306,330 |
| Rental charges under operating leases | 24,054 | 20,237 |

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

**Directors**

The emoluments paid or payable to the directors of the Company were as follows:

| Name of director | *Notes* | Fees | Salaries and other benefits | Performance related incentive payments | Retirement benefit costs | 2006 Total | 2005 Total |
|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Vincent H.S. Lo | | — | 13 | — | — | 13 | 56 |
| Mr. Wilfred Y.W. Wong | | — | 6,885 | 4,098 | 414 | 11,397 | 13,448 |
| Mr. William T. Addison | | — | 3,036 | 3,074 | — | 6,110 | 1,668 |
| Sir John R.H. Bond | (a) | 97 | — | — | — | 97 | — |
| The Honourable Chun Ying Leung | (a) | 182 | — | — | — | 182 | — |
| Dr. Edgar W.K. Cheng | (a) | 130 | — | — | — | 130 | — |
| Dr. William K.L. Fung | (a) | 242 | — | — | — | 242 | — |
| Professor Gary C. Biddle | (a) | 303 | — | — | — | 303 | — |
| Dr. Roger L. McCarthy | (a) | 242 | — | — | — | 242 | — |
| Mr. David J. Shaw | (a) | 182 | — | — | — | 182 | — |
| Mr. Louis H.W. Wong | (b) | — | 3,381 | 3,074 | 232 | 6,687 | 5,698 |
| Mr. Shing Sun Hui | (b) | — | 1,973 | 1,025 | 153 | 3,151 | 1,282 |
| Ms. Helen H.L. Li | (c) | — | — | — | — | — | 588 |
| Total for 2006 | | 1,378 | 15,288 | 11,271 | 799 | 28,736 | 22,740 |
| Total for 2005 | | — | 11,626 | 10,099 | 1,015 | 22,740 | |

*Notes:*

(a) Independent non-executive directors

(b) Executive directors resigned and remained as key management during the year

(c) Non-executive director resigned during the year

Of the five highest paid individuals in the Group, four (2005: two) are executive directors of the Company whose emoluments are set out above. The emolument of the remaining (2005: three) individual was as follows:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries, performance related incentive payments and allowances | 6,665 | 7,278 |
| Retirement benefits cost | 145 | 174 |
| | 6,810 | 7,452 |

The emoluments of the remaining highest paid employees were within the following bands:

| | 2006 | 2005 |
|---|---|---|
| | *Number of employees* | *Number of employees* |
| **Emolument bands** | | |
| HK$2,000,001 - HK$2,500,000 | — | 3 |
| HK$6,500,001 - HK$7,000,000 | 1 | — |
| | 1 | 3 |

**13. PROPOSED DIVIDEND**

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Final dividend proposed for 2006 of HK$0.06 (equivalent to RMB0.0593) per share | 248,065 | — |

The final dividend for 2006 of HK$0.06 (equivalent to RMB0.0593) (2005: nil) per ordinary share has been proposed by the directors and is subject to approval by the Company's shareholders in the forthcoming annual general meeting.

**14. EARNINGS PER SHARE**

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

**Earnings**

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Earnings for the purposes of basic earnings per share, being profit for the year attributable to equity holders of the Company | 1,145,797 | 379,962 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible redeemable preference shares charged to consolidated income statement | 3,704 | 62,537 |
| Loss on change in fair value of conversion option of senior preference shares | 143,168 | — |
| Earnings for the purpose of diluted earnings per share | 1,292,669 | 442,499 |

**Number of shares**

| | **2006** | **2005** |
|---|---|---|
| | *'000* | *'000* |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 2,405,144 | 1,725,476 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible redeemable preference shares | 1,002,775 | 1,147,756 |
| Warrants *(Note a)* | — | 23,066 |
| Additional consideration in respect of the Taipingqiao Sale and Purchase Agreement *(note 44(f))* | — | 272,000 |
| Additional consideration in respect of the Rainbow Sale and Purchase Agreement *(note 44(g))* | 1,929 | 35,200 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 3,409,848 | 3,203,498 |

*Notes:*

(a) The computation of diluted earnings per share does not assume the exercise of the Company's outstanding warrants since their exercise would result in an increase in profit per share from continuing operations.

(b) The weighted average number of ordinary shares in issue for the year ended 31 December 2005 has been retrospectively adjusted for the effects of the sub-division of the ordinary shares took place in May 2006.

**15. INVESTMENT PROPERTIES**

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| AT FAIR VALUE | | |
| At beginning of the year | 5,877,300 | 5,142,247 |
| Additions | 104,322 | 128,488 |
| Transfer from prepaid lease payments and properties under development *(notes 17 and 18)* | 78,429 | — |
| Increase in fair value recognised in the consolidated income statement | 144,849 | 606,565 |
| At end of the year | 6,204,900 | 5,877,300 |

The investment properties are all situated in the PRC under long/medium-term leases. All the investment properties are rented out under operating leases.

The fair values of the Group's investment properties at 31 December 2006 and 31 December 2005 have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited (formerly known as Chesterton Petty Limited), an independent qualified professional valuers not connected to the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in relevant locations. The valuations, which conform to the "First Edition of The HKIS Valuation Standards on Properties" published by Hong Kong Institute of Surveyors, have been arrived at by considering the capitalised income to be derived from the properties.

All of the Group's investment properties held under operating leases to earn rentals are classified as investment properties and are accounted for using the fair value model.

**16. PROPERTY, PLANT AND EQUIPMENT**

| | **Buildings** | **Plant and machinery** | **Furniture, fixtures, equipment and motor vehicles** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| AT COST | | | | |
| At 1 January 2005 | 116,583 | 287 | 63,641 | 180,511 |
| Acquisition of a subsidiary | — | — | 3,771 | 3,771 |
| Additions | 17,480 | 246 | 26,087 | 43,813 |
| Disposals | — | — | (1,331) | (1,331) |
| At 31 December 2005 | 134,063 | 533 | 92,168 | 226,764 |
| Exchange realignment | (51) | — | (5) | (56) |
| Additions | 16,628 | 27 | 34,977 | 51,632 |
| Disposals | — | (143) | (25,016) | (25,159) |
| At 31 December 2006 | 150,640 | 417 | 102,124 | 253,181 |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2005 | 10,361 | 151 | 24,471 | 34,983 |
| Acquisition of a subsidiary | — | — | 184 | 184 |
| Charge for the year | 6,166 | 70 | 18,505 | 24,741 |
| Eliminated on disposals | — | — | (1,150) | (1,150) |
| At 31 December 2005 | 16,527 | 221 | 42,010 | 58,758 |
| Charge for the year | 6,872 | 87 | 20,789 | 27,748 |
| Eliminated on disposals | — | (113) | (21,477) | (21,590) |
| At 31 December 2006 | 23,399 | 195 | 41,322 | 64,916 |
| CARRYING VALUES | | | | |
| At 31 December 2006 | 127,241 | 222 | 60,802 | 188,265 |
| At 31 December 2005 | 117,536 | 312 | 50,158 | 168,006 |

The above items of property, plant and equipment, other than buildings, are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

| | |
|---|---|
| Plant and machinery | 10 - 25% |
| Furniture, fixtures, equipment and motor vehicles | 20 - 33% |

Buildings are depreciated using the straight-line method over their estimated useful lives of 50 years or, where shorter, the terms of leasehold land where the buildings are located.

The buildings are all situated in the PRC.

**17. PREPAID LEASE PAYMENTS**

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At beginning of the year | 2,664,625 | 854,974 |
| Additions | 1,194,978 | 1,876,435 |
| Transfer to investment properties (note 15) | (31,299) | — |
| Release for the year (note 11) | (117,858) | (66,784) |
| At end of the year | 3,710,446 | 2,664,625 |

The cost of prepaid lease payments represents the amount paid to the government of the PRC with lease terms ranging from 40 to 70 years.

**18. PROPERTIES UNDER DEVELOPMENT**

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| AT COST | | |
| At beginning of the year | 6,370,939 | 3,999,855 |
| Exchange realignment | (927) | (557) |
| Additions | 3,264,524 | 2,707,666 |
| Release of prepaid lease payments capitalised to properties under development (note 11) | 116,746 | 65,672 |
| Transfer to investment properties (note 15) | (47,130) | — |
| Transfer to properties held for sale | (3,195,057) | (401,697) |
| At end of the year | 6,509,095 | 6,370,939 |
| Carrying amount analysed for reporting purposes as: | | |
| Non-current | 1,759,836 | 1,126,833 |
| Current | 4,749,259 | 5,244,106 |
| | 6,509,095 | 6,370,939 |

The properties under development are all situated in the PRC.

Included in the current portion of properties under development as at 31 December 2006 is carrying value of RMB4,133,483,000 (2005: RMB2,893,233,000) which represents the carrying value of the properties expected to be completed and available for sale after more than twelve months from the balance sheet date.

## 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of investments, unlisted | 2,500 | 2,500 |
| Share of post-acquisition profits | 694 | — |
| | 3,194 | 2,500 |
| Amount due from an associate | 1,758 | 1,821 |

Particulars of the Group's associates at 31 December 2006 are as follows:

| Name of associate | Form of legal entity | Place of incorporation/ registration and operations | Proportion of nominal value of issued ordinary share capital/registered capital held by the Group | Principal activities |
|---|---|---|---|---|
| Synergis Shui On Management Services (Shanghai) Limited | Limited liability company | Hong Kong | 50% | Investment holding |
| 上海松滬公共交通樞紐建設發展有限公司 (Shanghai Songhu Public Traffic Hinge Construction Development Co., Ltd.) | Sino-Foreign Joint Venture | PRC | 25% | Traffic system development |

*Note:* The Group is able to exercise significant influence over Synergis Shui On Management Services (Shanghai) Limited because the Group has the power to appoint 2 out of the 5 directors of that Company.

The amount due from an associate is unsecured, interest free and repayable on demand.

## 20. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of investment, unlisted | 52 | 52 |
| Share of post-acquisition losses | (52) | (52) |
| | — | — |
| Amount due from a jointly controlled entity | 11,437 | 10,143 |
| Less: Allowance | (11,437) | (10,143) |
| | — | — |

Particulars of the Group's jointly controlled entity at 31 December 2006 are as follows:

| Name of jointly controlled entity | Form of legal entity | Place of incorporation and operation | Proportion of nominal value of issued ordinary capital held by the Group | Principal activity |
|---|---|---|---|---|
| Crystal Jade Food and Beverage (Hangzhou) Limited | Limited liability company | Hong Kong | 50% | Investment holding |

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

## 21. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Current accounts receivable (net of allowance for bad and doubtful debts) aged analysis:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| Not yet due | 189,904 | 9,021 |
| Within 30 days | 52,588 | 5,266 |
| 31 - 60 days | 12,230 | 1,910 |
| 61 - 90 days | 3,710 | 1,656 |
| Over 90 days | 32,608 | 3,667 |
| | 291,040 | 21,520 |
| Consideration receivable on partial disposal of equity interest in subsidiaries (note a) | 388,914 | — |
| Prepayments of relocation costs | 617,338 | 600,867 |
| Deposits, other prepayments and receivables | 146,716 | 56,360 |
| | 1,444,008 | 678,747 |

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Non-current accounts receivable comprise: | | |
| Receivables from sales of properties (note b) | 113,587 | — |
| Deferred rental receivables | 33,320 | 33,214 |
| | 146,907 | 33,214 |

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the related sale and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

*Notes:*

(a) The amounts are unsecured, interest free and repayable in accordance with the terms set out in note 38. The amounts are carried at amortised cost at effective interest rate of 8% per annum.

(b) The amount is unsecured and repayable on or before 31 December 2010. Interest are payable as follows:

(i) the whole amount is interest free from 1 January 2007 to 31 December 2007

(ii) half of the amount is interest free and the remaining amount bears interest at 5% per annum from 1 January 2008 to 31 December 2008

(iii) the whole amount bears interest at simple interest rate of 6% per annum from 1 January 2009 to 31 December 2009

(iv) the full amount bears interest at simple interest rate of 8% per annum from 1 January 2010 to 31 December 2010

The amount is carried at amortised cost at effective interest rate of 8% per annum.

**22. PLEDGED BANK DEPOSITS/BANK BALANCES**

Pledged bank deposits represents deposits pledged to the banks to secure the banking facilities granted to the Group. Deposits amounting to RMB367,791,000 (2005: RMB1,619,000) have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

Bank balances carry interest at market rates which range from 0.7% to 5.0%. The pledged bank deposits carry fixed interest rate range from 0.72% to 5.1%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

**23. LOAN RECEIVABLE**

The loan is denominated in RMB, unsecured, interest bearing at 5.022% per annum and repayable on 26 June 2007.

**24. INVENTORIES**

The amount represents finished goods which are carried at cost.

**25. PROPERTIES HELD FOR SALE**

The Group's properties held for sale are situated in the PRC. All the properties held for sale are stated at cost.

**26. AMOUNTS DUE FROM/TO RELATED PARTIES**

Particulars of the amounts due from/to related parties are as follows:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Amounts due from: | | |
| - shareholders | 777 | 103,176 |
| - fellow subsidiaries | 69,496 | 57,241 |
| - a company in which a director of the Company has a beneficial interest (note) | 4,382 | 3,636 |
| - a director | 10,675 | — |
| - close family members of key management | 14,594 | — |
| Amounts due from related parties | 99,924 | 164,053 |
| Amounts due to: | | |
| - shareholders | 19,451 | 18,346 |
| - fellow subsidiaries | 53,355 | 119,656 |
| Amounts due to related parties | 72,806 | 138,002 |

*Note:* Mr. Vincent H.S. Lo, a director of the Company, has a beneficial interest in this related company.

The amounts due from a director and close family members of key management represent receivables arising from sales of properties which are due for settlement in accordance with the terms of the related sale and purchase agreements. The remaining amounts due from/to related companies are unsecured, interest free and repayable on demand.

**27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES**

As at 31 December 2006, other than an amount of RMB84,000,000 (2005: RMB84,000,000) due to a minority shareholder of a subsidiary, which bears interest at 5% (2005: 5%) per annum, the remaining amounts are unsecured, interest free and repayable on demand.

**28. NOTES AND WARRANTS**

On 12 October 2005, the Company, being issuer of warrants, and Shui On Development (Holding) Limited (the "Note Issuer"), a wholly owned subsidiary of the Company, issued 1,750 Class A Units and 2,000 Class B Units (together referred to as the "Units"). Each Class A Unit consists of one US$100,000 principal amount note and 1,071 warrants and each Class B Unit consists of one US$100,000 principal amount note and 1,000 warrants. The notes and the warrants were immediately separable upon the issue date.

**The principal terms of the notes**

The notes are:

(a) general, unsecured obligations of the Note Issuer;

(b) senior in right of payment to any existing and future obligations of the Note Issuer expressly subordinated in right of payment to the notes;

(c) pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Note Issuer (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); and

(d) effectively subordinated to all existing and future obligations of the Note Issuer's subsidiaries.

The notes bear interest at the rate of 8.5% per annum, payable semi-annually in arrears and will mature on 12 October 2008, unless earlier redeemed.

The Note Issuer may, at its option, redeem all or part of the notes at the redemption prices equal to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the twelve-month period beginning on 12 October of the years indicated below:

| 12-month period commencing in year | Percentage |
|---|---|
| 2005 | 108.50% |
| 2006 | 104.25% |
| 2007 | 100.00% |

**The principal terms of the warrants**

Each warrant:

(a) will be exercisable on 30 June 2007, 31 December 2007, 30 June 2008 or 12 October 2008 or, following a Qualifying IPO (as defined in the warrant agreement), the warrants will be exercisable at any time on or after the date of the Qualifying IPO;

(b) when exercised prior to a Qualifying IPO will entitle the holder thereof to receive cash from the Company in an amount equal to the Fair Value (as defined in Section 6.01 (g) of the warrant agreement) of, a number of fully paid and non-assessable ordinary shares of the Company equal to X (as defined in Section 4.01 (k) of the warrant agreement) at an exercise price of US$0.01 per share; subject to adjustments in certain cases as defined in the warrant agreement.

(c) when exercised at any time on or after the date of a Qualifying IPO will entitle the holder thereof to receive cash from the Company in an amount equal to the Fair Value of a number of fully paid and non-assessable ordinary shares of the Company equal to Y (as defined in Section 4.01 (k) of the warrant agreement) at an exercise price of US$0.01 per share, subject to adjustments in certain cases as defined in the warrant agreement; provided that, if the issuance or delivery of ordinary shares by the Company to a holder would not be subject to any pre-emption right of holders of ordinary shares and the exercise price per ordinary shares is equal to or greater than the par value per ordinary share, the Company may deliver, at the Company's sole option, ordinary shares in lieu of cash.

The net proceeds received from the issue of the Units contain the following components that are required to be separately accounted for in accordance with IAS 32 and IAS 39:

(a) Notes represent the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the year is calculated by applying an effective interest rate of approximately 12% to the notes for the year since the Units were issued.

(b) Warrants represent the fair value of the conversion option.

(c) The issuer's option to early redeem all or part of the notes during the period from 12 October 2005 to 11 October 2008.

| | **Notes** | **Warrants** | **Early redemption rights** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 3,750 Units at issue price, net of issue costs, as at 12 October 2005 | 2,771,086 | 228,376 | (5,128) | 2,994,334 |
| Exchange realignment | (188) | (34) | 22 | (200) |
| Interest charged during the year | 73,144 | — | — | 73,144 |
| Interest paid during the year | (56,231) | — | — | (56,231) |
| Loss (gain) on changes in fair values (note 8) | — | 3,132 | (1,952) | 1,180 |
| As at 31 December 2005 | 2,787,811 | 231,474 | (7,058) | 3,012,227 |
| Exchange realignment | (109,552) | (5,539) | 242 | (114,849) |
| Interest charged during the year | 322,204 | — | — | 322,204 |
| Interest paid during the year | (238,339) | — | — | (238,339) |
| Loss (gain) on changes in fair values (note 8) | — | 357,349 | (23,013) | 334,336 |
| Exercised during the year | — | (583,284) | — | (583,284) |
| As at 31 December 2006 | 2,762,124 | — | (29,829) | 2,732,295 |

Pursuant to an amendment agreement in relation to the warrant agreement dated 12 October 2005 entered into in August 2006 among the Company, JP Morgan Chase Bank, N.A. as warrant agent and J.P. Morgan Bank Luxembourg S.A. as registrar, in the event that a prospectus has been issued pursuant to a HK Qualifying IPO (as defined in the agreement), all of the warrants of the Company shall be deemed to be automatically exercised on the same day as the ordinary shares are allotted to investors under the HK Qualifying IPO, without the need for any holder to deliver the warrants or any exercise notice or the payment of the exercise price in respect of those warrants and the warrant shares shall be issued and allotted upon such automatic exercise on the same day. On 4 October 2006, all the warrants were automatically exercised and were converted into 107,370,582 ordinary shares in the Company.

### 29. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *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 |
| | 736,015 | 423,791 |
| Retention payables (note a) | 75,986 | 95,953 |
| Deed tax, business tax and other tax payables | 673,375 | 323,770 |
| Deposits received and receipt in advance from property sales | 20,018 | 12,340 |
| Deposits received and receipt in advance in respect of rental of investment properties | 124,210 | 110,280 |
| Consideration payable on acquisition of additional interests in subsidiaries (note b) | — | 625,970 |
| Other payables and accrued charges | 123,274 | 147,369 |
| | 1,752,878 | 1,739,473 |

*Notes:*

(a) Retention payables are expected to be repaid upon the expiry of the retention periods according to the respective contracts.

(b) The amount was unsecured, interest bearing at three months average London Interbank Offered Rates plus 150 basis points and was fully repaid during the year.

## 30. BANK BORROWINGS

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Repayable within a period of | | |
| - Not more than 1 year or on demand | 1,683,314 | 2,657,022 |
| - More than 1 year, but not exceeding 2 years | 286,863 | 596,000 |
| - More than 2 years, but not exceeding 5 years | 1,744,771 | 666,794 |
| | 3,714,948 | 3,919,816 |
| Less: Amount due within one year shown under current liabilities | (1,683,314) | (2,657,022) |
| Amount due after one year | 2,031,634 | 1,262,794 |
| Analysis of the bank loans by currency: | | |
| Denominated in Hong Kong dollars (note a) | 2,183,348 | 2,497,098 |
| Denominated in RMB (note b) | 1,531,600 | 1,422,718 |
| | 3,714,948 | 3,919,816 |

*Notes:*

(a) The bank loans denominated in Hong Kong dollars are interest bearing at the following rates per annum:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Hong Kong Interbank Offered Rates ("HIBOR") plus 0.8% | 1,120,708 | 1,185,942 |
| HIBOR plus 0.6125% | 618,877 | 579,358 |
| HIBOR plus 0.875% | 443,763 | — |
| HIBOR plus 0.725% | — | 606,798 |
| 90% of The People's Bank of China ("PBOC") Prescribed Interest Rate | — | 125,000 |
| | 2,183,348 | 2,497,098 |

(b) The bank loans denominated in RMB are interest bearing at the following rates per annum:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 90% of PBOC Prescribed Interest Rate | 186,600 | 201,410 |
| 97.8% of PBOC Prescribed Interest Rate | 470,000 | 470,000 |
| 6-months RMB Base Lending Rate stipulated by the PRC | 875,000 | — |
| PBOC Prescribed Interest Rate | — | 106,308 |
| Interest bearing at a floating interest rate (note c) | — | 595,000 |
| Interest bearing at 4.698% | — | 50,000 |
| | 1,531,600 | 1,422,718 |

(c) The loan balance is interest bearing at floating rate (which has initially designed as 6.6% per annum). In the event that the PBOC adjusts its interest rate policy during the loan period, the portion of 6.5% of the applicable interest rate shall be correspondingly adjusted in proportion and the new interest rate shall be applied starting in the month following such adjustment of the PBOC's interest rate policy.

The bank loans as at the balance sheet dates were secured by the pledge of assets as set out in note 40.

**31. SHARE CAPITAL**

On 20 May 2006, the Company passed a resolution that the par value of the ordinary shares of US$0.01 each in the authorised and issued share capital of the Company be sub-divided into four ordinary shares of US$0.0025 each ("Share Split"). In addition, the authorised share capital of the Company was increased by the creation of a further 8,000,000,000 new ordinary shares of US$0.0025 each. All references in the consolidated financial statements referring to share and amount per share of the Company have been restated for the Share Split.

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| | *Number of shares* | *US$000* | *Number of shares* | *US$000* |
| Ordinary shares of US$0.0025 each (after Share Split): | | | | |
| At 1 January 2005 | 4,000,000,000 | 10,000 | 1,724,000,000 | 4,310 |
| Issue of shares (note 44(g)) | — | — | 23,466,668 | 59 |
| At 31 December 2005 | 4,000,000,000 | 10,000 | 1,747,466,668 | 4,369 |
| Increase on 20 May 2006 | 8,000,000,000 | 20,000 | — | — |
| Issue of shares to HSBC Investor (note a) | — | — | 145,009,345 | 363 |
| Issues of shares upon placing and public offer (note b) | — | — | 671,874,600 | 1,680 |
| Issue of shares on conversion of convertible redeemable preference shares (note 35)) | — | — | 1,229,642,644 | 3,074 |
| Issue of shares on exercise of warrants (note 28) | — | — | 107,370,582 | 268 |
| Issue of shares (note 44(f) and (g)) | — | — | 283,733,332 | 709 |
| At 31 December 2006 | 12,000,000,000 | 30,000 | 4,185,097,171 | 10,463 |

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Shown in the consolidated balance sheet as | 84,415 | 36,164 |

*Notes:*

(a) Pursuant to an agreement entered into between the Company and HSBC Securities Investments (Asia) Limited ("HSBC Investor") dated 4 June 2006, the Company issued 145,009,345 ordinary shares of US$0.0025 each to HSBC Investor of HK$5.35 per ordinary share for a total cash consideration of US$100,000,000.

(b) On 4 October 2006, 556,000,000 new ordinary shares of the Company of US$0.0025 each were issued at HK$5.35 per share for cash through an initial public offering by way of placing and public offer.

On 11 October 2006, the over-allotment option was exercised and 115,874,600 new ordinary shares of the Company of US$0.0025 each were issued at HK$5.35 per share issued for cash.

All shares issued during the year rank pari passu in all respects with other shares in issue.

**32. OTHER RESERVES**

(a) Merger reserve represents the aggregate of:

(i) the difference between the nominal value of the share capital and share premium issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;

(ii) the share of profit attributable to the deemed minority shareholders exchanged upon the group reorganisation in 2004; and

(iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a minority shareholder upon the group reorganisation in 2004.

(b) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from minority shareholders, which will be recognised in the income statement upon the earlier of the disposal of the subsidiaries or the disposal by the subsidiaries of the assets to which it relates.

During the year ended 31 December 2006, an amount of RMB22,893,000 (2005: nil) was released to the consolidated income statement upon the disposal by the subsidiaries of the assets to which it relates.

(c) Other reserve comprises:

(i) The amount of RMB483,330,000 represents payable waived in 2004 by Shui On Investment Company Limited, a subsidiary of Shui On Company Limited, in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of Shui On Investment Company Limited, and recharged to certain subsidiaries of the Company.

(ii) Capital contribution of RMB20,464,000 arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a minority shareholder of a subsidiary in 2005, as set out in note 33.

(iii) Non-distributable reserve of RMB99,000,000 arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC.

**33. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**

The amount is unsecured, interest free and repayable in two instalments of RMB100,000,000 each on 31 March 2008 and 31 March 2009. The amount is carried at amortised cost at effective rate of 5.27% (2005: 5.27%) per annum. Fair value adjustment of RMB29,234,000 at the initial recognition was credited to equity.

**34. DEFERRED TAX ASSETS/LIABILITIES**

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

| | Accelerated tax depreciation | Revaluation of properties | Tax losses | Recognition of sales and related cost of sales | Others | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2005 | 71,098 | 926,319 | (25,664) | — | 39,394 | 1,011,147 |
| Charge (credit) to income for the year | 41,521 | 200,926 | (11,933) | — | (14,013) | 216,501 |
| At 31 December 2005 | 112,619 | 1,127,245 | (37,597) | — | 25,381 | 1,227,648 |
| Charge (credit) to income for the year | 42,752 | 47,800 | (24,259) | 698,492 | (2,685) | 762,100 |
| Charge to reserve for the year | — | — | — | — | 40,449 | 40,449 |
| At 31 December 2006 | 155,371 | 1,175,045 | (61,856) | 698,492 | 63,145 | 2,030,197 |

For the purposes of balance sheet presentation, certain deferred tax (assets) liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Deferred tax assets | (4,439) | (94,260) |
| Deferred tax liabilities | 2,034,636 | 1,321,908 |
| | 2,030,197 | 1,227,648 |

As at the balance sheet date, the Group had unused tax losses of RMB288,726,000 (2005: RMB199,044,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB187,443,000 (2005: RMB113,930,000). No deferred tax asset has been recognised in respect of the remaining tax losses of RMB101,283,000 (2005: RMB85,114,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years ending 31 December:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 2007 | 1,285 | 1,285 |
| 2008 | 5,110 | 5,110 |
| 2009 | 14,622 | 14,899 |
| 2010 | 41,530 | 63,820 |
| 2011 | 38,736 | — |
| | 101,283 | 85,114 |

**35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES**

Authorised:

| | **Number of shares** | | | **Junior preference shares of US$0.01 each** | **Senior preference shares of US$0.01 each** | **Total** |
|---|---|---|---|---|---|---|
| | **Junior preference shares** | **Senior preference shares** | **Total** | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2005 and 31 December 2005 | 220,000,000 | 180,000,000 | 400,000,000 | 2,200 | 1,800 | 4,000 |
| Cancelled upon conversion of issued preference shares to ordinary shares | (220,000,000) | (180,000,000) | (400,000,000) | (2,200) | (1,800) | (4,000) |
| At 31 December 2006 | — | — | — | — | — | — |

Issued and fully paid:

| | Number of shares | | | Junior preference shares of US$0.01 each | Senior preference shares of US$0.01 each | Total |
|---|---|---|---|---|---|---|
| | Junior preference shares | Senior preference shares | Total | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at 1 January 2005 | 137,500,000 | 112,500,000 | 250,000,000 | 1,139,017 | 931,922 | 2,070,939 |
| Issued on 20 May 2005 | 55,000,000 | 45,000,000 | 100,000,000 | 447,447 | 366,093 | 813,540 |
| Issued on 20 June 2005 | 27,500,000 | 22,500,000 | 50,000,000 | 223,724 | 183,046 | 406,770 |
| Balance at 31 December 2005 | 220,000,000 | 180,000,000 | 400,000,000 | 1,810,188 | 1,481,061 | 3,291,249 |
| Conversion during the year | (220,000,000) | (180,000,000) | (400,000,000) | (1,810,188) | (1,481,061) | (3,291,249) |
| Balance at 31 December 2006 | — | — | — | — | — | — |

All the above junior preference shares and senior preference shares were issued at US$1 per share.

In January 2006, the Company received notice from a holder of convertible redeemable preference shares for the conversion of 10,000,000 senior preference shares of US$0.01 each into 8,115,547 ordinary shares of US$0.01 each (which were subsequently sub-divided into 32,462,188 ordinary shares of US$0.0025 each in May 2006). The ordinary shares were issued in March 2006.

On 4 October 2006, all the then junior preference shares and remaining senior preference shares were converted into 1,197,180,456 ordinary shares of US$0.0025 each pursuant to the provision of the Company's Article of Association which requires that all the preference shares be converted into ordinary shares upon the date on which the securities of the Company are first listed on a stock exchange in connection with a Qualifying IPO (as defined in the Company's Articles of Association).

Pursuant to the resolution passed by the Company on 6 June 2006, upon the issue of the ordinary shares into which the junior preference shares and senior preference shares were converted, all the authorised but unissued share capital attributable to the junior preference shares and senior preference shares (including the authorised but unissued share capital attributable to the senior preference shares and junior preference shares arising from conversion) have been cancelled.

The movement of convertible redeemable preference shares are as follows:

| | Liability component RMB'000 | Equity component RMB'000 | Conversion options of senior preference shares RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2005 | 1,743,213 | 266,572 | — | 2,009,785 |
| Exchange realignment | (38,348) | — | — | (38,348) |
| | 1,704,865 | 266,572 | — | 1,971,437 |
| Convertible redeemable preference shares issued on 20 May 2005 | 708,491 | 105,049 | — | 813,540 |
| Convertible redeemable preference shares issued on 20 June 2005 | 355,845 | 50,925 | — | 406,770 |
| Net proceeds received | 1,064,336 | 155,974 | — | 1,220,310 |
| Interest charged during the year | 296,398 | — | — | 296,398 |
| Interest paid during the year | (190,363) | — | — | (190,363) |
| At 31 December 2005 | 2,875,236 | 422,546 | — | 3,297,782 |
| Exchange realignment | (70,334) | — | — | (70,334) |
| Interest charged during the year | 273,102 | — | — | 273,102 |
| Interest paid during the year | (112,290) | — | — | (112,290) |
| Change in fair value (note 8) | — | — | 143,168 | 143,168 |
| Conversion during the year | (2,965,714) | (422,546) | (143,168) | (3,531,428) |
| **At 31 December 2006** | — | — | — | — |

The principal terms of these preference shares include the following:

**Conversion**

(i) Mandatory conversion:

The Company may, having given notice to the holders of the preference shares pursuant to the provisions of the Company's Articles of Association, require that all of the preference shares be converted into ordinary shares, provided that (a) the conversion date shall be at least 18 months after 31 May 2004; and (b) the conversion shall be effective only upon, but not before, the date on which the securities of the Company are first listed on a stock exchange in connection with a Qualifying IPO (as defined in the Company's Articles of Association), or such earlier date as may be approved by the holders then outstanding, whereupon all the preference shares shall automatically be converted without any further act by the Company or the members of the Company into such number of fully paid ordinary shares as determined in accordance with the then effective conversion rate.

(ii) Optional conversion:

(a) at the option of the holder thereof, at any time after the date of their allotment and without the payment of any additional consideration thereof, into such number of ordinary shares as determined in accordance with the then effective conversion rate credited as fully paid; and

(b) at the option of the Company pursuant to the Agreement (see note 44(a)), at any time after the date falling 60 days from the date of issue of a capital call by the Company, if the holder thereof shall continue to be in default of its obligation to subscribe for further preference shares under such capital call and the preference shares to be subscribed by such holder shall not have been subscribed by other members of the Company, into such number of ordinary shares as determined in accordance with the then effective conversion rate credited as fully paid.

(iii) Conversion price:

The junior preference shares and the senior preference shares are convertible into ordinary shares at an initial conversion price of US$1.07 and US$1.35, respectively. The conversion prices are subject to adjustments in accordance with the Company's Articles of Association. Following the Share Split of the Company's ordinary shares, the conversion prices of the junior preference shares and the senior preference shares have been adjusted in accordance with the Company's Articles of Association.

(iv) In the event of a mandatory conversion of senior preference shares, the number of ordinary shares to which the holder of senior preference shares shall be entitled upon such mandatory conversion shall be capped at that number of ordinary shares which shall provide the holder with an internal rate of return on the holder's investment in such senior preference shares of 27.5%, computed in accordance with accepted financial practice in Hong Kong and on the basis that the ordinary shares arising from such conversion shall be valued at the price at which shares of the Company are on offer for subscription pursuant to an initial public offering.

**Redemption**

(i) Junior preference shares

(a) a holder may, at any time prior to 31 May 2009, by notice in writing require the Company to redeem all or some of its shares, in multiples of not less than 100,000 shares, on 31 May 2010;

(b) if an Event of Default (as defined in the Agreement) has been declared in accordance with the Agreement, the holders of at least 70% of the then outstanding junior preference shares may, by a written notice, require the Company to redeem all or part of their shares within 6 months from the date of the written notice; and

(c) subject to points (i)(a) and (i)(b) above and the mandatory conversion, the Company shall redeem all of the then outstanding junior preference shares on 31 May 2011.

The redemption price payable by the Company shall be a sum equal to any arrears or accruals of cash dividends payable in respect of the junior preference shares calculated up to the relevant redemption date, plus the issue price paid on the junior preference shares, plus a premium equal to the amount derived by dividing the Equity Participation (as defined in the Company's Articles of Association) by the total number of junior preference shares issued up to the relevant redemption date.

(ii) Senior preference shares

(a) a holder may, at any time prior to 31 May 2008, by notice in writing require the Company to redeem all or some of its shares, in multiples of not less than 100,000 shares, on 31 May 2009;

(b) if an Event of Default (as defined in the Agreement) has been declared in accordance with the Agreement, the holders of at least 70% of the then outstanding senior preference shares may, by a written notice, require the Company to redeem all or part of their shares within 6 months from the date of the written notice; and

(c) subject to points (ii)(a) and (ii)(b) above and the mandatory conversion, the Company shall redeem all of the then outstanding senior preference shares on 31 May 2011.

The redemption price payable by the Company shall be a sum equal to any arrears or accruals of cash dividends and cumulative dividends payable in respect of the senior preference shares calculated up to the relevant redemption date, plus the issue price paid on the senior preference shares, plus a premium equal to the amount derived by dividing the Equity Participation (as defined in the Company's Articles of Association) by the total number of senior preference shares issued up to the relevant redemption date. The overall return, including Equity Participation, on the senior preference shares investment to the holders thereof shall be capped at an internal rate of return of 27.5% before the application of the Discount Factor (as defined in the Company's Articles of Association).

**Dividend**

(i) The junior preference shares confer on the holders thereof the entitlement to a fixed cumulative preferential cash dividend at the rate of 7% per annum of the issue price commencing from the date of issue of the junior preference shares, payable semi-annually and in priority to the dividend in respect of the ordinary shares.

(ii) The senior preference shares confer on the holders thereof the following entitlements:

(a) a fixed cumulative preferential cash dividend at the rate of 7.5% per annum of the issue price commencing from the date of issue of the senior preference shares and payable semi-annually; and

(b) a fixed cumulative preferential cash dividend at the rate of 7.5% per annum of the issue price commencing from the date of issue of the senior preference shares and payable on the redemption date.

The cash dividends of senior preference shares are rank in priority to the ordinary shares and the junior preference shares on payment of dividend.

The net proceeds received from the issue of convertible redeemable preference shares contain the following components that are required to be separately accounted for in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement":

(a) Debt component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the year is calculated by applying effective interest rates of approximately 12% (2005: 12%) to the debt component for the year since the convertible redeemable preference shares were issued.

(b) Equity component represents the fair value of the embedded conversion option to convert the liability into equity of the Company.

(c) Embedded derivatives, comprising:

(i) The holder's option to extend the redemption date from 31 May 2010 to 31 May 2011 and from 31 May 2009 to 31 May 2011 for junior preference shares and senior preference shares, respectively.

(ii) Premium payable by the Company upon redemption of the junior preference shares and the senior preference shares, equal to the amount derived by dividing the Equity Participation (as defined in the Clauses 3B.22 and 3A.22 of the Company's Articles of Association) by the total number of junior/senior preference shares issued up to the redemption date. For senior preference shares, the overall return, including Equity Participation, on the senior preference shares investment to the holders thereof shall be capped at an internal rate of return of 27.5% before the application of the Discount Factor (as defined in clause 3A.22 of the Company's Articles of Association).

In the opinion of the directors of the Company, the fair value of the embedded derivatives is nil as at 31 December 2005 and 4 October 2006, the date that all outstanding preference share were converted.

(d) Conversion options of senior preference shares — in the event of a mandatory conversion of senior preference share, the number of ordinary shares to which the holders of senior preference shares shall be entitled upon mandatory conversion shall be capped at that number of ordinary shares which shall provide the holders with an internal rate of return on the holder's investment in such senior preference shares of 27.5%, computed in accordance with accepted financial practice in Hong Kong and on the basis that the ordinary shares arising from such conversion shall be valued at the price at which shares of the Company are on offer for subscription pursuant to an initial public offering.

The conversion options are linked to and must be settled by delivery of the equity shares of the Company whose fair values cannot be reliably measured as at 1 January 2005 or 31 December 2005.

Fair value of the conversion options at 4 October 2006, the date that all outstanding senior preference shares were converted, amounting to RMB143,168,000.

## 36. DERIVATIVE FINANCIAL INSTRUMENT DESIGNATED AS HEDGING INSTRUMENT

At 31 December 2006, the Group has outstanding cross currency swap to receive interest at fixed rate of 8.5% per annum based on notional amount of US$187,500,000, pay interest at fixed rate of 5.2% per annum based on notional amount of RMB1,467,000,000 and to exchange the principal at maturity. The Group has designated the cross currency swap to hedge against the cash flow arising from the fluctuation of currency in relation to the notes issued by the Group. The terms of the cross currency swap have been negotiated to match the terms of the notes.

As at 31 December 2006, fair value loss of RMB7,657,000 arising from cross currency swap have been deferred in equity and are expected to be released to the income statement at various dates in the coming twenty-two months after the balance sheet date, the period in which the interest and principal of the notes are expected to settle.

**37. ACQUISITION OF SUBSIDIARIES**

On 11 July 2005, the Group acquired the entire equity interests in Chinalink Capital Limited and New Asia Limited, which are companies under common control of Shui On Company Limited, for an aggregate cash consideration of RMB5,000. The acquisition of the above subsidiaries are accounted for using the principles of merger accounting.

| | *RMB'000* |
|---|---|
| Net liabilities acquired: | |
| Property, plant and equipment | 3,587 |
| Inventories | 154 |
| Bank balances and cash | 2,495 |
| Accounts receivable, deposits and prepayments | 1,266 |
| Accounts payable and accrued charges | (2,024) |
| Amounts due to related parties | (23,585) |
| Net identifiable liabilities | (18,107) |
| Deemed distribution to a shareholder upon acquisition of subsidiaries | 18,112 |
| Total consideration, satisfied by cash | 5 |
| Net cash flow arising on acquisition: | |
| Cash consideration paid | (5) |
| Cash and cash equivalents acquired | 2,495 |
| | 2,490 |

**38. DISPOSAL OF INTEREST IN SUBSIDIARIES**

Pursuant to a sale and purchase agreement dated 1 September 2006 entered into between Shui On Development (Holding) Limited ("Shui On Development") as seller and an independent third party as purchaser, Shui On Development agreed to sell to the purchaser a 9.9% of the issued share capital of Score High Limited, a then wholly owned subsidiary of the Company. The consideration for the sale of the equity interests, which amounted to RMB503,382,000, is payable by two instalments in US dollars. The first instalment in the sum of RMB352,367,000 was settled on 15 November 2006 and the second instalment of RMB151,015,000 shall be paid on or before 30 June 2007.

Pursuant to a sale and purchase agreement dated 9 September 2006 entered into between Shui On Development as seller and a preference shareholder of the Company as purchaser, Shui On Development agreed to sell to the purchaser another 9.9% of the issued share capital of Score High Limited, a then wholly owned subsidiary of the Company, subject to the terms and conditions of the agreement. The consideration for the sale of the equity interests, which amounted to RMB503,382,000, is payable by three instalments in US dollars. The first instalment in the sum of RMB251,691,000 was settled on 15 November 2006, the second instalment in the sum of RMB75,507,000 was settled on 31 March 2007 and the third instalment on the remaining sum of RMB176,184,000 shall be paid on or before 30 June 2007.

A gain of RMB582,337,000 arose from the above disposals, after deducting the fair value adjustment of RMB20,274,000 at the initial recognition in respect of the considerations due on 31 March 2007 and 30 June 2007, has been recognised in the consolidated income statement for the year ended 31 December 2006.

## 39. PROVIDENT AND RETIREMENT FUND SCHEMES

**Hong Kong**

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The Plan was set up by the Group during 2004. 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.

**The MPF Scheme**

For members of the MPF Scheme, contributions made by the employees at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of service with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated income statement as staff costs during the year ended 31 December 2006 amounted to RMB110,000 (2005: RMB171,000). The amount of the employer's voluntary contributions to the MPF Scheme forfeited for the financial periods referred to above were immaterial and had been used to reduce the existing level of contributions.

**The Plan**

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. The current employer contribution rate ranges from 5% to 10% 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 basic contribution plus the member's basic contribution 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 length 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 2005 and 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 used as at the balance sheet date are as follows:

| | **2006** | **2005** |
|---|---|---|
| Discount rate | 3.75% | 4.25% |
| Expected rate of salary increase | 3% | 1% for the next two years commencing 1 January 2006 and 2% thereafter |
| Expected rate of return on plan assets | 8.25% | 6.5% |

The actuarial valuation showed that the fair value of the plan assets attributable to the Group at 31 December 2006 was RMB66,190,000 (2005: RMB47,057,000), representing 112% (2005: 107%) of the benefits that had accrued to members. The surplus of the plan assets at 31 December 2006 of RMB6,951,000 (2005: surplus of RMB2,923,000).

Amounts recognised in the consolidated income statement for the years ended 31 December 2005 and 31 December 2006 in respect of the defined benefit plan are as follows:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Current service cost | 2,207 | 2,161 |
| Interest cost | 1,783 | 1,631 |
| Expected return on plan assets | (3,035) | (2,748) |
| Net amount charged to consolidated income statement as staff costs | 955 | 1,044 |

The actual returns on plan assets allocated to the Group for the years ended 31 December 2005 and 31 December 2006 were gains of RMB3,667,000 and RMB16,407,000, respectively.

The amounts included in the consolidated balance sheets arising from the Group's obligations in respect of the Plan are as follows:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Present value of defined benefit obligations | 59,239 | 44,134 |
| Unrecognised actuarial gain (losses) | 2,410 | (510) |
| Fair value of plan assets | (66,190) | (47,057) |
| Defined benefit assets | (4,541) | (3,433) |

Movements in the present value of the defined benefit obligations in the current year were as follows:

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | 44,134 | 42,080 |
| Exchange realignment | (1,511) | (926) |
| Current service cost | 2,207 | 2,162 |
| Interest cost | 1,783 | 1,631 |
| Contributions from plan participants | 1,561 | 1,405 |
| Actuarial losses/(gains) | 10,470 | (948) |
| Transfer-in liabilities for transferred participants | 1,389 | 3,926 |
| Benefits paid | (794) | (5,196) |
| At 31 December | 59,239 | 44,134 |

Movements in the fair value of the plan assets in the current year were as follows:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | (47,057) | (41,076) |
| Exchange realignment | 1,611 | 903 |
| Expected return on plan assets | (3,035) | (2,748) |
| Actuarial gains | (13,372) | (919) |
| Contributions from the employer | (2,181) | (3,082) |
| Contributions from plan participants | (1,561) | (1,405) |
| Benefits paid | 794 | 5,196 |
| Transfer-in assets | (1,389) | (3,926) |
| At 31 December | (66,190) | (47,057) |

**PRC**

According to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are required to contribute a specified percentage of the payroll of their employees to retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.

**40. PLEDGE OF ASSETS**

The following assets were pledged to banks as securities to obtain certain banking facilities at the balance sheet date:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Investment properties | 6,204,900 | 5,877,300 |
| Property, plant and equipment | 89,550 | 61,330 |
| Prepaid lease rentals | 260,713 | 417,449 |
| Properties under development | 1,053,078 | 3,216,614 |
| Properties held for sale | 949,688 | 147,870 |
| Bank deposits | 1,201,507 | 409,458 |
| | 9,759,436 | 10,130,021 |

In addition, the equity interests in certain subsidiaries were also pledged to banks as securities to obtain banking facilities at the balance sheet date.

### 41. LEASE ARRANGEMENTS

**As lessor**

Property rental income in respect of the investment properties earned, net of outgoings, during the year ended 31 December 2006 was RMB322,548,000 (2005: RMB292,868,000). The investment properties held have committed tenants for the next one to fifteen years at fixed rentals. Certain leases contain contingent rental income recognised during the year ended 31 December 2006 amounting to RMB10,497,000 (2005: RMB11,666,000).

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

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within one year | 404,731 | 325,621 |
| In the second to fifth years inclusive | 499,279 | 615,752 |
| Over five years | 126,655 | 120,587 |
| | 1,030,665 | 1,061,960 |

**As lessee**

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

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within one year | 30,396 | 19,977 |
| In the second to fifth years inclusive | 48,826 | 45,478 |
| Over five years | 100,500 | 82,500 |
| | 179,722 | 147,955 |

Operating lease payments represent rentals payable by the Group for certain of its office and retail properties. Leases are negotiated for an average term of one to twenty years.

## 42. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

As at the respective balance sheet dates, the Group had the following commitments:

| | 2006 | 2005 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Contracted but not provided for: | | |
| Capital expenditure in respect of properties under development in the PRC | 3,874,165 | 5,356,222 |
| Capital expenditure in respect of the acquisition of property, plant and equipment | 1,962 | 763 |

### (b) Other commitments

(i) On 13 September 2004, the Group entered into an agreement with Shui On Construction Company Limited, a subsidiary of Shui On Company Limited, to form a company in which the Group is entitled to share 1% of the result of, and to provide a funding not exceeding RMB320,000 to, the company. Shui On Company Limited is the ultimate holding company of the Company.

No capital had been contributed by the Group to this company as at 31 December 2006 and 31 December 2005.

In August 2004, the Group issued a letter of guarantee amounting to HK$6,730,000 jointly with Shui On Construction Company Limited in favour of a third party to guarantee the due performance of the company.

(ii) Pursuant to an agreement entered into with the district government (the "Luwan Government") of the Luwan District, Shanghai, the PRC, the Group has committed to build certain educational facilities to be located in the Taipingqiao area of the Luwan District as compensation for the removal of those educational facilities originally located in that area. As at 31 December 2006, no construction contracts related to the educational facilities were entered into.

(iii) Pursuant to an agreement entered into with the 上海市虹口區衛生局 of the Hongkou District, Shanghai, the PRC on 20 June 2006, the Group has committed to build a hospital to be located in the Rui Hong Xin Cheng area of the Hongkou District as compensation for the removal of those medical and health care services originally located in that area. As at 31 December 2006, no construction contracts related to the hospital were entered into.

(iv) Pursuant to an agreement entered into with the 上海市江灣體育場 on 20 September 2006, the Group has committed to pay a minimum fixed sum of RMB24,000,000 for the right to operate the gymnasium located in the Jian Wan area of the Yangpu District, Shanghai from 1 January 2007 to 31 December 2026.

(c) **Contingent liabilities**

Financial guarantee contracts:

(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 RMB324 million (2005: RMB324 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 RMB414,026,000 (2005: RMB16,408,000) in respect of mortgage facilities granted to the buyers of its residential properties.

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 balance sheets as at 31 December 2006 and 31 December 2005.

**43. MAJOR NON-CASH TRANSACTIONS**

Details of the non-cash transaction entered into during the year ended 31 December 2006 and 2005 in relation to the disposal of equity interest in Score High Limited and the acquisition of additional interest in Interchina International Limited are set out in notes 38 and 44(e), respectively.

**44. RELATED PARTY TRANSACTIONS**

Apart from the related party transactions and balances as stated in notes 19, 20, 26, 27, 32, 33 and 42, the Group had the following transactions with certain subsidiaries of Shui On Company Limited.

(a) Pursuant to a subscription and shareholders' agreement dated 18 February 2004 (the "Agreement") entered into among the Company, NRI Limited (a wholly owned subsidiary of Shui On Construction and Materials Limited), the Investors (as defined in the Agreement), Shui On Investment Company Limited, Shui On Properties Limited, Shui On Company Limited and Shui On Construction and Materials Limited, NRI Limited agreed to subscribe in stages up to 50,000,000 junior preference shares and the Investors agreed to subscribe in stages up to 170,000,000 junior preference shares and 180,000,000 senior preference shares in the Company, in each case at a subscription price of US$1 per share in cash.

On 20 May 2005 and 20 June 2005, the Company issued 12,500,000 and 6,250,000 junior preference shares of US$0.01 each for a total consideration of US$12,500,000 and US$6,250,000 (equivalent to approximately RMB103,456,000 and RMB51,728,000), respectively, to NRI Limited.

(b) Pursuant to a sale and purchase agreement dated 11 July 2005 entered into among the Company as purchaser, Shui On Investment Company Limited as vendor and Shui On Company Limited as guarantor, the Company agreed to acquire the entire equity interests in, and the benefits of debts due from, Chinalink Capital Limited and New Asia Limited. The consideration for acquisition of the equity interests and the benefits of the debts are RMB5,000 and RMB6,292,000, respectively.

(c) Pursuant to a promissory note entered into between the Group and Shanghai Ruichen Property Company Limited ("Shanghai Ruichen"), a subsidiary of Shui On Company Limited, in September 2005, a loan of RMB100,000,000 was granted by Ruichen to the Group. The amount was unsecured and interest bearing at 5.22% per annum for the period from September 2005 to November 2005. The promissory note matured in November 2005 and was replaced by a loan agreement with the same amount of loan. Under the agreement, the loan is unsecured, interest free and repayable within one year from the balance sheet date.

(d) On 12 October 2005, 1,000 Class B Units, as set out in note 28, were subscribed by Shui On Investment Company Limited, a shareholder of the Company, for a cash consideration of US$100,000,000.

(e) Pursuant to a sale and purchase agreement dated 7 December 2005 entered into among Equity Millennium Limited ("Equity Millennium") and Shun Hing China Investment Limited ("Shun Hing") as vendors and Shui On Development as purchaser, Shui On Development agreed to acquire 20% and 10% of the issued share capital of a then 70% owned subsidiary, Interchina International Limited ("Interchina"), from Equity Millennium and Shun Hing, respectively. In addition, Shui On Development also agreed to acquire the benefit of the shareholders' loans advanced to Interchina by Equity Millennium and Shun Hing amounting to RMB61,168,000 and RMB30,584,000, respectively. The consideration for the acquisition of the equity interests and the benefit of the shareholders' loans, which amounted to RMB802,488,000 and RMB91,752,000, respectively, is payable by two instalments in US dollars. The first instalment amounting to RMB268,270,000 was settled in December 2005. The second instalment amounting to RMB625,970,000 was interest bearing at three months average London Interbank Offered Rates plus 150 basis points and was fully paid during the year ended 31 December 2006.

(f) Pursuant to a sale and purchase agreement dated 18 February 2004 (the "Taipingqiao Sale and Purchase Agreement") entered into among Shui On Investment Company Limited as vendor, the Company as purchaser and Shui On Company Limited as guarantor, the Company agreed to acquire from Shui On Investment Company Limited the Sale Shares, the Interest and the benefits of the Debts (as defined in the Taipingqiao Sale and Purchase Agreement), subject to and in accordance with the terms and conditions stipulated in the Taipingqiao Sale and Purchase Agreement. The acquisition was satisfied by the issue of 301,000,000 ordinary shares of US$0.01 each (which were subsequently sub-divided into 1,204,000,000 ordinary shares of US$0.0025 in May 2006) each in the Company and was completed on 31 May 2004.

Pursuant to the Taipingqiao Sale and Purchase Agreement, Shui On Investment Company Limited, a subsidiary of Shui On Company Limited, is entitled to receive additional consideration up to a maximum amount of US$74,000,000 payable by the Company, if all of the performance targets specified in the Taipingqiao Sale and Purchase Agreement are achieved. Any additional consideration shall be satisfied by the Company by way of allotment and issue to Shui On Investment Company Limited of the relevant number of ordinary shares of par value of US$0.01 each credited as fully paid and valued for this purpose at US$1.00 per share.

On 4 October 2006, the Company issued and allotted a total of 272,000,000 shares of US$0.0025 each, credited as fully paid, to Shui On Investment Company Limited as settlement of additional consideration pursuant to the Taipingqiao Sale and Purchase Agreement.

(g) Pursuant to the sale and purchase agreement dated 18 February 2004 (the "Rainbow Sale and Purchase Agreement") entered into between Shui On Construction and Materials Limited as vendor and the Company as purchaser, the Company agreed to acquire from Shui On Construction and Materials Limited the entire issued share capital of Foresight Profits Limited and the benefits of the amount owned by Hollyfield Holdings Limited, a wholly owned subsidiary of Foresight Profits Limited, to Shui On Construction and Materials Limited immediately prior to the completion of the Rainbow Sale and Purchase Agreement, subject to and in accordance with the terms and conditions stipulated in the Rainbow Sale and Purchase Agreement. The acquisition was satisfied by the issue of 130,000,000 ordinary shares of US$0.01 each (which were subsequently sub-divided into 520,000,000 ordinary shares of US$0.0025 in May 2006) each in the Company and was completed on 31 May 2004.

Pursuant to the Rainbow Sale and Purchase Agreement, Shui On Construction and Materials Limited, a subsidiary of Shui On Company Limited, is entitled to receive additional consideration up to the maximum amount of US$8,800,000 payable by the Company, if all of the performance targets specified in the Rainbow Sale and purchase Agreement are achieved. Any additional consideration shall be satisfied by the Company by way of allotment and issue to Shui On Construction and Materials Limited of the relevant number of ordinary shares of par value of US$0.01 each credited as fully paid and valued for this purpose at US$1.00 per share.

On 9 December 2005, the Company issued and allotted a total of 5,866,667 ordinary shares of US$0.01 each (which were subsequently sub-divided into 23,466,668 shares of US$0.025 each in May 2006), credited as fully paid, to Shui On Construction and Materials Limited as settlement of additional consideration pursuant to the Rainbow Sale and Purchase Agreement.

On 2 March 2006, the Company issued and allotted a total of 2,933,333 ordinary shares of US$0.01 each (which were subsequently sub-divided into 11,733,332 ordinary shares of US$0.0025 each in May 2006), credited as fully paid, to Shui On Construction and Materials Limited as settlement of additional consideration pursuant to the Rainbow Sale and Purchase Agreement.

(h) Pursuant to the Taipingqiao Sale and Purchase Agreement (note 44(f)), an indemnity was granted by Shui On Investment Company Limited, a subsidiary of Shui On Company Limited, to the Company in respect of the potential tax charge that may arise in the event that the development costs in connection with a man-made lake and the underground carpark in the Taipingqiao area in Shanghai cannot be utilised for tax purpose in respect of certain subsidiaries as stated in the Taipingqiao Sale and Purchase Agreement.

(h) The Group also had the following transactions with related companies as follows:

(i) Nature of transaction

| | 2006<br>*RMB'000* | 2005<br>*RMB'000* |
|---|---|---|
| **Related companies in which directors of the Company have beneficial interests** | | |
| Project consultancy fee | — | 4,910 |
| **Fellow subsidiaries** | | |
| Sales and marketing fee income | 180 | 180 |
| Commission expenses | — | 141 |
| Interest expenses | — | 1,187 |
| Rental and building management income | 804 | 3,299 |
| Property, plant and equipment rental income | — | 2,798 |
| Project management fee income | 960 | 960 |
| Project construction fees | 30,432 | 106,220 |
| Rental and building management fee expenses | 17,794 | 16,194 |
| Agency fee | 11,410 | — |
| Sales and marketing expenses | 1,242 | — |
| **Associates** | | |
| Building management fee expenses | 472 | 556 |
| Rental income | 325 | 238 |
| Sales and marketing fee income | — | 240 |
| **Shareholders** | | |
| Interest expenses | 1,174 | 25,119 |
| Reimbursement of staff cost received | 597 | 1,988 |
| Reimbursement of staff cost paid | 1,691 | — |
| Rental and building management fee expenses | 2,692 | — |
| **Minority shareholders of subsidiaries** | | |
| Interest income | 6,483 | — |
| Interest expenses | 45,120 | 7,148 |
| Property management fee | 3,272 | 3,272 |
| **Jointly controlled entity** | | |
| Rental and building management fee income | 4,865 | 4,492 |
| Rental and building management fee expenses | 699 | 487 |
| Sales and marketing fee income | 240 | 240 |
| **A director** | | |
| Property sales | 14,906 | — |
| **Close family members of key management** | | |
| Property sales | 14,670 | — |

**45. SUMMARISED BALANCE SHEET OF THE COMPANY**

| | **2006** | **2005** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Investments in subsidiaries | 1,236,899 | 1,267,219 |
| Amounts due from subsidiaries | 6,204,374 | 4,775,299 |
| Other receivables | 31,982 | — |
| Bank balances | 2,682,705 | 286,140 |
| Total assets | 10,155,960 | 6,328,658 |
| Warrants | — | (231,474) |
| Amount due to a subsidiary | (29,337) | (425,736) |
| Convertible redeemable preference shares | — | (2,875,236) |
| Total liabilities | (29,337) | (3,532,446) |
| Net assets | 10,126,623 | 2,796,212 |
| Share capital | 84,415 | 36,164 |
| Reserves | 10,042,208 | 2,760,048 |
| Total equity | 10,126,623 | 2,796,212 |

## 46. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2006 are as follows:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Atlantic Best Limited | Hong Kong 5 January 2001 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Bestwealth Holdings Limited | British Virgin Islands ("BVI") 18 November 2004 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Billion Glory Limited | Hong Kong 14 March 2003 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Billion World Limited | Hong Kong 19 November 2003 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Bondwise Profits Limited | BVI 28 December 2000 | 1 ordinary share of US$1 | 70% | Hong Kong | Investment holding |
| Bright Continental Limited | Hong Kong 5 March 2003 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Bright Power Enterprises Limited | BVI 1 July 2004 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Bright Winner Limited | Hong Kong 27 December 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Brixworth International Limited | BVI 3 January 2001 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Century Team Limited | Hong Kong 16 January 1998 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Chinalink Capital Limited | BVI 16 July 2003 | 999 ordinary shares of US$1 each | 100% | Hong Kong | Investment holding |
| China Advance Limited | Hong Kong 13 November 2006 | 1 ordinary share of HK$1 | 100% | Hong Kong | Investment holding |
| China Wealth (H.K.) Limited | Hong Kong 4 January 2006 | 1 ordinary share of HK$1 | 100% | Hong Kong | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Chongqing Shui On Tiandi Property Development Co. Ltd. | PRC 21 November 2003 | Registered and paid up capital US$71,750,000 | 79.398% | PRC | Property development |
| Citichamp Limited | Hong Kong 19 July 2006 | 1 ordinary share of HK$1 | 100% | Hong Kong | Investment holding |
| Cititop Pacific Limited | Hong Kong 1 December 2000 | 2 ordinary shares of HK$1 each | 70% | Hong Kong | Investment holding |
| Costworth Investments Limited | BVI 12 January 2001 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Cybricity Limited | Hong Kong 28 April 2000 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| East Trend Limited | Hong Kong 14 February 2001 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Excel Efficient Limited | BVI 19 August 2002 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Fieldcity Investments Limited | BVI 30 March 2005 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Focus Top Limited | Hong Kong 24 April 1998 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Foresight Profits Limited | BVI 8 February 2001 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Galore Profits Limited | BVI 23 January 2001 | 1 ordinary share of US$1 | 70% | Hong Kong | Investment holding |
| Global Ocean Investments Limited | BVI 1 November 2002 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Globaland Limited | Hong Kong 30 October 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Globe State Properties Limited | BVI 12 October 2005 | 100 ordinary shares of US$1 each | 70% | Hong Kong | Investment holding |
| Glory Advance Investments Limited | BVI 18 August 2006 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Grand Hope Limited | Hong Kong 14 March 2003 | 2 ordinary shares of HK$1 each | 80.2% | Hong Kong | Investment holding |
| Grand Rich Limited | Hong Kong 14 March 2003 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Hangzhou Xihu Tiandi Management Company Limited | PRC 6 March 2003 | Registered and paid up capital US$1,400,000 | 100% | PRC | Property management |
| Hangzhou Xihu Tiandi Properties Company Limited | PRC 12 June 2003 | Registered and paid up capital US$34,540,000 | 100% | PRC | Property development |
| Hollyfield Holdings Limited | Mauritius 19 April 2001 | 2 ordinary shares of US$1 each | 100% | Hong Kong | Investment holding |
| Infoshore International Limited | BVI 1 November 2002 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Interchina International Limited | BVI 12 January 2001 | 100 ordinary shares of US$1 each | 100% | Hong Kong | Investment holding |
| Join Legend Limited | Hong Kong 2 June 2006 | 1 ordinary share of HK$1 each | 100% | Hong Kong | Investment holding |
| Keen Allied Investments Limited | BVI 18 September 2002 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| King Concord Limited | Hong Kong 3 October 2006 | 1 ordinary share of HK$1 | 100% | Hong Kong | Investment holding |
| Kinmax Limited | Hong Kong 24 April 1998 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Legend City Limited | Hong Kong 4 June 1997 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Lucky Gain Limited | Hong Kong 8 November 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Marble Way Limited | BVI 28 August 1996 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Modern Prosper Investments Limited | BVI 1 November 2002 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| New Asia Limited | Hong Kong 31 October 2003 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| New Power Profits Limited | BVI 18 October 2005 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Onfair Limited | Hong Kong 13 November 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Onwin Limited | Hong Kong 13 November 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Oriental Gain Limited | Hong Kong 2 February 2001 | 2 ordinary shares of HK$1 each | 70% | Hong Kong | Investment holding |
| Pacific Gain Limited | Hong Kong 11 September 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Portspin Limited | BVI 22 May 1997 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Princemax Limited | Hong Kong 15 April 1998 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Profitstock Holdings Limited | BVI 2 June 2005 | 100 ordinary shares of US$1 each | 70% | Hong Kong | Investment holding |
| Score High Limited | BVI 12 February 2003 | 1,000 ordinary share of US$1 | 80.2% | Hong Kong | Investment holding |
| Shanghai Bai-Xing Properties Co., Limited | PRC 2 February 1999 | Registered and paid up capital RMB151,300,000 | 97% | PRC | Property development |
| Shanghai Fu Ji Properties Co., Ltd. | PRC 18 January 2004 | Registered capital US$35,773,000 Paid up capital US$9,184,180 | 99% | PRC | Property development |
| Shanghai Fu-Xiang Properties Co., Ltd. | PRC 19 December 2001 | Registered capital RMB345,000,000 Paid up capital RMB219,088,690 | 99% | PRC | Property development |
| Shanghai Ji-Xing Properties Co., Ltd. | PRC 2 February 1999 | Registered and paid up capital RMB71,600,000 | 97% | PRC | Property development |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Shanghai Jing-Fu Property Co., Ltd. | PRC 26 December 2001 | Registered and paid up capital RMB400,000,000 | 69.3% | PRC | Property development |
| Shanghai Lakeville Properties Co., Ltd. (formerly known as Shanghai Si Fu Properties Co., Ltd.) | PRC 23 May 2001 | Registered and paid up capital RMB165,000,000 | 69.3% | PRC | Property development |
| Shanghai Le Fu Properties Co., Ltd. | PRC 20 February 2004 | Registered capital US$42,507,000 Paid up capital US$39,971,656 | 99% | PRC | Property development |
| Shanghai IPO Food & Beverage Co., Ltd. | PRC 6 September 2006 | Registered and paid up capital US$1,050,000 | 100% | PRC | Food and beverage services |
| Shanghai Rui Hong Xin Cheng Co., Ltd. | PRC 2 July 2001 | Registered and paid up capital RMB567,000,000 | 99% | PRC | Property development |
| Shanghai Rui Zhen Food & Beverage Co., Ltd. | PRC 7 November 2003 | Registered and paid up capital US$2,100,000 | 99% | PRC | Food and beverage services |
| Shanghai Taipingqiao Properties Management Company Limited | PRC 31 August 2001 | Registered and paid up capital RMB1,655,000 | 99% | PRC | Property management |
| Shanghai Xin-tian-di Plaza Co., Ltd. | PRC 2 February 1999 | Registered and paid up capital RMB101,300,000 | 97% | PRC | Property development |
| Shanghai Xing-Bang Properties Co., Ltd. | PRC 21 June 2001 | Registered and paid up capital RMB290,500,000 | 99% | PRC | Property development |
| Shanghai Xing-Qi Properties Co., Ltd. | PRC 2 February 1999 | Registered and paid up capital RMB274,900,000 | 97% | PRC | Property development |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Shanghai Xing Qiao Properties Co., Ltd. | PRC 18 January 2004 | Registered capital US$37,727,000 Paid up capital US$37,429,753 | 99% | PRC | Property development |
| Shanghai Xintiandi Huting Food & Beverage Co., Ltd. | PRC 14 March 2005 | Registered and paid up capital US$1,750,000 | 100% | PRC | Food and beverage services |
| Shanghai Yangpu Centre Development Company Limited | PRC 26 August 2003 | Registered and paid up capital US$60,500,000 | 70% | PRC | Property development |
| Shui On Development (Holding) Limited | Cayman Islands 27 July 2005 | 22 ordinary shares of US$0.01 each | 100% | PRC | Investment holding |
| Shui On Land Management Limited | Hong Kong 12 May 2004 | 1 ordinary share of HK$1 | 100% | Hong Kong | Provision of management services |
| Shui On Secretaries & Nominees Limited | Hong Kong 30 November 2006 | 1 ordinary share of HK$1 | 100% | Hong Kong | Provision of secretarial services |
| Shine First Limited | BVI 25 October 2006 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Shine Prime Investments Limited | BVI 2 November 2006 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Sino Realty Limited | Hong Kong 3 October 2006 | 1 ordinary share of HK$1 | 100% | Hong Kong | Investment holding |
| Sino Wisdom Investments Limited | BVI 12 May 2006 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Sinoco Limited | Hong Kong 28 October 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Sinothink Holdings Limited | BVI 15 September 2000 | 100 ordinary shares of US$1 each | 100% | Hong Kong | Investment holding |
| Smart Silver Limited | BVI 18 December 2002 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Super Field Limited | Hong Kong 25 February 2005 | 1 ordinary share of HK$1 | 100% | Hong Kong | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held *(Note 1)* | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Timezone Management Limited | BVI 28 February 2001 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Tip Profit Limited | BVI 18 July 2006 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Union Grow Limited | Hong Kong 8 November 2002 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Wuhan Shui On Tiandi Property Development Co., Ltd. | PRC 2 August 2005 | Registered capital US$97,000,000 Paid up capital US$66,000,000 | 100% | PRC | Property development |
| 上海瑞安房地產發展有限公司 (Shui On Development Limited (formerly known as Shanghai Shui On Land Limited)) | PRC 14 June 2004 | Registered and paid up capital US$5,350,000 | 100% | PRC | Management |

*Notes:*

1. The Company directly holds the equity interest in Shui On Development (Holding) Limited. All other equity interests shown above are indirectly held by the Company.

2. All subsidiaries established in the PRC are either equity joint ventures or cooperative joint ventures except 上海瑞安房地產發展有限公司 (Shui On Development Limited (formerly known as Shanghai Shui On Land Limited)) which is a wholly foreign owned enterprise.

3. Except for Shui On Development (Holding) Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the year.

## 3. UNAUDITED CONDENSED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below is the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement of the Group and notes on such accounts reproduced from the accounts published in the Company's interim report for the six months ended 30 June 2007.

**CONDENSED CONSOLIDATED INCOME STATEMENT**
*For the six months ended 30 June 2007*

| | Notes | Six months ended 30 June 2007 RMB'million (unaudited) | 2006 RMB'million (unaudited) |
|---|---|---|---|
| Turnover | 3 | 2,178 | 2,158 |
| Cost of sales | | (665) | (646) |
| Gross profit | | 1,513 | 1,512 |
| Other income | | 128 | 61 |
| Staff costs | 4 | (134) | (64) |
| Depreciation and release of prepaid lease payments | 5 | (13) | (13) |
| Other expenses | | (181) | (100) |
| (Loss) gain on change in fair value of derivative financial instruments | 6 | (14) | 15 |
| Increase in fair value of investment properties | 12 | 267 | 168 |
| Gain on disposal of interests in subsidiaries | 19 | 1 | — |
| Finance costs | 7 | (56) | (167) |
| Profit before taxation | | 1,511 | 1,412 |
| Income tax expense | 8 | (180) | (578) |
| Profit for the period | 9 | 1,331 | 834 |
| Attributable to: | | | |
| Equity holders of the Company | | 1,098 | 558 |
| Minority interests | | 233 | 276 |
| | | 1,331 | 834 |
| Dividends | 10 | | |
| — Paid, 2006 final | | 248 | — |
| — Declared, 2007 interim | | 203 | — |
| Earnings per share | 11 | | |
| — Basic | | RMB 0.26 | RMB 0.31 |
| — Diluted | | RMB 0.26 | RMB 0.19 |

**CONDENSED CONSOLIDATED BALANCE SHEET**
*As at 30 June 2007*

| | Notes | **30 June 2007** *RMB'million (unaudited)* | **31 December 2006** *RMB'million (audited)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 12 | 7,652 | 6,205 |
| Property, plant and equipment | | 184 | 188 |
| Prepaid lease payments | | 4,198 | 3,710 |
| Properties under development | | 1,368 | 1,760 |
| Interests in associates | | 4 | 3 |
| Accounts receivable | 13 | 296 | 147 |
| Pledged bank deposits | | 336 | 368 |
| Defined benefit assets | | 4 | 5 |
| Deferred tax assets | | — | 4 |
| | | 14,042 | 12,390 |
| **Current assets** | | | |
| Inventories | | 2 | 2 |
| Properties under development for sale | | 5,642 | 4,749 |
| Properties held for sale | | 1,146 | 1,799 |
| Accounts receivable, deposits and prepayments | 13 | 1,559 | 1,445 |
| Loan receivable | | 233 | 227 |
| Amount due from an associate | | 2 | 2 |
| Amounts due from related parties | | 43 | 100 |
| Amount due from a minority shareholder of a subsidiary | | 6 | 6 |
| Tax recoverable | | 141 | — |
| Early redemption rights on notes | | 15 | 29 |
| Pledged bank deposits | | 826 | 834 |
| Bank balances and cash | | 4,067 | 4,452 |
| | | 13,682 | 13,645 |
| **Current liabilities** | | | |
| Accounts payable, deposits received and accrued charges | 14 | 1,793 | 1,752 |
| Amounts due to related parties | | 47 | 73 |
| Amounts due to minority shareholders of subsidiaries | | 373 | 267 |
| Tax liabilities | | 29 | 76 |
| Bank borrowings - due within one year | | 2,273 | 1,683 |
| | | 4,515 | 3,851 |
| **Net current assets** | | 9,167 | 9,794 |
| **Total assets less current liabilities** | | 23,209 | 22,184 |

| | Notes | 30 June 2007 *RMB'million* *(unaudited)* | 31 December 2006 *RMB'million* *(audited)* |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 15 | 84 | 84 |
| Reserves | | 14,708 | 13,868 |
| Equity attributable to equity holders of the Company | | 14,792 | 13,952 |
| Minority interests | | 1,457 | 1,213 |
| **Total equity** | | 16,249 | 15,165 |
| **Non-current liabilities** | | | |
| Loan from a minority shareholder of a subsidiary | | 91 | 183 |
| Notes | 17 | 2,734 | 2,762 |
| Bank borrowings - due after one year | | 1,911 | 2,032 |
| Deferred tax liabilities | | 2,178 | 2,035 |
| Derivative financial instrument designated as hedging instrument | | 46 | 7 |
| | | 6,960 | 7,019 |
| | | 23,209 | 22,184 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2007*

| | Attributable to equity holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Special reserve | Capital reserve | Share option reserve | Exchange reserve | Hedge reserve | Other reserves | Accumulated profits | Total | Minority interests | Total |
| | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* |
| | | | *(Note 16(a))* | *(Note 16(b))* | | *(Note 18)* | | | *(Note 16(c))* | | | | |
| At 1 January 2007 | 84 | 10,684 | 122 | (401) | — | — | 69 | (5) | 603 | 2,796 | 13,952 | 1,213 | 15,165 |
| Net exchange difference arising on translation of foreign operations and intra-group balances | — | — | — | — | — | — | (17) | — | — | — | (17) | 3 | (14) |
| Deferred tax on intra-group balances | — | — | — | — | — | — | (19) | — | — | — | (19) | — | (19) |
| Loss on cash flow hedge | — | — | — | — | — | — | — | (39) | — | — | (39) | — | (39) |
| Net income (expense) recognised directly in equity | — | — | — | — | — | — | (36) | (39) | — | — | (75) | 3 | (72) |
| Profit for the period | — | — | — | — | — | — | — | — | — | 1,098 | 1,098 | 233 | 1,331 |
| Transfer to profit or loss on cash flow hedge | — | — | — | — | — | — | — | 54 | — | — | 54 | — | 54 |
| Total recognised income (expense) for the period | — | — | — | — | — | — | (36) | 15 | — | 1,098 | 1,077 | 236 | 1,313 |
| Share-based payments | — | — | — | — | — | 11 | — | — | — | — | 11 | — | 11 |
| Capital injection by minority shareholders | — | — | — | — | — | — | — | — | — | — | — | 8 | 8 |
| Dividends paid | — | — | — | — | — | — | — | — | — | (248) | (248) | — | (248) |
| At 30 June 2007 (unaudited) | 84 | 10,684 | 122 | (401) | — | 11 | 33 | 10 | 603 | 3,646 | 14,792 | 1,457 | 16,249 |

| | Attributable to equity holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Special reserve | Capital reserve | Share option reserve | Exchange reserve | Hedge reserve | Other reserves | Accumulated profits | Total | Minority interests | Total |
| | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* |
| | | | *(Note 16(a))* | *(Note 16(b))* | | *(Note 18)* | | | *(Note 16(c))* | | | | |
| At 1 January 2006 | 36 | 2,314 | 122 | (424) | 423 | — | 32 | — | 504 | 1,749 | 4,756 | 306 | 5,062 |
| Net exchange difference arising on translation of foreign operations and intra-group balances | — | — | — | — | — | — | 89 | — | — | — | 89 | 1 | 90 |
| Deferred tax on intra-group balances | — | — | — | — | — | — | (7) | — | — | — | (7) | — | (7) |
| Net income recognised directly in equity | — | — | — | — | — | — | 82 | — | — | — | 82 | 1 | 83 |
| Profit for the period | — | — | — | — | — | — | — | — | — | 558 | 558 | 276 | 834 |
| Total recognised income for the period | — | — | — | — | — | — | 82 | — | — | 558 | 640 | 277 | 917 |
| Issue of shares | 3 | 878 | — | — | — | — | — | — | — | — | 881 | — | 881 |
| Release of special reserve | — | — | — | 1 | — | — | — | — | — | — | 1 | — | 1 |
| Capital injection | — | — | — | — | — | — | — | — | — | — | — | 6 | 6 |
| At 30 June 2006 (unaudited) | 39 | 3,192 | 122 | (423) | 423 | — | 114 | — | 504 | 2,307 | 6,278 | 589 | 6,867 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2007*

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| | *(unaudited)* | *(unaudited)* |
| Net cash from operating activities | 1,453 | 2,147 |
| Net cash used in investing activities | | |
| Additions to properties under development | (1,092) | (1,886) |
| Additions to prepaid lease payments | (892) | (374) |
| Decrease (increase) in pledged bank deposits | 40 | (1,398) |
| Other investing cash flows | 51 | 10 |
| | (1,893) | (3,648) |
| Net cash from financing activities | | |
| New bank loans raised | 1,145 | 1,358 |
| Repayment of bank loans | (605) | (562) |
| Dividend paid | (248) | — |
| Other financing cash flows | (209) | (302) |
| Net proceeds on issuance of ordinary shares | — | 798 |
| | 83 | 1,292 |
| Net decrease in cash and cash equivalents | (357) | (209) |
| Cash and cash equivalents at the beginning of the period | 4,452 | 1,989 |
| Effect of foreign exchange rate changes | (28) | (54) |
| Cash and cash equivalents at the end of the period | 4,067 | 1,726 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 4,067 | 1,726 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2007*

### 1. GENERAL

The Directors of the Company consider that its parent and ultimate holding company is Shui On Company Limited, a private limited liability company incorporated in the British Virgin Islands.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed 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 accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee Interpretations ("IFRIC") which are effective for the Group's financial year beginning 1 January 2007.

The adoption of these new IASs, IFRSs and IFRIC has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new IASs, IFRSs and IFRIC that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| IFRIC 11 | IFRS 2 - Group and treasury share transactions[1] |
| IFRIC 12 | Service concession arrangements[2] |
| IFRIC 13 | Customer loyalty programmes[3] |
| IFRIC 14 | IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction[2] |
| IAS 1 (Revised) | Presentation of Financial Statements[4] |
| IAS 23 (Revised) | Borrowing costs[4] |
| IFRS 8 | Operating segments[4] |

[1] Effective for annual periods beginning on or after 1 March 2007

[2] Effective for annual periods beginning on or after 1 January 2008

[3] Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 January 2009

## 3. SEGMENT INFORMATION

**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.

Principal activities are as follows:

| | |
|---|---|
| Property development | - development and sale of properties |
| Property investment | - property letting |

Segment information about these segments are presented below:

For the six months ended 30 June 2007

| | Property development | Property investment | Others | Consolidated |
|---|---|---|---|---|
| | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* |
| TURNOVER | | | | |
| External sales | 1,943 | 214 | 21 | 2,178 |
| RESULTS | | | | |
| Segment results | 1,262 | 476 | 12 | 1,750 |
| Interest income | | | | 77 |
| Finance costs | | | | (56) |
| Loss on change in fair value of derivative financial instruments | | | | (14) |
| Gain on disposal of interests in subsidiaries | | | | 1 |
| Net unallocated expenses | | | | (247) |
| Profit before taxation | | | | 1,511 |
| Income tax expense | | | | (180) |
| Profit for the period | | | | 1,331 |

For the six months ended 30 June 2006

| | Property development | Property investment | Others | Consolidated |
|---|---|---|---|---|
| | *RMB'million* | *RMB'million* | *RMB'million* | *RMB'million* |
| TURNOVER | | | | |
| External sales | 1,945 | 201 | 12 | 2,158 |
| RESULTS | | | | |
| Segment results | 1,323 | 337 | 5 | 1,665 |
| Interest income | | | | 23 |
| Finance costs | | | | (167) |
| Gain on change in fair value of derivative financial instruments | | | | 15 |
| Net unallocated expenses | | | | (124) |
| Profit before taxation | | | | 1,412 |
| Income tax expense | | | | (578) |
| Profit for the period | | | | 834 |

**Geographical segment**

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

### 4. STAFF COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| Directors' emoluments | | |
| Fees | 1 | — |
| Salaries and other benefits | 16 | 7 |
| Retirement benefit costs | — | — |
| Share-based payments | 7 | — |
| | 24 | 7 |
| Other staff costs | | |
| Salaries and other benefits | 136 | 94 |
| Retirement benefits costs | 11 | 7 |
| Share-based payments | 4 | — |
| | 151 | 101 |
| Total staff costs | 175 | 108 |
| Less: Amount capitalised to properties under development | (41) | (44) |
| | 134 | 64 |

### 5. DEPRECIATION AND RELEASE OF PREPAID LEASE PAYMENTS

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| Depreciation of property, plant and equipment | 13 | 13 |
| Less: Amount capitalised to properties under development | (1) | (1) |
| | 12 | 12 |
| Release of prepaid lease payments | 50 | 39 |
| Less: Amount capitalised to properties under development | (49) | (38) |
| | 1 | 1 |
| | 13 | 13 |

## 6. (LOSS) GAIN ON CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| (Loss) gain on change in fair value of early redemption rights | (14) | 1 |
| Gain on change in fair value of warrants | — | 14 |
| | (14) | 15 |

## 7. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| Interest on bank loans and overdrafts wholly repayable within five years | 103 | 114 |
| Interest on amount due to a shareholder wholly repayable within five years (Note 22(b)(i)) | — | 1 |
| Interest on amount due to a minority shareholder of a subsidiary wholly repayable within five years (Note 22(b)(i)) | 2 | 2 |
| Imputed interest on loan from a minority shareholder of a subsidiary wholly repayable within five years (Note 22(b)(i)) | 5 | 5 |
| Interest on consideration payable on acquisition of additional interests in subsidiaries (Note 22(b)(i)) | — | 19 |
| Interest on convertible redeemable preference shares | — | 196 |
| Interest on notes | 116 | 155 |
| Other finance costs | 7 | 4 |
| | 233 | 496 |
| Less: Amount capitalised to properties under development | (177) | (329) |
| | 56 | 167 |

Borrowing cost capitalised during the six months ended 30 June 2007 arose on the general borrowing pool of the Group and was calculated by applying a capitalisation rate of approximately 8% (six months ended 30 June 2006: 12%) to expenditure on the qualifying assets.

**8. INCOME TAX EXPENSE**

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| PRC Enterprise Income Tax: | | |
| Current taxation | 50 | 67 |
| Deferred taxation | | |
| - Provision for the period | 485 | 511 |
| - Attributable to a change in tax rate of PRC Enterprise Income tax | (355) | — |
| | 130 | 511 |
| | 180 | 578 |

PRC Enterprise Income Tax has been provided at the applicable income tax rate of 33% on the assessable profits of the companies in the Group during the period.

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

**9. PROFIT FOR THE PERIOD**

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| Profit for the period has been arrived at after charging (crediting): | | |
| Allowance for bad and doubtful debts | 3 | — |
| Allowance for amount due from a jointly controlled entity | — | 1 |
| Cost of properties held for sale recognised as an expense | 654 | 631 |
| Rental charges under operating leases | 26 | 17 |
| Exchange loss, net | 10 | — |
| Interest income | (77) | (23) |
| Grant received from local government (Note) | (42) | (17) |

*Note:* The amount represented the unconditional grants from PRC government specifically for encouraging the Group's property development business in Shanghai and Wuhan Province, the PRC.

**10. DIVIDENDS**

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| 2006 Final dividend paid | 248 | — |
| Interim dividend declared in respect of 2007 at HK$0.05 (equivalent to RMB0.0484) per share (2006: Nil) | 203 | — |

On 29 June 2007, a dividend of HK$0.06 (equivalent to RMB0.0593) per ordinary share was paid to the shareholders as the final dividend in respect of 2006.

The Board has declared the payment of HK$0.05 (equivalent to RMB0.0484) (2006: Nil) per ordinary share as the interim dividend in respect of 2007.

**11. EARNINGS PER SHARE**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB'million* | *RMB'million* |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share, being profit for the period attributable to equity holders of the Company | 1,098 | 558 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible redeemable preference shares charged to consolidated income statement | — | 54 |
| Gain on change in fair value of warrants | — | (14) |
| Earnings for the purpose of diluted earnings per share | 1,098 | 598 |

**Number of shares**

| | Six months ended 30 June 2007 | 2006 |
|---|---|---|
| | *'million* | *'million* |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 4,185 | 1,802 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible redeemable preference shares (Note a) | — | 1,326 |
| Warrants (Note a) | — | 4 |
| Additional consideration in respect of the Rainbow Sale and Purchase Agreement (Note 22(a)) | — | 4 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 4,185 | 3,136 |

*Notes:*

(a) All the outstanding preference shares and warrants were converted into ordinary shares on 4 October 2006, and accordingly, do not affect the calculation of diluted earnings per share for the six months ended 30 June 2007.

(b) No diluted earnings per share has been presented for the six months ended 30 June 2007 because the exercise price of the Company's share options was higher than the average market price for shares for that period.

**12. INVESTMENT PROPERTIES**

The investment properties are all situated in the PRC under either long or medium-term leases. All the investment properties are rented out under operating leases.

During the period, prepaid lease payments and properties under development amounting to RMB354 million and RMB818 million, respectively, were transferred to investment properties upon the completion of the construction of such properties.

All of the Group's investment properties are accounted for using the fair value model. The fair values of the Group's investment properties at 30 June 2007 and 31 December 2006 have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in relevant locations. The valuations, which conform to the "First Edition of The HKIS Valuation Standards on Properties" published by Hong Kong Institute of Surveyors, was based on the rental capitalisation method . The resulting increase in fair value of investment properties of RMB267 million (30 June 2006: RMB168 million) has been recognised directly in the consolidated income statement.

## 13. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

| | 30 June 2007 *RMB'million* | 31 December 2006 *RMB'million* |
|---|---|---|
| Current accounts receivable (net of allowance for bad and doubtful debts) aged analysis: | | |
| Trade receivables | | |
| Not yet due | 704 | 190 |
| Within 30 days | 83 | 53 |
| 31 - 60 days | 19 | 12 |
| 61 - 90 days | 17 | 4 |
| Over 90 days | 10 | 32 |
| | 833 | 291 |
| Consideration receivable on disposal of interests in subsidiaries | 2 | 389 |
| Prepayments of relocation costs | 602 | 617 |
| Deposits, other prepayments and receivables | 122 | 148 |
| | 1,559 | 1,445 |
| Non-current accounts receivable comprise: | | |
| Receivables from sales of properties (Note) | 262 | 114 |
| Deferred rental receivables | 34 | 33 |
| | 296 | 147 |

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the related sale and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

*Note:*

The amount comprises:

(a) An amount of RMB115 million (31 December 2006: RMB114 million) which is denominated in US dollars, unsecured and repayable on or before 31 December 2010. Interest are payable as follows:

(i) the whole amount is interest free from 1 January 2007 to 31 December 2007;

(ii) half of the amount is interest free and the remaining amount bears interest at 5% per annum from 1 January 2008 to 31 December 2008;

(iii) the whole amount bears interest at simple interest rate of 6% per annum from 1 January 2009 to 31 December 2009; and

(iv) the full amount bears interest at simple interest rate of 8% per annum from 1 January 2010 to 31 December 2010.

The amount is carried at amortised cost at effective interest rate of 8% per annum.

(b) An amount of RMB147 million (31 December 2006: Nil) which is unsecured, interest free and repayable on the last day of the 36th month upon the issue of the Certificate of Real Estate to the buyer.

The amount is carried at amortised cost at effective interest rate of 6.75% per annum.

**14. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES**

| | **30 June 2007** *RMB'million* | **31 December 2006** *RMB'million* |
|---|---|---|
| Accounts payable aged analysis: | | |
| Trade payable | | |
| Not yet due | 622 | 722 |
| Within 30 days | 17 | 14 |
| | 639 | 736 |
| Retention payables (Note) | 53 | 76 |
| Deed tax, business tax and other tax payables | 658 | 673 |
| Deposits received and receipt in advance from property sales | 92 | 20 |
| Deposits received and receipt in advance in respect of rental of investment properties | 127 | 124 |
| Deposits received on partial disposal of equity interests in subsidiaries (Notes 23(b) and (c)) | 80 | — |
| Other payables and accrued charges | 144 | 123 |
| | 1,793 | 1,752 |

*Note:* Retention payables are expected to be repaid upon the expiry of the retention periods according to the respective contracts.

15. **SHARE CAPITAL**

| | **Authorised** | | **Issued and fully paid** | |
|---|---|---|---|---|
| | *Number of shares* | *US$'000* | *Number of shares* | *US$'000* |
| Ordinary shares of US$0.0025 each | | | | |
| At 31 December 2006 and 30 June 2007 | 12,000,000,000 | 30,000 | 4,185,097,171 | 10,463 |

| | **30 June 2007** | **31 December 2006** |
|---|---|---|
| | *RMB'million* | *RMB'million* |
| Shown in the condensed consolidated balance sheet as | 84 | 84 |

16. **OTHER RESERVES**

(a) Merger reserve represents the aggregate of:

(i) the difference between the nominal value of the share capital and share premium issued by the Company and the aggregate of the share capital and share premium of the holding companies of the subsidiaries acquired;

(ii) the share of profit attributable to the deemed minority shareholders exchanged upon the group reorganisation in 2004; and

(iii) the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from a minority shareholder upon the group reorganisation in 2004.

(b) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from minority shareholders, which will be recognised in the income statement upon the earlier of the disposal of the subsidiaries or the disposal by the subsidiaries of the assets to which it relates.

(c) Other reserve comprises:

(i) The amount of RMB483 million represents payable waived in 2004 by Shui On Investment Company Limited, a subsidiary of Shui On Company Limited, in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of Shui On Investment Company Limited, and recharged to certain subsidiaries of the Company.

(ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a minority shareholder of a subsidiary in 2005.

(iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC.

17. **NOTES**

The notes, which are denominated in United States dollars, bear interest at the rate of 8.5% per annum, payable semi-annually in arrears and will mature on 12 October 2008, unless earlier redeemed. The interest charged for the period is calculated by applying an effective interest rate of approximately 12% (30 June 2006: 12%) to the notes for the period since the notes were issued.

*The principal terms of the notes*

The notes are:

(a) general, unsecured obligations of Shui On Development (Holding) Limited (the "Note Issuer"), a wholly owned subsidiary of the Company;

(b) senior in right of payment to any existing and future obligations of the Note Issuer expressly subordinated in right of payment to the notes;

(c) pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Note Issuer (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); and

(d) effectively subordinated to all existing and future obligations of the Note Issuer's subsidiaries.

The Note Issuer may, at its option, redeem all or part of the notes at the redemption prices equal to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the twelve-month period beginning on 12 October of the years indicated below:

| **12-month period commencing in year** | **Percentage** |
|---|---|
| 2005 | 108.50% |
| 2006 | 104.25% |
| 2007 | 100.00% |

18. **SHARE BASED PAYMENT**

The Company's share option scheme ("the Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007. Under the Scheme, 146,888,190 share options were granted on 20 June 2007 to the eligible employees and a director (Grant 1), directors and consultants (Grant 2) and a consultant (Grant 3). The fair values of the options determined at the date of grant using the Binomial option pricing model ranged from HK$2.02 to HK$3.10 per option. Share option expense of RMB11 million was recognised during the six months ended 30 June 2007.

The following assumptions were used to calculate the fair values of share options:

| | |
|---|---|
| Closing share price at the date of grant | HK$6.98 |
| Exercise price | HK$7.00 |

Details of the vesting periods in respect of the options granted during the period are as follows:

| **Grant 1** | **Vesting period** | **Options exercisable period** |
|---|---|---|
| Tranche 1 | From 20 June 2007 to 19 June 2009 | From 20 June 2009 to 19 June 2014 |
| Tranche 2 | From 20 June 2007 to 19 June 2010 | From 20 June 2010 to 19 June 2015 |
| Tranche 3 | From 20 June 2007 to 19 June 2011 | From 20 June 2011 to 19 June 2016 |
| Tranche 4 | From 20 June 2007 to 19 June 2012 | From 20 June 2012 to 19 June 2016 |
| Tranche 5 | From 20 June 2007 to 19 June 2013 | From 20 June 2013 to 19 June 2016 |
| Tranche 6 | From 20 June 2007 to 19 June 2014 | From 20 June 2014 to 19 June 2016 |
| Tranche 7 | From 20 June 2007 to 19 June 2015 | From 20 June 2015 to 19 June 2016 |
| **Grant 2** | | |
| Tranche 1 | Unconditional and fully vested at 20 June 2007 | From 20 June 2007 to 19 June 2012 |
| Tranche 2 | Unconditional and fully vested at 20 June 2007 | From 20 June 2007 to 19 June 2012 |
| **Grant 3** | | |
| Tranche 1 | Unconditional and fully vested at 20 June 2007 | From 20 June 2007 to 19 June 2012 |
| Tranche 2 | From 20 June 2007 to 19 June 2008 | From 20 June 2008 to 19 June 2013 |
| Tranche 3 | From 20 June 2007 to 19 June 2009 | From 20 June 2009 to 19 June 2014 |
| Tranche 4 | From 20 June 2007 to 19 June 2010 | From 20 June 2010 to 19 June 2015 |
| Tranche 5 | From 20 June 2007 to 19 June 2011 | From 20 June 2011 to 19 June 2016 |

| | |
|---|---|
| Expected option life | 3.42 years to 8.76 years |
| Expected volatility | 40%-45% |
| Dividend yield | 2.5% |
| Risk-free interest rate | 4.45%-4.68% |

The Binomial option pricing model has been used to estimate the fair values of the options. The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

**19. DISPOSAL OF INTERESTS IN SUBSIDIARIES**

On 14 February 2007, the Group disposed of the entire equity interests in Bestwealth Holdings Limited and Shanghai Xintiandi Huting Food & Beverage Co., Ltd. to an independent third party for an aggregate cash consideration of RMB11 million. The net assets of the disposed subsidiaries at the date of disposal were as follows:

| | *RMB'million* |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 5 |
| Bank balances and cash | 7 |
| Other payables and accrued charges | (1) |
| | 11 |
| Exchange reserve realised | (1) |
| | 10 |
| Gain on disposal | 1 |
| Total consideration | 11 |
| Satisfied by: | |
| Cash consideration | 9 |
| Deferred consideration | 2 |
| | 11 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 9 |
| Bank balances and cash disposed of | (7) |
| | 2 |

The deferred consideration was settled in cash by the purchaser in August 2007.

**20. PLEDGE OF ASSETS**

The following assets were pledged to banks as securities to obtain certain banking facilities at the balance sheet date:

| | **30 June 2007** *RMB'million* | **31 December 2006** *RMB'million* |
|---|---|---|
| Investment properties | 6,598 | 6,205 |
| Property, plant and equipment | 88 | 90 |
| Prepaid lease rentals | 180 | 260 |
| Properties under development | 939 | 1,053 |
| Properties held for sale | 783 | 950 |
| Bank deposits | 1,162 | 1,202 |
| | 9,750 | 9,760 |

In addition, the equity interests in certain subsidiaries were also pledged to banks as securities to obtain banking facilities at the balance sheet date.

**21. COMMITMENTS AND CONTINGENCIES**

(a) **Capital commitments**

As at the respective balance sheet dates, the Group had the following commitments:

| | **30 June 2007** *RMB'million* | **31 December 2006** *RMB'million* |
|---|---|---|
| *Contracted but not provided for:* | | |
| Capital expenditure in respect of properties under development in the PRC | 4,469 | 3,874 |
| Capital expenditure in respect of the acquisition of property, plant and equipment | 3 | 2 |

(b) **Other commitments**

At 30 June 2007, the Group had commitment in respect of an investment project contracted but not provided for in the condensed consolidated financial statements amounting to approximately HK$1,108 million (equivalent to approximately RMB1,120 million). In the event of any third party funding is required for the development of the investment project, the Group shall provide guarantee for the fund up to a maximum aggregate amount of RMB240 million. Details of the transaction subsequent to the balance sheet date are set out in note 23(a).

Except as disclosed above, there have been no material changes in the Group's other commitments since 31 December 2006.

(c) **Contingent liabilities**

At 31 December 2006, certain subsidiaries of the Company had outstanding guarantees issued in favour of banks amounting to RMB414 million in respect of mortgage facilities granted to the buyers of its residential properties. There were no such guarantees outstanding at 30 June 2007.

Except as disclosed above, there have been no material changes in the Group's other contingent liabilities since 31 December 2006.

**22. RELATED PARTY TRANSACTIONS**

Apart from the related party transactions and balances as stated in notes 7 and 23 and the consolidated balance sheet, the Group was also had the following transactions with related parties during the period.

(a) On 2 March 2006, the Company issued and allotted a total of 2,933,333 ordinary shares of US$0.01 each (which were subsequently sub-divided into 11,733,332 ordinary shares of US$0.0025 each in May 2006), credited as fully paid, to Shui On Construction and Materials Limited, a subsidiary of Shui On Company Limited, as settlement of additional consideration pursuant to a sale and purchase agreement dated 18 February 2004 (the "Rainbow Sale and Purchase Agreement") entered into between Shui On Construction and Materials Limited and the Company in a connection with the acquisition of certain subsidiaries from Shui On Construction and Materials Limited.

(b) The Group also had the following transactions with related companies as follows:

(i) *Nature of transaction*

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *RMB million* | *RMB million* |
| *Related company in which directors of the Company have beneficial interest* | | |
| Project management fee income | 10 | — |
| *Fellow subsidiaries* | | |
| Project construction fees | 19 | 9 |
| Rental and building management fee expenses | 11 | 9 |
| *Associate* | | |
| Rental and building management fee expenses | 2 | — |
| *Shareholder* | | |
| Interest expenses | — | 1 |
| Rental and building management fee expenses | 1 | — |
| *Minority shareholders of subsidiaries* | | |
| Interest income | 14 | — |
| Interest expenses | 7 | 26 |
| Property management fee | 2 | 2 |
| *Jointly controlled entity* | | |
| Rental and building management fee income | 2 | 2 |

## 23. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 25 May 2007, the Group entered into a joint venture agreement with a wholly owned subsidiary of Shui On Construction and Materials Limited and an independent third party in relation to the formation of a joint venture for the development of Dalian Software Park Phase II ("Dalian Project"), whereby the Group ultimately holds a 48% effective interest in the Dalian Project. Pursuant to the joint venture agreement, the Group has provided a shareholder's loan amounting to HK$1,108 million (equivalent to RMB1,078 million) to the joint venture on 24 July 2007. Details of the transactions are set out in a circular to the shareholders of the Company dated 4 June 2007.

(b) Pursuant to a sale and purchase agreement dated 29 June 2007 entered into between Shui On Development (Holding) Limited ("SOD"), a wholly owned subsidiary of the Company, as seller and an independent third party as purchaser, SOD agreed to sell to the purchaser a 25% of the issued share capital of Fieldcity Investments Limited ("Fieldcity"), a then wholly owned subsidiary of the Company. In addition, the purchaser also agreed to acquire the benefit of the shareholder's loans advanced to Fieldcity by SOD amounting to US$98 million. The completion of the disposal is subject to the conditions set out in the agreement. The consideration for the disposal of the equity interest and the benefit of the shareholder's loans, which amounted to RMB1,245 million, is receivable by five instalments. The first instalment in the sum of RMB62 million was settled on 29 June 2007. The second to fifth instalments in the sum of RMB1,183 million, which bear interest at the People's Bank of China ("PBOC") Prescribed Interest Rate, shall be received on or before 15 October 2007, 15 March 2008, 15 July 2008 and 15 October 2008 respectively.

(c) Pursuant to a sale and purchase agreement dated 29 June 2007 entered into between SOD as seller and the independent third party referred to in (b) above as purchaser, SOD agreed to sell to the purchaser a 49% of the issued share capital of Portspin Limited ("Portspin"), a then wholly owned subsidiary of the Company. The completion of the disposal is subject to the conditions set out in the agreement. The consideration for the disposal of the equity interest, which amounted to approximately RMB364 million, is receivable by three instalments. The first instalment in the sum of RMB18 million was settled on 29 June 2007. The second instalment in the sum of RMB182 million, which bears interest at PBOC Prescribed Interest Rate, shall be received on or before 15 October 2007. The third instalment on the remaining sum of RMB164 million, which bears interest at PBOC Prescribed Interest Rate, shall be received on or before 15 March 2008.

(d) Pursuant to a sale and purchase agreement dated 31 July 2007 entered into among Equity Millennium Limited ("Equity Millennium") and Shun Hing China Investment Limited ("Shun Hing") collectively as sellers (the "Sellers") and SOD as purchaser, SOD agreed to acquire 30% of the issued share capital of a then 70% owned subsidiary, Profitstock Holding Limited ("Profitstock"), from the Sellers. In addition, SOD also agreed to acquire the benefit of the shareholders' loans advanced to Profitstock by the Sellers amounting to RMB 121 million. The consideration for the acquisition of the 30% of the issued share capital of Profitstock and the benefit of the shareholders' loans, which amounted to US$116 million (approximately equivalent to RMB884 million), is payable in cash by two instalments. The first instalment amounting to US$58 million (equivalent to RMB442 million) was settled on 31 July 2007. The second instalment in the remaining sum of US$58 million (equivalent to RMB442 million) will be paid on completion of the above transaction.

The completion of the acquisition is subject to the conditions set out in the agreement. Details of the acquisition have been set out in an announcement of the Company dated 31 July 2007.

(e) On 14 August 2007, an agreement (the "Amendment Agreement") was entered into between and pursuant to which the registered capital in Shanghai Yangpu Centre Development Company Limited ("Yangpu"), a then 70% owned subsidiary of the Company, shall be increased by US$77 million from US$61 million to US$138 million. Bright Continental Limited, a wholly owned subsidiary of the Company and the holder of a 70% equity interest in Yangpu, shall inject US$77 million, being the entire amount of the increase in equity capital of Yangpu. In addition, the Company shall inject a premium of approximately US$9 million in cash as additional capital contribution in Yangpu. The minority shareholders of the remaining 30% equity interest in Yangpu will not participate in the injection of any additional equity capital into Yangpu.

Upon completion of the Amendment Agreement, the Group's interest in Yangpu will be increased from 70% to 86.8%.

## INDEBTEDNESS OF THE GROUP

### Indebtedness

As at the close of business on 30 November 2007, being the latest practicable date for the purpose of this indebtedness prior to the printing of this circular, the Group had the borrowings amounting to approximately RMB 8,511 million, details of which are as follows:

### Borrowings

The following table illustrates the Group's bank and other borrowings as at 30 November 2007:

| | RMB' million |
|---|---|
| Bank borrowings — current | 2,488 |
| Bank borrowings — non-current | 2,135 |
| Senior notes | 2,726 |
| Amounts due to related companies | 75 |
| Loans from minority shareholders of subsidiaries | 95 |
| Amounts due to minority shareholders of subsidiaries | 992 |
| | 8,511 |
| Secured | 4,623 |
| Unsecured | 3,888 |
| | 8,511 |

As at 30 November 2007, the Group has the following assets pledged to banks as securities to obtain certain banking facilities:

| | **RMB' million** |
|---|---|
| Investment properties | 6,653 |
| Property, plant and equipment | 88 |
| Prepaid lease rentals | 187 |
| Properties under development | 1,782 |
| Properties held for sale | 411 |
| Bank deposits | 580 |
| | 9,701 |

In addition, the equity interests in certain subsidiaries, insurance over their assets and properties, the proceeds of the rental and sale of completed properties were also pledged to bank as securities to obtain banking facilities at 30 November 2007.

**Contingent liabilities**

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 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 30 November 2007, no amount had been drawn down under this arrangement.

**Disclaimer**

Save as disclosed above and apart from inter-group liabilities, the Group did not have any loan capital issued and outstanding, and authorised or otherwise created but unissued or agreed to be issued, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 30 November 2007.

## WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources available to the Group, the presently available banking facilities and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of the Circular.

## NO MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

*The following unaudited pro forma statement of assets and liabilities of the Group (referred to as the "Unaudited Pro Forma Financial Information") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition, based on the unaudited pro forma financial information of the Group set out in Appendix IV to the circular dated 28 September 2007 in relation to the purchase of 30% of the issued capital of Profitstock Holdings Limited ("Profitstock Acquisition") as if the transaction had taken place on 30 June 2007 for the purpose of this pro forma statement of assets and liabilities. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Acquisition been completed on 30 June 2007 or any future date.*

**Unaudited Pro Forma Statement of Assets and Liabilities of the Group**

The unaudited pro forma statement of assets and liabilities of the Group is prepared based on the unaudited pro forma financial information of the Group set out in Appendix IV to the circular dated 28 September 2007 in relation to Profitstock Acquisition, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2007.

The unaudited pro forma statement of assets and liabilities of the Group has been prepared to provide the unaudited pro forma financial information of the Group as if the Acquisition, based on the unaudited pro forma financial information of the Group set out in Appendix IV to the circular dated 28 September 2007 in relation to Profitstock Acquisition, had been completed on 30 June 2007. As it is prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 30 June 2007 or at any future date.

| | **Unaudited pro forma financial information set out in Appendix IV to the circular dated 28 September 2007** | **Unaudited pro forma adjustment for the Acquisition (Note)** | **Combined Total** |
|---|---|---|---|
| | *RMB' million* | *RMB' million* | *RMB' million* |
| **Non-current assets** | | | |
| Investment properties | 7,652 | — | 7,652 |
| Property, plant and equipment | 184 | — | 184 |
| Prepaid lease payments | 4,198 | 3,918 | 8,116 |
| Properties under development | 1,368 | — | 1,368 |
| Interests in associates | 4 | — | 4 |
| Accounts receivable | 296 | — | 296 |
| Pledged bank deposits | 336 | — | 336 |
| Defined benefit assets | 4 | — | 4 |
| | 14,042 | 3,918 | 17,960 |

| | Unaudited pro forma financial information set out in Appendix IV to the circular dated 28 September 2007 | Unaudited pro forma adjustment for the Acquisition (Note) | Combined Total |
|---|---|---|---|
| | *RMB' million* | *RMB' million* | *RMB' million* |
| **Current Assets** | | | |
| Inventories | 2 | — | 2 |
| Properties under development for sale | 5,642 | 3,592 | 9,234 |
| Property held for sale | 1,146 | — | 1,146 |
| Accounts receivable, deposits and prepayments | 1,559 | — | 1,559 |
| Loan recoverable | 233 | — | 233 |
| Amount due from an associate | 2 | — | 2 |
| Amounts due from related parties | 43 | — | 43 |
| Amount due from a minority shareholder of a subsidiary | 6 | — | 6 |
| Tax recoverable | 141 | — | 141 |
| Early redemption right of notes | 15 | — | 15 |
| Pledged bank deposits | 826 | — | 826 |
| Bank balances and cash | 3,183 | (3,183) | — |
| | 12,798 | 409 | 13,207 |
| **Current Liabilities** | | | |
| Accounts payable, deposits received and accrued charges | 1,793 | — | 1,793 |
| Amounts due to related parties | 47 | — | 47 |
| Amounts due to minority shareholders of subsidiaries | 252 | — | 252 |
| Tax liabilities | 29 | — | 29 |
| Bank borrowings — due after one year | 2,273 | — | 2,273 |
| Bank overdrafts | — | 4,327 | 4,327 |
| | 4,394 | 4,327 | 8,721 |
| **Net Current Assets** | 8,404 | (3,918) | 4,486 |

| | Unaudited pro forma financial information set out in Appendix IV to the circular dated 28 September 2007 | Unaudited pro forma adjustment for the Acquisition (Note) | Combined Total |
|---|---|---|---|
| | *RMB' million* | *RMB' million* | *RMB' million* |
| **Non-Current Liabilities** | | | |
| Loan from a minority shareholder of a subsidiary | 91 | — | 91 |
| Notes | 2,734 | — | 2,734 |
| Bank borrowings — due after one year | 1,911 | — | 1,911 |
| Deferred tax liabilities | 2,178 | — | 2,178 |
| Derivative financial instrument designated as hedging instrument | 46 | — | 46 |
| | 6,960 | — | 6,960 |
| **NET ASSETS** | 15,486 | — | 15,486 |

*Note:*

The adjustment represents the acquisition of the Land at a consideration of RMB 7,510 million. For 52.2% of marketable GFA, it is the intention of the management to apply it to the construction and development of investment properties. Whereas for the remaining 47.8% of marketable GFA, it is intended for development of properties for sale upon completion. Accordingly, RMB3,918 million and RMB3,592 million are classified as prepaid lease payments and properties under development for sale respectively. 30% of the consideration will be paid in cash, the remaining 70% consideration will be funded by (i) the proceeds from the sales of equity interests in the Wuhan and Taipingqiao Lot 116 projects (details of the sales of equity interests in the Wuhan and Taipingqiao Lot 116 projects had been disclosed in the announcement dated 29 June 2007) and (ii) banking facilities. However, for the purpose of the pro forma statement of assets and liabilities, it is assumed that the consideration was paid in full by cash and bank overdrafts, as the sales of equity interests of the Wuhan and Taipingqiao Lot 116 projects and the draw down of the bank facilities are not pre-condition on the Acquisition.

*The following is the text of a report, prepared for inclusion in the Circular, from the reporting accountants of Shui On Land Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

Deloitte.
德勤

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE BOARD OF DIRECTORS OF SHUI ON LAND LIMITED**

We report on the unaudited pro forma financial information of Shui On Land Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of the land use rights of the Land as defined on page 1 of the circular dated 6 February 2008 (the "Circular"), might have affected the financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the unaudited pro forma financial information is set out on Appendix II to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2007, or any future date.

**Opinion**

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
6 February 2008

*The following is the text of a report, prepared for inclusion in the circular of the Company dated 28 September 2007, from the reporting accountants of Shui On Land Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong pursuant to the Listing Rules. Unless otherwise defined in this Appendix, all capitalised terms shall have the same meaning as that defined in the circular of the Company dated 28 September 2007.*

**Deloitte.**
**德勤**

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

28 September 2007

The Directors
Shui On Land Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Profitstock Holdings Limited ("Profitstock") and its subsidiaries (hereinafter collectively referred to as the "Profitstock Group") for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in the circular of Shui On Land Limited ("SOL") dated 28 September 2007 (the "Circular") in connection with a major and connected transaction in respect of the acquisition of further interests in Profitstock, a subsidiary of SOL.

Profitstock is a private limited liability company incorporated in the British Virgin Islands ("BVI") on 2 June 2005. Pursuant to a business combination between companies under common control (the "Group Reorganisation") as described in note 30(a), Profitstock became the holding company of the Profitstock Group.

As at the date of this report, Profitstock has the following subsidiaries:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held | Place of operation | Principal activities |
|---|---|---|---|---|---|
| Galore Profits Limited | BVI 23 January 2001 | 1 ordinary share of US$1 | 100% | Hong Kong | Investment holding |
| Oriental Gain Limited | Hong Kong 2 February 2001 | 2 ordinary shares of HK$1 each | 100% | Hong Kong | Investment holding |
| Shanghai Jing-Fu Property Co., Ltd. | People's Republic of China ("PRC") 26 December 2001 | Registered and paid up capital RMB400,000,000 | 99% | PRC | Property development |

*Notes:*

1. Profitstock directly holds the equity interest in Galore Profits Limited. All other equity interests shown above are indirectly held by Profitstock.
2. Shanghai Jing-Fu Property Co., Ltd. is a sino-foreign joint venture company established in the PRC with a joint venture period of 70 years.

Profitstock adopts 31 March as the financial year end date. For the purpose of this report, period end date of 31 December, which is consistent to the financial year end date of SOL, is adopted to present the financial information of Profitstock.

Shanghai Jing-Fu Property Co., Ltd. adopts 31 December as the financial year end date. The remaining subsidiaries have adopted 31 March as the financial year end date since the respective dates of incorporation up to 31 March 2006. Subsequent to 31 March 2006, these subsidiaries have changed their financial year end date from 31 March to 31 December.

No audited financial statements have been prepared for Profitstock and Galore Profits Limited as these companies are not subject to any statutory audit requirements in the jurisdiction of incorporation.

We have audited the financial statements of Oriental Gain Limited for each of the three years ended 31 March 2006 prepared under accounting principles generally accepted in Hong Kong.

The statutory financial statements of Shanghai Jing-Fu Property Co., Ltd. for each of the three years ended 31 December 2006, which were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC, were audited by Shanghai Fuxingmingfang Certified Public Accountants (上海復興明方會計師事務所有限公司).

For the purpose of this report, we have undertaken our own independent audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the consolidated financial statements of the Profitstock Group for the Relevant Periods (the "Underlying Financial Statements") which have been prepared by the directors of Profitstock in accordance with International Financial Reporting Standards ("IFRS").

We have examined the Underlying Financial Statements for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information of the Profitstock Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 of Section A below.

The preparation of the Underlying Financial Statements is the responsibility of the directors of Profitstock who approved their issue. The directors of the SOL are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of the Profitstock Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 and of Profitstock as at 31 December 2005, 31 December 2006 and 30 June 2007 and of the consolidated results and cash flows of the Profitstock Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

The comparative consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Profitstock Group for the six months ended 30 June 2006 together with the notes thereon have been extracted from the Profitstock Group's unaudited consolidated financial information for the same period (the "30 June 2006 Financial Information") which was prepared by the directors of the Profitstock solely for the purpose of this report. We have reviewed the 30 June 2006 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquires of the Profitstock Group's management and applying analytical procedures to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

## A. FINANCIAL INFORMATION OF THE PROFITSTOCK GROUP

### CONSOLIDATED INCOME STATEMENTS

| | | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | *NOTES* | **2004** | **2005** | **2006** | **2006** | **2007** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (*unaudited*) | *RMB'000* |
| Turnover | 6 | — | — | 3,531,113 | 1,771,714 | 1,729,451 |
| Cost of sales | | — | — | (1,241,441) | (566,247) | (549,344) |
| Gross profit | | — | — | 2,289,672 | 1,205,467 | 1,180,107 |
| Other income | 7 | 921 | 24,245 | 17,533 | 11,228 | 38,006 |
| Staff costs | | — | (1,122) | (1,654) | (169) | (2,109) |
| Depreciation | | — | (5) | (91) | (31) | (68) |
| Other expenses | | (19,491) | (22,833) | (141,480) | (43,167) | (90,951) |
| Finance costs | 8 | — | — | (2,650) | — | — |
| (Loss) profit before taxation | | (18,570) | 285 | 2,161,330 | 1,173,328 | 1,124,985 |
| Income tax credit (expense) | 10 | 6,046 | 336 | (728,098) | (392,988) | (375,895) |
| (Loss) profit for the year/period | 11 | (12,524) | 621 | 1,433,232 | 780,340 | 749,090 |
| Attributable to: | | | | | | |
| Equity holders of Profitstock | | (12,401) | 628 | 1,417,717 | 772,365 | 741,473 |
| Minority interests | | (123) | (7) | 15,515 | 7,975 | 7,617 |
| | | (12,524) | 621 | 1,433,232 | 780,340 | 749,090 |

## BALANCE SHEETS

| | | THE PROFITSTOCK GROUP | | | | PROFITSTOCK | | |
|---|---|---|---|---|---|---|---|---|
| | | As at 31 December | | | As at 30 June | As at 31 December | As at 31 December | As at 30 June |
| | *NOTES* | 2004 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | | | | | |
| Property, plant and equipment | 12 | 307 | 669 | 506 | 460 | — | — | — |
| Investments in subsidiaries | 13 | — | — | — | — | 31,453 | 51,120 | 51,120 |
| Accounts receivable | 14 | — | — | 113,587 | 261,974 | — | — | — |
| Loans to fellow subsidiaries | 15 | — | — | 135,000 | 135,000 | — | — | — |
| Pledged bank deposits | 16 | 106,124 | — | — | — | — | — | — |
| Deferred tax assets | 26 | 6,361 | 6,697 | — | — | — | — | — |
| | | 112,792 | 7,366 | 249,093 | 397,434 | 31,453 | 51,120 | 51,120 |
| **Current assets** | | | | | | | | |
| Properties under development | 17 | 1,098,596 | 1,480,266 | — | — | — | — | — |
| Properties held for sale | 18 | — | — | 938,102 | 395,921 | — | — | — |
| Accounts receivable, deposits and prepayments | 14 | 299 | 9 | 210,887 | 767,369 | — | — | — |
| Loan receivable | 19 | — | — | 227,067 | 232,831 | | | |
| Amounts due from related parties | 20 | 30,811 | 18,553 | 510,727 | 997,086 | 1 | 1 | 1 |
| Amounts due from subsidiaries | 21 | — | — | — | — | 402,941 | 393,370 | 378,462 |
| Taxation recoverable | | — | — | 9,489 | 141,496 | — | — | — |
| Pledged bank deposits | 16 | — | 5,527 | — | — | — | — | — |
| Bank balances and cash | 16 | 4,201 | 79,240 | 992,220 | 1,211,737 | — | — | — |
| | | 1,133,907 | 1,583,595 | 2,888,492 | 3,746,440 | 402,942 | 393,371 | 378,463 |
| **Current liabilities** | | | | | | | | |
| Accounts payable, deposit received and accrued charges | 22 | 35,528 | 73,057 | 444,984 | 353,752 | — | — | — |
| Amounts due to related parties | 20 | 767,449 | 795,176 | 548,476 | 521,012 | 423,093 | 417,195 | 408,266 |
| Amount due to a minority shareholder of a subsidiary | 23 | 1,438 | 1,438 | — | — | — | — | — |
| Bank borrowings — due within one year | 24 | 263,012 | 731,798 | — | — | — | — | — |
| | | 1,067,427 | 1,601,469 | 993,460 | 874,764 | 423,093 | 417,195 | 408,266 |
| **Net current assets (liabilities)** | | 66,480 | (17,874) | 1,895,032 | 2,871,676 | (20,151) | (23,824) | (29,803) |
| **Total assets less current liabilities** | | 179,272 | (10,508) | 2,144,125 | 3,269,110 | 11,302 | 27,296 | 21,317 |

| | | THE PROFITSTOCK GROUP | | | | PROFITSTOCK | | |
|---|---|---|---|---|---|---|---|---|
| | | As at 31 December | | | As at 30 June | As at 31 December | As at 31 December | As at 30 June |
| | *NOTES* | 2004 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Capital and reserves** | | | | | | | | |
| Share capital | 25 | — | 1 | 1 | 1 | 1 | 1 | 1 |
| Reserves | | (15,001) | (14,373) | 1,403,344 | 2,144,817 | 11,301 | 27,295 | 21,316 |
| Equity attributable to equity holders of Profitstock | | (15,001) | (14,372) | 1,403,345 | 2,144,818 | 11,302 | 27,296 | 21,317 |
| Minority interests | | 3,871 | 3,864 | 19,379 | 26,996 | — | — | — |
| **Total equity** | | (11,130) | (10,508) | 1,422,724 | 2,171,814 | 11,302 | 27,296 | 21,317 |
| **Non-current liabilities** | | | | | | | | |
| Bank borrowings | | | | | | | | |
| — due after one year | 24 | 190,402 | — | — | — | — | — | — |
| Deferred tax liabilities | 26 | — | — | 721,401 | 1,097,296 | — | — | — |
| | | 190,402 | — | 721,401 | 1,097,296 | — | — | — |
| | | 179,272 | (10,508) | 2,144,125 | 3,269,110 | 11,302 | 27,296 | 21,317 |

**STATEMENTS OF CHANGES IN EQUITY**

**THE PROFITSTOCK GROUP**

| | Attributable to equity holders of Profitstock | | | | |
|---|---|---|---|---|---|
| | **Share capital** | **Accumulated (losses) profits** | **Total** | **Minority interests** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2004 | — | (2,600) | (2,600) | 3,994 | 1,394 |
| Loss for the year | — | (12,401) | (12,401) | (123) | (12,524) |
| At 31 December 2004 | — | (15,001) | (15,001) | 3,871 | (11,130) |
| Profit for the year | — | 628 | 628 | (7) | 621 |
| Issue of shares | 1 | — | 1 | — | 1 |
| At 31 December 2005 | 1 | (14,373) | (14,372) | 3,864 | (10,508) |
| Profit for the year | — | 1,417,717 | 1,417,717 | 15,515 | 1,433,232 |
| At 31 December 2006 | 1 | 1,403,344 | 1,403,345 | 19,379 | 1,422,724 |
| Profit for the period | — | 741,473 | 741,473 | 7,617 | 749,090 |
| At 30 June 2007 | 1 | 2,144,817 | 2,144,818 | 26,996 | 2,171,814 |
| For the six months ended 30 June 2006 (unaudited): | | | | | |
| At 1 January 2006 | 1 | (14,373) | (14,372) | 3,864 | (10,508) |
| Profit for the period | — | 772,365 | 772,365 | 7,975 | 780,340 |
| At 30 June 2006 | 1 | 757,992 | 757,993 | 11,839 | 769,832 |

**CONSOLIDATED CASH FLOW STATEMENTS**

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| OPERATING ACTIVITIES | | | | | |
| (Loss) profit before taxation | (18,570) | 285 | 2,161,330 | 1,173,328 | 1,124,985 |
| Adjustments for: | | | | | |
| Depreciation | — | 5 | 91 | 31 | 68 |
| Finance costs | — | — | 2,650 | — | — |
| Loss on disposal of property, plant and equipment | — | — | 75 | — | — |
| Interest income | (53) | (18) | (17,207) | (3,068) | (32,853) |
| Operating cash flows before movements in working capital | (18,623) | 272 | 2,146,939 | 1,170,291 | 1,092,200 |
| (Increase) decrease in accounts receivable, deposits and prepayments | (181) | 290 | (324,465) | (720,125) | (700,468) |
| Decrease in properties held for sale | — | — | 1,228,395 | 562,321 | 542,181 |
| Increase (decrease) in accounts payable and accrued charges | 13,909 | 37,529 | 371,927 | 487,470 | (91,232) |
| Cash (used in) generated from operations | (4,895) | 38,091 | 3,422,796 | 1,499,957 | 842,681 |
| PRC Income Tax paid | — | — | (9,489) | (9,489) | (132,007) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (4,895) | 38,091 | 3,413,307 | 1,490,468 | 710,674 |
| INVESTING ACTIVITIES | | | | | |
| Interest received | 53 | 18 | 17,207 | 3,068 | 28,452 |
| Purchase of property, plant and equipment | (117) | (441) | (67) | (51) | (22) |
| Additions to properties under development | (157,953) | (330,414) | (636,613) | (503,005) | — |
| Increase in loan receivable | — | — | (227,067) | — | (232,831) |
| Repayment of loan receivable | — | — | — | — | 227,067 |
| Loan to fellow subsidiaries | — | — | (135,000) | — | — |
| (Advance to) repayment from related parties | (23,911) | 12,258 | (492,174) | (157) | (486,359) |
| (Decrease) increase in pledged bank deposits | (87,752) | 100,597 | 5,527 | (1,044,778) | — |
| NET CASH USED IN INVESTING ACTIVITIES | (269,680) | (217,982) | (1,468,187) | (1,544,923) | (463,693) |

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(unaudited)* | *RMB'000* |
| FINANCING ACTIVITIES | | | | | |
| Net proceeds on issuance of shares | — | 1 | — | — | — |
| Advance from (repayment to) related parties | 63,284 | 27,727 | (246,700) | 73,287 | (27,464) |
| Repayment to a minority shareholder of a subsidiary | — | — | (1,438) | — | — |
| New bank loans raised | 229,339 | 278,384 | 544,647 | 26,069 | — |
| Repayment of bank loans | — | — | (1,276,445) | — | — |
| Interest paid | (27,155) | (51,182) | (52,204) | (36,606) | — |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 265,468 | 254,930 | (1,032,140) | 62,750 | (27,464) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (9,107) | 75,039 | 912,980 | 8,295 | 219,517 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD | 13,308 | 4,201 | 79,240 | 79,240 | 992,220 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD | 4,201 | 79,240 | 992,220 | 87,535 | 1,211,737 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | | | |
| Bank balances and cash | 4,201 | 79,240 | 992,220 | 87,535 | 1,211,737 |

## 1. GENERAL

Profitstock is a private limited liability company incorporated in the BVI. The directors of Profitstock consider that its parent is Shui On Development (Holding) Limited, a private limited liability company incorporated in the Cayman Islands, and its ultimate holding company is Shui On Company Limited, a private limited liability company incorporated in the BVI.

Profitstock acts as an investment holding company. The principal activities of Profitstock's subsidiaries are investment holding and property development in the PRC. The functional currency of Profitstock is Renminbi ("RMB"), which is the same as the presentation currency of Profitstock.

The address of the registered office of Profitstock is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. The principal place of business of Profitstock is 34/F, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong.

## 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for each of the two years ended 31 December 2005 include the results, changes in equity and cash flows of the companies comprising the Profitstock Group as if Profitstock had always been the holding company of the Profitstock Group throughout the Relevant Periods.

The consolidated balance sheet as at 31 December 2004 has been prepared to present the assets and liabilities of the companies comprising the Profitstock Group as if the group structure after the Group Reorganisation had been in existence at those date.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the significant accounting policies set out below which conform with IFRS.

For the purposes of preparing and presenting the Financial Information of three years ended 31 December 2006, the Profitstock Group has consistently adopted a number of new and revised standards and interpretations (hereinafter collectively referred to as "IFRSs") which are either effective for accounting periods beginning on 1 January 2005 or 1 January 2006 issued by the International Accounting Standards Boards (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

For the six months period ended 30 June 2007, the Profitstock Group has applied, for the first time, a number of new standard, amendment and interpretations ("new IFRSs") issued by the IASB.

| | |
|---|---|
| IAS 1 (Amendment) | Capital Disclosures[1] |
| IFRS 7 | Financial Instruments: Disclosures[1] |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[2] |
| IFRIC 8 | Scope of IFRS 2[3] |
| IFRIC 9 | Reassessment of Embedded Derivatives[4] |
| IFRIC 10 | Interim Financial Reporting and Impairment[5] |

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

The adoption of these new IFRSs has had no material effect on the results or financial position of the Profitstock Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

At the date of this report, the IASB has issued the following new and revised standards and interpretations which are not yet effective in respect of the Relevant Periods. The Profitstock Group has not early adopted these new and revised standards and interpretations in the financial statements for the Relevant Periods.

| | |
|---|---|
| IFRIC 11 | IFRS 2 - Group and treasury share transactions[1] |
| IFRIC 12 | Service concession arrangements[2] |
| IFRIC 13 | Customer loyalty programmes[3] |
| IFRIC 14 | IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction[2] |
| IAS 1 (Revised) | Presentation of financial statements[4] |
| IAS 23 (Revised) | Borrowing costs[4] |
| IFRS 8 | Operating segment[4] |

[1] Effective for annual periods beginning on or after 1 March 2007
[2] Effective for annual periods beginning on or after 1 January 2008
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2009

The directors of Profitstock have considered these standards and interpretations but do not expect that they will have a material effect on the financial statements prepared and presented.

**Basis of consolidation**

The Financial Information incorporates the financial statements of Profitstock and entities controlled by Profitstock (its subsidiaries). Control is achieved where Profitstock has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or 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 in line with those used by other members of the Profitstock Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Profitstock 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 Profitstock Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Investments in subsidiaries**

Investments in subsidiaries are included in Profitstock's balance sheets at cost less any identified impairment loss.

**Merger accounting for common control combinations**

The consolidated financial information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

**Property, plant and equipment**

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

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

**Properties under development**

Properties under development are carried at cost less any identified impairment loss.

Properties under development which are intended to be held for sale are shown as current assets.

**Impairment**

At each balance sheet date, the Profitstock 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. An impairment loss is recognised as an expense immediately.

Where 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. A reversal of an impairment loss is recognised as income immediately.

**Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised. Net realised value is determined based on prevailing market conditions.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity 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 or 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 in the income statement.

***Financial assets***

The financial assets of the Profitstock Group and Profitstock are classified as loans 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 accounts receivable, loans to fellow subsidiaries, loan receivable, amounts due from related parties, amount due from subsidiaries, bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in 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.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Profitstock Group after deducting all of its liabilities. Equity instruments issued by Profitstock are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities*

The financial liabilities of the Profitstock Group and Profitstock (including accounts payable, amounts due to related parties, amount due to a minority shareholder of a subsidiary, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

**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 Profitstock 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 Profitstock Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 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 Profitstock 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 the income statement.

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 the income statement.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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 eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Periods. 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 Profitstock Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the respective balance sheet dates.

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 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 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Profitstock Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits 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 realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**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 exchanges 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 in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of Profitstock's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in 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.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

**Revenue recognition**

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

Income from properties developed for sale, where there is no pre-sales arrangement prior to completion of the development, is recognised on the execution of a binding sales agreement entered into subsequent to the completion of the development.

Income from properties under pre-sale arrangement prior to completion of the development is recognised on the execution of a binding sales agreement or when the relevant completion certificates are issued by the respective government authorities, whichever is the later. Payments received from the purchasers prior to this stage are recorded as customers' deposits received on sale of properties and presented as current liabilities.

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.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year, are discussed below.

**Taxation**

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, deferred tax assets of RMB6,361,000, RMB11,174,000, RMB20,089,000 and RMB24,003,000, respectively, in relation to tax losses have been recognised, as set out in note 26. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The directors of Profitstock determine the deferred tax assets based on the enacted or substantially enacted tax rates and laws and the best knowledge of profit projections of the Profitstock Group for coming years during which the deferred tax assets are expected to be utilised. The directors of Profitstock review the assumptions and profit projections by the balance sheet date. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a recognition or reversal takes place.

**Land Appreciation Tax**

The Profitstock Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and the Profitstock Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of the land appreciation and its related income tax provisions. The Profitstock Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the cost of sales and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

## 5. FINANCIAL INSTRUMENTS

### a. Financial risk management objectives and policies

The Profitstock Group's major financial instruments include accounts receivable, loans to fellow subsidiaries, loan receivable, amounts due from related parties, bank deposits and bank balances, accounts payable, amounts due to related parties, amount due to a minority shareholder of a subsidiary and bank borrowings. 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 management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Profitstock Group's financial instruments are foreign currency risk, cash flow interest rate risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised below.

b. **Foreign currency risk management**

The Profitstock Group's turnover is denominated in RMB. However, the Profitstock Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arises. The Profitstock Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amount of the Profitstock Group's foreign currency denominated monetary assets and liabilities at respective balance sheet date is as follow:

| | Year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Assets** | | | | |
| US dollars | — | 684 | 160,941 | 132,709 |
| Hong Kong dollars | 72,941 | 17,866 | 34,846 | 3,596 |
| | 72,941 | 18,550 | 195,787 | 136,305 |
| **Liabilities** | | | | |
| Hong Kong dollars | 881,109 | 1,055,760 | 316,875 | 307,097 |

The Profitstock Group is mainly exposed to currency fluctuation of US dollars and Hong Kong dollars.

The following table details the Profitstock Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for 5% change in foreign currency rates. A positive (negative) number indicates an increase (decrease) in profit for the year/period or decrease (increase) in loss for the year/period where the RMB strengthens against the relevant currency.

| | Year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **US dollars** | | | | |
| Loss | — | (33) | (7,664) | (6,319) |
| **Hong Kong dollars** | | | | |
| Profit | 38,770 | 49,424 | 13,430 | 14,452 |

The Profitstock Group has not entered into any forward contracts to hedge the exposures. However, the Profitstock Group is monitoring the situation closely and will implement an effective hedging arrangement should the need arises.

c. **Cash flow interest rate risk management**

The Profitstock Group's income and operating cash flows are substantially independent of changes in market interest rates. The Profitstock Group's exposure to changes in interest rates is mainly attributable to its bank borrowings, bank deposits and bank balances at variable rates. The Profitstock Group has a policy to place surplus funds with creditable financial institutions which offer the best return for the Profitstock Group on a short-term basis.

The Profitstock Group currently does not have an interest rate hedging policy. However, the management continuously monitors the cash flow interest rate risk and may implement effective hedging arrangements should the need arises.

d. **Credit risk management**

As at 30 June 2007, the Profitstock Group's maximum exposure to credit risk which will cause a financial loss to the Profitstock Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Profitstock Group reviews the recoverable amount of each receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Profitstock consider that the Profitstock Group's credit risk is significantly reduced.

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

The Profitstock Group has no significant concentration of credit risk, with exposure spread over a number of counterparties, except for as at 31 December 2006 and 30 June 2007 where the largest debtor amounting to approximately RMB113,587,000 and RMB564,202,000, respectively, arising from sales of properties which contributed to approximately 35% and 55%, respectively, of the Profitstock Group's accounts receivable.

At 31 December 2006, the Profitstock Group provided guarantees to banks in respect of mortgage facilities granted to the buyers of its residential properties (see note 29(b)). If the buyers default on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Profitstock Group consider that the credit risk is significantly reduced.

e. **Fair value**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

f. **Capital and liquidity risk management**

The Profitstock Group manages its capital to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. The Profitstock Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Profitstock Group consists of debts, which includes amounts due to related parties as disclosed in note 20, bank balances and equity attributable to equity shareholders of Profitstock, comprising issued capital, reserves and accumulated profits.

The directors of Profitstock review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the associated risk, and take appropriate actions to adjust the Profitstock Group's capital structure and gearing ratio.

## 6. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents revenue arising from sales of properties, net of discounts and sales related taxes, during the Relevant Periods and the six months ended 30 June 2006.

**Business segment**

No business segment information is presented for the Relevant Periods as the Profitstock Group was engaged solely in the properties development during the Relevant Periods.

**Geographical segment**

Over 90% of the Profitstock Group's turnover and contribution to operating profit for the Relevant Periods was attributable to customers in the PRC. Accordingly, no analysis of geographical segment is presented.

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

## 7. OTHER INCOME

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (*unaudited*) | *RMB'000* |
| Interest income on: | | | | | |
| - bank deposits | 53 | 18 | 12,359 | 3,068 | 8,237 |
| - loans to/amounts due from fellow subsidiaries *(note 30(c))* | — | — | 4,762 | — | 14,451 |
| - loan receivable | — | — | 86 | — | 5,764 |
| Imputed interest income on non-current accounts receivable from sale of properties *(note 14)* | — | — | — | — | 4,401 |
| Sundry income | — | — | 326 | 87 | 102 |
| Net exchange gain | 868 | 24,227 | — | 8,073 | 5,051 |
| | 921 | 24,245 | 17,533 | 11,228 | 38,006 |

## 8. FINANCE COSTS

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (*unaudited*) | *RMB'000* |
| Interest on bank loans and overdrafts wholly repayable within five years | 4,294 | 19,564 | 27,368 | 18,459 | — |
| Interest paid to related parties *(note 30(c))* | 22,861 | 32,248 | 24,836 | 18,147 | — |
| | 27,155 | 51,812 | 52,204 | 36,606 | — |
| Less: Amount capitalised to properties under development | (27,155) | (51,812) | (49,554) | (36,606) | — |
| | — | — | 2,650 | — | — |

### 9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

During the Relevant Period and the six months ended 30 June 2006, no amounts were paid in respect of directors' emoluments.

All the five individuals with the highest emoluments during the Relevant Period and the six months ended 30 June 2006 were employees other than directors of Profitstock. The emoluments of those five individuals were as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| Basic salaries and other benefits | 2,751 | 2,515 | 3,767 | 2,277 | 879 |
| Contributions to retirement benefits scheme | 189 | 145 | 140 | 113 | 91 |
| | 2,940 | 2,660 | 3,907 | 2,390 | 970 |

Their emoluments were within the following bands:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | **Number of employee** | **Number of employee** | **Number of employee** | **Number of employee** | **Number of employee** |
| | | | | *(unaudited)* | |
| Nil to HK$1,000,000 | 5 | 5 | 3 | 4 | 5 |
| HK$1,000,001 to HK$1,500,000 | — | — | 2 | 1 | — |

During the Relevant Periods and the six months ended 30 June 2006, no emoluments were paid by the Profitstock Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Profitstock Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods and the six months ended 30 June 2006.

**10. INCOME TAX CREDIT (EXPENSE)**

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| The credit (charge) comprises: | | | | | |
| PRC Enterprise Income Tax: | | | | | |
| Current taxation | — | — | — | — | — |
| Deferred taxation | 6,046 | 336 | (728,098) | (392,988) | (375,895) |
| | 6,046 | 336 | (728,098) | (392,988) | (375,895) |

No provision for PRC Enterprise Income Tax has been made as the Profitstock Group has no assessable profits for the Relevant Periods and the six months ended 30 June 2006.

No provision for Hong Kong Profits Tax has been made as the income of the Profitstock Group neither arises in, nor is derived from, Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 33% to 25% for a subsidiary from 1 January 2008. The change in tax rate has no impact on the deferred tax balances as the directors of the Profitstock expect that the deferred tax balances will be fully realised or settled in 2007.

Details of the deferred taxation are set out in note 26.

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

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| (Loss) profit before taxation | (18,570) | 285 | 2,161,330 | 1,173,328 | 1,124,985 |
| PRC Enterprise Income Tax at 33% | (6,128) | 94 | 713,239 | 387,198 | 371,245 |
| Tax effect of expenses not deductible for tax purposes | 387 | 2,651 | 19,632 | 7,130 | 8,478 |
| Tax effect of income not taxable for tax purposes | (305) | (3,089) | (4,778) | (1,655) | (4,098) |
| Others | — | 8 | 5 | 315 | 270 |
| Tax (credit) charge for the year/period | (6,046) | (336) | 728,098 | 392,988 | 375,895 |

**11. (LOSS) PROFIT FOR THE YEAR/PERIOD**

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| (Loss) profit for the year/period has been arrived at after charging (crediting): | | | | | |
| Auditors' remuneration | 34 | 68 | 71 | 32 | — |
| Depreciation | 68 | 79 | 155 | 75 | 68 |
| Less: Amount capitalised to properties under development | (68) | (74) | (64) | (44) | — |
| | — | 5 | 91 | 31 | 68 |
| Exchange loss, net | — | — | 7,342 | — | — |
| Staff costs | | | | | |
| Directors' emoluments | — | — | — | — | — |
| Other staff costs | | | | | |
| Staff cost excluding retirement benefit costs | 5,454 | 5,933 | 7,858 | 2,597 | 1,842 |
| Retirement benefits costs | 681 | 740 | 728 | 405 | 267 |
| Total staff costs | 6,135 | 6,673 | 8,586 | 3,002 | 2,109 |
| Less: Amount capitalised to properties under development | (6,135) | (5,551) | (6,932) | (2,833) | — |
| | — | 1,122 | 1,654 | 169 | 2,109 |
| Cost of properties held for sale recognised as an expense | — | — | 1,228,395 | 562,321 | 542,181 |
| Loss on disposal of property, plant and equipment | — | — | 75 | — | — |

**12. PROPERTY, PLANT AND EQUIPMENT**

| | THE PROFITSTOCK GROUP<br>Furniture, fixtures, equipment and motor vehicles<br>*RMB'000* |
|---|---|
| **2004** | |
| AT COST | |
| At 1 January 2004 | 347 |
| Additions | 117 |
| At 31 December 2004 | 464 |
| ACCUMULATED DEPRECIATION | |
| At 1 January 2004 | 89 |
| Charge for the year | 68 |
| At 31 December 2004 | 157 |
| CARRYING VALUE | |
| At 31 December 2004 | 307 |
| **2005** | |
| AT COST | |
| At 1 January 2005 | 464 |
| Additions | 441 |
| At 31 December 2005 | 905 |
| ACCUMULATED DEPRECIATION | |
| At 1 January 2005 | 157 |
| Charge for the year | 79 |
| At 31 December 2005 | 236 |
| CARRYING VALUE | |
| At 31 December 2005 | 669 |
| **2006** | |
| AT COST | |
| At 1 January 2006 | 905 |
| Additions | 67 |
| Disposals | (75) |
| At 31 December 2006 | 897 |

| | THE PROFITSTOCK GROUP |
|---|---|
| | **Furniture, fixtures, equipment and motor vehicles** |
| | *RMB'000* |
| ACCUMULATED DEPRECIATION | |
| At 1 January 2006 | 236 |
| Charge for the year | 155 |
| Eliminated on disposals | — |
| At 31 December 2006 | 391 |
| CARRYING VALUE | |
| At 31 December 2006 | 506 |
| **2007** | |
| AT COST | |
| At 1 January 2007 | 897 |
| Additions | 22 |
| At 30 June 2007 | 919 |
| ACCUMULATED DEPRECIATION | |
| At 1 January 2007 | 391 |
| Charge for the period | 68 |
| At 30 June 2007 | 459 |
| CARRYING VALUE | |
| At 30 June 2007 | 460 |

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the rates of 20 - 33% per annum.

**13. INVESTMENTS IN SUBSIDIARIES**

| | PROFITSTOCK | | |
|---|---|---|---|
| | **As at 31 December** | | **As at 30 June** |
| | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Unlisted investments, at cost | 31,453 | 51,120 | 51,120 |

Included in the cost of investments in subsidiaries at 30 June 2007 are capital contributions amounting to RMB51,120,000 (31.12.2006: RMB51,120,000 ; 31.12.2005: RMB31,453,000) arising from the fair value adjustments at the initial recognition of amounts due from subsidiaries, calculated by using an effective interest rate of 5% per annum.

### 14. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

**Current**

Current accounts receivable (net of allowance for bad and doubtful debts) aged analysis:

| | THE PROFITSTOCK GROUP | | | |
|---|---|---|---|---|
| | As at 31 December | | | As at 30 June |
| | 2004 | 2005 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | | | | |
| Not yet due | — | — | 138,878 | 657,022 |
| Within 30 days | — | — | 35,718 | 68,985 |
| 31 - 60 days | — | — | 8,440 | 15,882 |
| 61 - 90 days | — | — | 2,321 | 14,905 |
| Over 90 days | — | — | 23,885 | 4,504 |
| | — | — | 209,242 | 761,298 |
| Deposits, other prepayments and receivables | 299 | 9 | 1,645 | 6,071 |
| | 299 | 9 | 210,887 | 767,369 |

Trade receivables comprise receivables arising from sales of properties which are due for settlement in accordance with the terms of the related sale and purchase agreements.

**Non-current**

Non-current accounts receivable represent receivables from sale of properties. The amounts comprising:

(a) a balance at 30 June 2007 of RMB114,987,000 (31.12.2006: RMB113,587,000; 31.12.2005: nil; 31.12.2004: nil) which is denominated in US dollars, unsecured and repayable on or before 31 December 2010. Interest are payable as follows:

(i) the whole amount is interest free from 1 January 2007 to 31 December 2007

(ii) half of the amount is interest free and the remaining amount bears interest at 5% per annum from 1 January 2008 to 31 December 2008

(iii) the whole amount bears interest at simple interest rate of 6% per annum from 1 January 2009 to 31 December 2009

(iv) the full amount bears interest at simple interest rate of 8% per annum from 1 January 2010 to 31 December 2010

The amount is carried at amortised cost at effective interest rate of 8% per annum.

(b) a balance at 30 June 2007 of RMB146,987,000 (31.12.2006: nil; 31.12.2005: nil; 31.12.2004: nil) which is unsecured, interest free and repayable on the last day of the 36 months upon the issue of the Certificate of Real Estate to the buyer.

The amount is carried at amortised cost at effective interest rate of 6.75% per annum.

**15. LOANS TO FELLOW SUBSIDIARIES**

The Profitstock Group's loans to fellow subsidiaries are unsecured, interest bearing at 5.832% per annum and repayable on 7 October 2011.

**16. PLEDGED BANK DEPOSITS AND BANK DEPOSITS**

**Pledged bank deposits**

The amount represents deposits pledged to the banks to secure the banking facilities granted to the Profitstock Group. As at 31 December 2004, deposits amounting to RMB106,124,000 have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

At 31 December 2005, pledged bank deposits carried interest at market rates which range from 0.72% to 1.62% (31.12.2004: 0.72% to 1.62%).

**Bank deposits**

At 30 June 2007, bank balances carry interest at market rates which range from 0.72% to 1.98% (31.12.2006: 0.72% to 1.80% ; 31.12.2005: 0.72% to 1.62% ; 31.12.2004: 0.72% to 1.62%).

**17. PROPERTIES UNDER DEVELOPMENT**

| | **THE PROFITSTOCK GROUP** | | | |
|---|---|---|---|---|
| | **As at 31 December** | | | **As at 30 June** |
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| AT COST | | | | |
| At beginning of the year/period | 913,420 | 1,098,596 | 1,480,266 | — |
| Additions | 185,176 | 381,670 | 686,231 | — |
| Transfer to properties held for sale | — | — | (2,166,497) | — |
| At end of the year/period | 1,098,596 | 1,480,266 | — | — |

The properties under development are all situated in the PRC.

Included in the properties under development as at 31 December 2004 was carrying value of RMB1,098,596,000 (2005: nil) which represented the carrying value of the properties expected to be completed and available for sale after more than twelve months from the balance sheet date.

## 18. PROPERTIES HELD FOR SALE

The Profitstock Group's properties held for sale are situated in the PRC. All the properties held for sale are stated at cost.

## 19. LOAN RECEIVABLE

The amount at 31 December 2006 was unsecured, interest bearing at 5.022% per annum and fully repaid on 26 June 2007.

The amount as at 30 June 2007 is unsecured, interest bearing at 5.913% per annum and repayable on 26 June 2008.

## 20. AMOUNTS DUE FROM/TO RELATED PARTIES

Particulars of the amounts due from/to related parties are as follows:

| | THE PROFITSTOCK GROUP | | | | PROFITSTOCK | | |
|---|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 30 June | As at 31 December | | As at 30 June |
| | **2004** | **2005** | **2006** | **2007** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts due from: | | | | | | | |
| — immediate holding company | — | — | — | 25,292 | 1 | 1 | 1 |
| — intermediate holding company | — | — | — | — | — | — | — |
| — fellow subsidiaries | 30,811 | 18,533 | 485,458 | 971,794 | — | — | — |
| — a company in which a director of Profitstock has beneficial interest *(note)* | — | 20 | — | — | — | — | — |
| — a director | — | — | 10,675 | — | — | — | — |
| — close family members of key management | — | — | 14,594 | — | — | — | — |
| Amounts due from related parties | 30,811 | 18,553 | 510,727 | 997,086 | 1 | 1 | 1 |
| Amounts due to: | | | | | | | |
| — shareholders | — | — | 121,080 | 121,080 | — | 121,080 | 121,080 |
| — intermediate holding company | 44,239 | 51,277 | 63,991 | 63,991 | — | — | — |
| — immediate holding company | — | 25,210 | 36,285 | — | — | — | — |
| — fellow subsidiaries | 286,701 | 718,689 | 327,120 | 335,941 | 423,093 | 296,115 | 287,186 |
| — former shareholder | 436,509 | — | — | — | — | — | — |
| Amounts due to related parties | 767,449 | 795,176 | 548,476 | 521,012 | 423,093 | 417,195 | 408,266 |

Note: Mr. Lo Hong Sui, Vincent, a director of Profitstock, has beneficial interest in this related company.

The amounts due from a director and close family members of key management represent receivables arising from sale of properties which are due for settlement in accordance with the terms of the related sale and purchase agreements.

The amounts due from fellow subsidiaries at 30 June 2007 include balances of RMB805,400,000; (31.12.2006: RMB403,000,000; 31.12.2005: nil ; 31.12.2004: nil) which were unsecured, interest bearing at 5.508% to 5.913% (31.12.2006: 5.022% to 5.508%) per annum and repayable within twelve months from the balance sheet date. The remaining amounts due from/to related companies at each balance sheet date are unsecured, interest free and repayable on demand.

At 31 December 2004, the amounts due from related parties include a balance of RMB12,065,000 which is denominated in Hong Kong dollars.

At 30 June 2007, the amounts due to related parties include balances of RMB307,211,000 (31.12.2006: RMB316,874,000; 31.12.2005: RMB323,391,000; 31.12.2004: RMB411,978,000) which are denominated in Hong Kong dollars.

## 21. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest free and repayable on demand. The amounts are carried at amortised cost at effective interest rate of 5% per annum.

## 22. ACCOUNTS PAYABLE, DEPOSIT RECEIVED AND ACCRUED CHARGES

Accounts payable aged analysis:

| | THE PROFITSTOCK GROUP | | | |
|---|---|---|---|---|
| | | As at 31 December | | As at 30 June |
| | 2004 | 2005 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payable | | | | |
| Not yet due | 25,000 | 41,536 | 245,431 | 124,502 |
| Within 30 days | — | 5,101 | — | — |
| | 25,000 | 46,637 | 245,431 | 124,502 |
| Retention payables (note) | 9,907 | 14,208 | 13,806 | 13,850 |
| Business tax and other tax payables | — | 26 | 167,812 | 138,476 |
| Deposits received and receipt in advance from property sales | — | 7,550 | 15,557 | 73,234 |
| Other payables and accrued charges | 621 | 4,636 | 2,378 | 3,690 |
| | 35,528 | 73,057 | 444,984 | 353,752 |

Note: Retention payables are expected to be repaid upon the expiry of the retention periods according to the respective contracts.

### 23. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary was unsecured, interest free and repayable on demand. The amount was fully repaid in 2006.

### 24. BANK BORROWINGS

| | THE PROFITSTOCK GROUP | | | |
|---|---|---|---|---|
| | As at 31 December | | | As at 30 June |
| | 2004 | 2005 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Repayable within a period of | | | | |
| - Not more than 1 year or on demand | 263,012 | 731,798 | — | — |
| - More than 1 year, but not exceeding 2 years | 190,402 | — | — | — |
| | 453,414 | 731,798 | — | — |
| Less: Amount due within one year shown under current liabilities | (263,012) | (731,798) | — | — |
| Amount due after one year | 190,402 | — | — | — |

At 31 December 2005, the bank loans comprising a loan balance of RMB606,798,000 (31.12.2004: RMB453,414,000) which was denominated in Hong Kong dollars and interest bearing at Hong Kong Interbank Offered Rates plus 0.725%. The remaining bank loan at 31 December 2005 was denominated in RMB and interest bearing at 90% of The People's Bank of China Prescribed Interest Rate. The amounts were fully settled by the Profitstock Group in 2006.

The bank loans were secured by the pledge of assets as set out in note 28 and the corporate guarantees issued in favour of banks by Shui On Land Limited, an intermediate holding company.

## 25. SHARE CAPITAL

**As at 31 December 2004**

The balance as at 31 December 2004 represented the issued and fully paid share capital of Galore Profits Limited.

**As at 31 December 2005, 31 December 2006 and 30 June 2007**

| | Number of shares | | | Share capital | | |
|---|---|---|---|---|---|---|
| | As at 31 December | | As at 30 June | As at 31 December | | As at 30 June |
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| | | | | *USD'000* | *USD'000* | *USD'000* |
| Authorised: | | | | | | |
| Ordinary shares of US$1 each | 50,000 | 50,000 | 50,000 | 50 | 50 | 50 |
| Issued and fully paid: | | | | | | |
| At the beginning of the year/period | — | 100 | 100 | — | — | — |
| Issue of shares | 100 | — | — | — | — | — |
| At the end of the year/period | 100 | 100 | 100 | — | — | — |
| | | | | *RMB'000* | *RMB'000* | *RMB'000* |
| Shown in the balance sheets as | | | | 1 | 1 | 1 |

## 26. DEFERRED TAX ASSETS/LIABILITIES

The following are the major components of the deferred tax (assets) liabilities recognised at the balance sheet date:

| | THE PROFITSTOCK GROUP | | | |
|---|---|---|---|---|
| | **Recognition of sales and related cost of sales** | **Tax losses** | **Others** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2004 | — | (315) | — | (315) |
| Credit to income for the year | — | (6,046) | — | (6,046) |
| At 31 December 2004 | — | (6,361) | — | (6,361) |
| (Credit) charge to income for the year | — | (4,813) | 4,477 | (336) |
| At 31 December 2005 | — | (11,174) | 4,477 | (6,697) |
| Charge (credit) to income for the year | 741,357 | (8,915) | (4,344) | 728,098 |
| At 31 December 2006 | 741,357 | (20,089) | 133 | 721,401 |
| Charge (credit) to income for the period | 379,809 | (3,914) | — | 375,895 |
| At 30 June 2007 | 1,121,166 | (24,003) | 133 | 1,097,296 |

At balance sheet date, the Profitstock Group had unused tax losses of RMB72,736,000 (31.12.2006: RMB60,876,000; 31.12.2005: RMB33,861,000; and 31.12.2004: RMB19,276,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB24,003,000 (31.12.2006: RMB20,089,000; 31.12.2005: RMB11,174,000; and 31.12.2004: RMB6,361,000).

## 27. RETIREMENT FUND SCHEMES

### Hong Kong

The Profitstock Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. Under the MPF Scheme, contributions made by the employees at 5% of relevant income and by the Profitstock Group at rates ranging from 5% to 10% of the employees' salaries, depending on the employees' length of service with the Profitstock Group.

The Profitstock Group's contributions to the MPF Scheme charged to the consolidated income statements as staff costs during the six months ended 30 June 2007 amounted to RMB5,000 (year ended 31.12.2006: RMB125,000; year ended 31.12.2005: RMB107,000; year ended 31.12.2004: RMB222,000). The amount of employer's voluntary contributions to the MPF Scheme forfeited for the financial periods referred to above were immaterial and had been used to reduce the existing level of contributions.

### PRC

According to the relevant laws and regulations in the PRC, the subsidiary established in the PRC is required to contribute a specified percentage of the payroll of its employees to retirement benefit scheme to fund the retirement benefits of its employees. The only obligation of the Profitstock Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

## 28. PLEDGE OF ASSETS

The Profitstock Group had pledged the following assets to secure certain banking facilities at the balance sheet date:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Properties under development | 1,098,596 | 1,480,266 | — | — |
| Bank deposits | 106,124 | 5,527 | — | — |
| | 1,204,720 | 1,485,793 | — | — |

## 29. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

As at the balance sheet date, the Profitstock Group had the following commitments:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Contracted but not provided for:* | | | | |
| Capital expenditure in respect of properties under development in the PRC | 362,479 | 342,229 | — | — |

### (b) Contingent liabilities

Financial guarantee contracts:

At 31 December 2006, a subsidiary of Profitstock had outstanding guarantees issued in favour of banks amounting to RMB414,026,000 in respect of mortgage facilities granted to the buyers of its residential properties. These guarantees were released during the six months period ended 30 June 2007.

In the opinion of the directors of Profitstock, the fair values of the financial guarantee contracts of the Profitstock Group were insignificant at initial recognition and the directors consider that the possibility of the default of the parties involved was remote, accordingly, no value had been recognised in the balance sheets as at 31 December 2006.

### (c) Other commitment

Pursuant to an agreement entered into with the district government (the "Luwan Government") of the Luwan District, Shanghai, the PRC, the Profitstock Group has committed to build certain educational facilities to be located in the Taipingqiao area of the Luwan District as compensation for the removal of those educational facilities originally located in that area. As at 30 June 2007, no construction contracts related to the educational facilities was entered into.

**30. RELATED PARTY TRANSACTIONS**

Apart from the related party transactions and balances as stated in notes 15, 20, 23 and 24, the Profitstock Group had the following transactions with certain subsidiaries of Shui On Company Limited.

(a) Pursuant to a reorganisation agreement dated 16 December 2005 entered into between Interchina International Limited ("Interchina"), a subsidiary of Shui On Company Limited, and Profitstock, Interchina agreed to sell, and Profitstock agreed to purchase the entire issued share capital in Galore Profits Limited at a cash consideration of US$1.

(b) Pursuant to a deed of novation of debt dated 5 January 2006 entered into among Equity Millennium Limited ("EM"), Shun Hing China Investment Limited ("Shun Hing"), Shui On Development (Holding) Limited, Interchina and Profitstock (together referred as the "Parties"), in the consideration of HK$100 in favour of Profitstock, the Parties agreed that the full obligations and burdens of the amounts indebted by Interchina to EM and Shun Hing amounted to approximately RMB80,720,000 and RMB40,360,000, respectively be novated from Interchina unto Profitstock with effect from the date of this deed.

(c) The Profitstock Group also had the following transactions with related companies as follows:

**Nature of transaction**

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (*unaudited*) | *RMB'000* |
| **A related company in which directors of Profitstock have beneficial interests** | | | | | |
| Project construction fees | — | 1,831 | 5,558 | 574 | — |
| **Intermediate holding company** | | | | | |
| Interest expenses | 22,861 | 26,560 | 12,654 | 9,323 | — |
| **Immediate holding company** | | | | | |
| Interest expenses | — | 5,688 | 11,656 | 8,563 | — |
| **Fellow subsidiaries** | | | | | |
| Sales and marketing fees | 17,852 | 13,333 | 42,146 | 21,547 | 37,079 |
| Project management fees | 18,332 | 13,752 | 356 | — | — |
| Other expenses | — | 301 | 70 | 4 | — |
| Commission fees | — | — | 73,701 | 18,650 | 37,079 |
| Interest income | — | — | 4,762 | — | 14,451 |
| Interest expense | — | — | 526 | 261 | — |
| **A director** | | | | | |
| Property sales | — | — | 14,906 | — | — |
| **Close family members of key management** | | | | | |
| Property sales | — | — | 14,670 | — | — |

## B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to Profitstock's directors and supervisors by Profitstock or its subsidiary in respect of the Relevant Periods.

## C. SUBSEQUENT EVENTS

No significant events took place subsequent to 30 June 2007.

## D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Profitstock Group, Profitstock or its subsidiaries have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following unaudited pro forma statement of assets and liabilities of the Enlarged Group (referred to as the "Unaudited Pro Forma Financial Information") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition as if it had taken place on 30 June 2007 for the pro forma statement of assets and liabilities. This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed on 30 June 2007 or any future date.*

**Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group**

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on (i) the unaudited consolidated balance sheet extracted from the interim report of the Group as at 30 June 2007; and (ii) the audited consolidated balance sheet of Profitstock as at 30 June 2007 as extracted from the accountants' report thereon set out in Appendix II to this Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2007.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to provide the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 30 June 2007. As it is prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2007 or at any future date.

| | The Group as at 30 June 2007 | Unaudited proforma adjustment | Proforma Enlarged Group Total |
|---|---|---|---|
| | *RMB' million* | *RMB'million* | *RMB'million* |
| **Non-current assets** | | | |
| Investment properties | 7,652 | — | 7,652 |
| Property, plant and equipment | 184 | — | 184 |
| Prepaid lease payments | 4,198 | — | 4,198 |
| Properties under development | 1,368 | — | 1,368 |
| Interests in associates | 4 | — | 4 |
| Accounts receivable | 296 | — | 296 |
| Pledged bank deposits | 336 | — | 336 |
| Defined benefit assets | 4 | — | 4 |
| | 14,042 | — | 14,042 |

| | The Group as at 30 June 2007 | Unaudited proforma adjustment | Proforma Enlarged Group Total |
|---|---|---|---|
| | *RMB' million* | *RMB'million* | *RMB'million* |
| **Current Assets** | | | |
| Inventories | 2 | — | 2 |
| Properties under development for sale | 5,642 | — | 5,642 |
| Property held for sale | 1,146 | — | 1,146 |
| Accounts receivable, deposits and prepayments | 1,559 | — | 1,559 |
| Loan recoverable | 233 | — | 233 |
| Amount due from an associate | 2 | — | 2 |
| Amounts due from related parties | 43 | — | 43 |
| Amount due from a minority shareholder of a subsidiary | 6 | — | 6 |
| Tax recoverable | 141 | — | 141 |
| Early redemption right of notes | 15 | — | 15 |
| Pledged bank deposits | 826 | — | 826 |
| Bank balances and cash | 4,067 | (884) | 3,183 |
| | 13,682 | (884) | 12,798 |
| **Current Liabilities** | | | |
| Accounts payable, deposits received and accrued charges | 1,793 | — | 1,793 |
| Amounts due to related parties | 47 | — | 47 |
| Amounts due to minority shareholders of subsidiaries | 373 | (121) | 252 |
| Tax liabilities | 29 | — | 29 |
| Bank borrowings — due after one year | 2,273 | — | 2,273 |
| | 4,515 | (121) | 4,394 |
| **Net Current Assets** | 9,167 | (763) | 8,404 |

| | The Group as at 30 June 2007 | Unaudited proforma adjustment | Proforma Enlarged Group Total |
|---|---|---|---|
| | *RMB' million* | *RMB'million* | *RMB'million* |
| **Non-Current Liabilities** | | | |
| Loan from a minority shareholder of a subsidiary | 91 | — | 91 |
| Notes | 2,734 | — | 2,734 |
| Bank borrowings — due after one year | 1,911 | — | 1,911 |
| Deferred tax liabilities | 2,178 | — | 2,178 |
| Derivative financial instrument designated as hedging instrument | 46 | — | 46 |
| | 6,960 | — | 6,960 |
| **NET ASSETS** | 16,249 | (763) | 15,486 |

*Note:*

The adjustment represents the acquisition by the Group of additional 30% equity interests in Profitstock and the loans owing by the Profitstock to the Sellers in the amount of RMB121 million, for an aggregate consideration of USD116 million (equivalent to RMB884 million, converted at an exchange rate of US$1: RMB7.62). 50% of the consideration will be paid in cash and the remaining 50% will be funded by banking facilities. However, for the purpose of this proforma statement of assets and liabilities, it is assumed that the consideration was paid in fully by cash, as the draw down of the bank facilities is not a pre-condition on the Acquisition.

The calculation of the discount on acquisition is set out as follows:

| | *RMB' million* | *RMB' million* |
|---|---|---|
| Net assets of Profitstock Group as at 30 June 2007 as stated in accountants' report in Appendix II | 2,172 | |
| Add: Reallocation of costs of certain common facilities incurred by other entities of the Group | 253 | |
| Add: Fair value adjustment on properties held for sale at 30 June 2007, net of tax | 409 | |
| Fair value on net assets of Profitstock Group | 2,834 | |
| 30% thereon | | 850 |
| Consideration | 884 | |
| Less: Settlement of amounts due to minority shareholders | (121) | |
| | | (763) |
| Discount on acquisition | | 87 |

The fair value adjustment is estimated by reference to the valuation report of these properties at 31 July 2007 as set out in the Valuation Report in Appendix V in the Circular, and had taken into account of the estimated costs of disposals as follows:

| | *RMB'million* |
|---|---|
| Valuation of properties as at 31 July 2007 as set out in the Valuation Report in Appendix V | 804 |
| Add: Estimated value of properties sold in July 2007 | 272 |
| Less: Business tax | (54) |
| Less: Carrying amounts of properties held for sale as at 30 June 2007 as stated in the accountants' report in Appendix II | (396) |
| Less: Estimated selling expenses, other cost of sales and income tax | (217) |
| Fair value adjustment on properties held for sale as at 30 June 2007 | 409 |

Since the carrying amounts of the identifiable assets and liabilities of Profitstock at the date of completion may be substantially different from their carrying amounts as at 30 June 2007, the actual discount on acquisition arising from the Acquisition may be different from the estimated discount on acquisition shown above.

*The following is the text of a report, prepared for inclusion in the circular of the Company dated 28 September 2007, from the reporting accountants of Shui On Land Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

Deloitte.
德勤

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF SHUI ON LAND LIMITED**

We report on the unaudited pro forma financial information of Shui On Land Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the major and connected transaction in connection with the acquisition of further interests in Profitstock Holdings Limited might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 28 September 2007 ("Circular"). The basis of preparation of the unaudited pro forma financial information is set out on Appendix IV to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

**Opinion**

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
28 September 2007

*Set out below is the letter and the valuation report received from Knight Frank Petty Limited, an independent property valuer, prepared for the purpose for incorporation in this Circular in connection with their valuation of the property interest as at 30 November 2007.*

Knight Frank 萊坊

4/F Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

6 February 2008

The Directors
Shui On Land Limited
26/F Shui On Plaza
333 Huai Hai Zhong Road
Shanghai
The PRC

Dear Sirs

**VALUATION OF SEVERAL PLOTS OF LAND SITUATED AT SOUTH OF REN MIN ROAD (LIAO YUAN ROAD), BOTH SIDES OF ZU MIAO ROAD, BOTH SIDES OF CHENG MEN TOU ROAD, NORTH OF JIAN XIN ROAD (ZHAO XIANG ROAD) AND BOTH SIDES OF SHI DONG ROAD, CHANCHENG DISTRICT, FOSHAN, GUANGDONG PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA ("THE PRC")**

In accordance with your instructions to us to value the captioned property interest held by Shui On Land Limited (herreinafter referrd to as the "Company") and its subsidiaries (herreinafter together referrd to as the "Group") in the PRC, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 30 November 2007.

**BASIS OF VALUATION**

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, deferred term contracts, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

## VALUATION METHODOLOGY

We have valued the property interest on the basis that the property interest will be developed and completed in accordance with the development proposal provided to us. We have assumed that the approval for the proposal has been obtained. In arriving at our opinion of value, we have valued the property interest by making reference to comparable transactions in the locality and have also taken into account the construction costs that will be expended to complete the developments to reflect the quality of the completed developments.

## TITLE DOCUMENTS AND ENCUMBRANCES

We have been provided with copies of extracts of title documents relating to the property. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. We have relied on the information given by the Company and its PRC legal advisers, Jin Mao Law Firm and Jin Mao Kai De Law Firm, regarding the title and other legal matters relating to the property. We have no reason to doubt the truth and accuracy of the information provided to us by the Company and/or the Company's PRC legal advisers which is material to the valuation.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

## SOURCE OF INFORMATION

We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposal and schedule of the property, site and floor areas and all other relevant information. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the site and floor areas of the property and we have assumed that the site and the floor areas shown on the documents handed to us are correct. We were also advised by the Company that no material facts have been omitted from the information provided.

## INSPECTION AND STRUCTURAL CONDITION

We have inspected the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services. Moreover, we have not carried out investigations on site to determine the suitability of the ground conditions and services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory.

## REMARKS

In the course of our valuation, we have complied with the requirements contained within the relevant provisions of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the First Edition 2005 of The HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

## CURRENCY

Unless otherwise specified, all amounts are denominated in Renminbi.

Our valuation report is attached herewith.

Yours faithfully
For and on behalf of
**Knight Frank Petty Limited**
**Alex S L Ng**
*MRICS MHKIS RPS(GP)*
*Executive Director*

*Note:* Alex S L Ng, M.R.I.C.S., M.H.K.I.S, R.P.S. (G.P.), has been a qualified valuer with Knight Frank Petty since 1995 and has about 22 years' experience in the valuation of properties in Hong Kong and has extensive experience in the valuation of properties in the People's Republic of China since 1988.

## VALUATION REPORT

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 30 November 2007 |
|---|---|---|---|
| Several plots of land situated at south of Ren Min Road (Liao Yuan Road), both sides of Zu Miao Road, both sides of Cheng Men Tou Road, north of Jian Xin Road (Zhao Xiang Road) and both sides of Shi Dong Road Chancheng District Foshan Guangdong Province The PRC | The property comprises several plots of irregularly shaped land having a total site area of approximately 639,320 sq m and total net site area of approximately 517,471 sq m.<br><br>The property will be developed into a large-scale comprehensive development including residential clusters, office towers, luxury hotels, shopping arcades and carparks in 5 phases namely phase 1 to phase 5. The area details are listed as follows: | The property is held for development. As at the date of valuation, the property is being occupied by a number of low to medium rise buildings due to be demolished. | RMB7,563 million |

**Phase 1**

| **Use** | **Gross Floor Area** *(sq m)* |
|---|---|
| Residential | 153,450 |
| Retail | 83,075 |
| Retail (Basement) | 7,500 |
| Hotel | 30,000 |
| Public facilities | 2,750 |
| Total: | 276,775 |

**Phase 2**

| **Use** | **Gross Floor Area** *(sq m)* |
|---|---|
| Residential | 140,750 |
| Retail | 91,500 |
| Retail (Basement) | 25,560 |
| Public facilities | 5,300 |
| Total: | 263,110 |

| Property | Description and tenure | | Particulars of occupancy | Market value in existing state as at 30 November 2007 |
|---|---|---|---|---|

**Phase 3**

| **Use** | **Gross Floor Area** *(sq m)* |
|---|---|
| Residential | 183,050 |
| Office | 190,000 |
| Retail (Basement) | 13,440 |
| Public facilities | 2,500 |
| Total: | 388,990 |

**Phase 4**

| **Use** | **Gross Floor Area** *(sq m)* |
|---|---|
| Residential | 129,100 |
| Office | 130,000 |
| Retail | 14,000 |
| Retail (Basement) | 13,000 |
| Hotel | 50,000 |
| Serviced apartment | 30,000 |
| Public facilities | 6,400 |
| Total: | 372,500 |

**Phase 5**

| **Use** | **Gross Floor Area** *(sq m)* |
|---|---|
| Residential | 89,400 |
| Office | 130,000 |
| Retail | 12,000 |
| Retail (Basement) | 3,500 |
| School/Kindergarten | 25,400 |
| Public facilities | 1,350 |
| Total: | 261,650 |

The property will also comprise 10,950 below ground car parking spaces and 548 above ground car parking spaces.

The land use right of the property is assumed to be granted for terms of 70 years for residential use, 50 years for office use and 40 years for commercial and hotel uses.

*Notes:*

(1) Pursuant to the Confirmation Agreement dated 30 November 2007, the grantees of the property were Crown Fame Limited, Eastern View Limited, Info Union Limited, Smart Century Limited, Land Pacific Limited, Oriental Host Limited, Regal Victory Limited and Rich Prime Limited, each being an indirect wholly owned subsidiary of the Company, and they are confirmed as the successful bidders. The salient conditions as stipulated in the aforesaid confirmation are, inter alia, cited as follows:

(i) Net site area: 517,471 sq m

(ii) Consideration: RMB7,510,000,000

(iii) The property should by developed by phases according to the government demolition and resettlement plan. The grantees should preserve the 22 cultural heritage and the respective preservation scheme should be approved by relevant government authorities.

(iv) The grantees should form the project companies before 30 May 2008 and sign the land grant contract within 10 days after the formation of the project companies.

(v) The delivery of the property will be by phases according to the government demolition and resettlement plan and the whole property would be delivered to the grantees before 30 June 2010.

(2) Pursuant to the Foshan Chancheng District State-owned Land Use Right Listing Document No. Fo Chan (Gua) 2007-015 issued by the Foshan Chancheng District Land Exchange Center dated 2 November 2007, the salient development conditions of the property as stipulated in the aforesaid document are, inter alia, cited as follows:

(i) Total site area: 639,320 sq m

(ii) Net site area: 517,471 sq m

(iii) Use: public facilities (mainly office, commercial and hotel) and residential uses

(iv) Land Use term: 70 years for residential, 50 years for office and 40 years for commercial and hotel

(v) Site Coverage: ≦40% (based on net site area)

(vi) Plot ratio: ≦2.9 (based on net site area)

(vii) Green area ratio: ≧25% (based on net site area)

(3) We have been provided with the Company's PRC legal advisers' opinion, which contains, inter alia, the following information:

(i) The grantees have obtained the right to purchase the land use right of the property;

(ii) The grantees have the right to form project companies and the project companies can sign the land use right grant contract with the grantor of the property and have the right to develop the land in accordance with the land use right grant contract accordingly;

(iii) There is no legal obstacle for the grantees to form the project companies and for the project companies to sign the land use right grant contract with the grantor of the property;

(iv) The grantees are required to pay the land price (land grant fee);

(v) Upon signing of the land use right grant contract and full settlement of the land price, there is no legal obstacle for the project companies to obtain the land use right of the property; and

(vi) Upon obtaining the land use right of the property, the project companies can use, mortgage, transfer and lease the aforesaid land use right pursuant to the law.

## 1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (A) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and 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 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 SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

**(a) *The Company***

(i) *Long position in the Shares*

| Name of Director | Nature of interests | Total number of Shares | Approximate percentage of interests in the Company |
|---|---|---|---|
| Mr. Vincent H. S. LO ("Mr. Lo") | Other | 2,266,756,725 *(Note 1)* | 54.15% |
| Mr. William T. ADDISON | Personal | 200,000 | 0.004% |
| Dr. William K. L. FUNG | Personal | 3,700,000 | 0.08% |

*Note:*

(1) The 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 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 is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Lo, Bosrich Holdings Inc. and HSBC International Trustee Limited are deemed to be interested in such Shares under the SFO.

(ii) *Share options of the Company*

As at the Latest Practicable Date, the following Directors had interests in the share options granted by the Company under the share option scheme adopted by the Company on 8 June 2007:

| Name of Director | Date of grant | Subscription price per Share *HK$* | Exercise period | Number of Shares subject to the options |
|---|---|---|---|---|
| Mr. William T. ADDISON | 20/06/2007 | 7.00 | 20/06/2009 to 19/06/2016 | 5,000,000 |
| The Honourable LEUNG Chun Ying | 20/06/2007 | 7.00 | 20/06/2007 to 19/06/2012 | 500,000 |
| Sir John R. H. BOND | 20/06/2007 | 7.00 | 20/06/2007 to 19/06/2012 | 500,000 |
| Dr. Edgar W. K. CHENG | 20/06/2007 | 7.00 | 20/06/2007 to 19/06/2012 | 500,000 |
| Professor Gary C. BIDDLE | 20/06/2007 | 7.00 | 20/06/2007 to 19/06/2012 | 500,000 |
| Dr. Roger L. McCARTHY | 20/06/2007 | 7.00 | 20/06/2007 to 19/06/2012 | 500,000 |
| Mr. David J. SHAW | 20/06/2007 | 7.00 | 20/06/2007 to 19/06/2012 | 500,000 |

As at the Latest Practicable Date, no short positions were recorded in the register required to be kept under section 352 of the SFO.

**(b)** ***Associated Corporation — SOCAM***

(i) *Long position in the SOCAM Shares*

| Name of Director | Nature of interests | Total number of SOCAM Shares | Approximate percentage of interests in SOCAM |
|---|---|---|---|
| Mr. Vincent H. S. LO | Other | 181,981,000 *(Note 1)* | 56.59% |
| Dr. William K. L. FUNG | Personal | 682,000 | 0.21% |

*Note:*

(1) Among 181,981,000 SOCAM Shares beneficially owned by SOCL, 166,148,000 SOCAM Shares and 15,833,000 SOCAM Shares 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 is a discretionary beneficiary. Accordingly, Mr. Lo is deemed to be interested in such shares under the SFO.

(ii) *Short position in the SOCAM Shares*

| Name of Director | Nature of interests | Total number of SOCAM Shares | Approximate percentage of interests in SOCAM |
|---|---|---|---|
| Mr. Vincent H. S. LO | Other | 1,600,000 *(Note 1)* | 0.49% |

*Note:*

(1) On 27 August 2002, SOCL granted call options over certain existing SOCAM Shares beneficially owned by SOCL to each of Mr. Wilfred Y. W. WONG, Mr. Louis H. W. WONG and Mr. Frankie Y. L. WONG as part of the incentive reward for the services to SOCAM. A maximum of 50% of such SOCAM Shares transferred to or to be transferred upon exercise of call options shall be subject to a restriction of disposal within 12 months from the date such shares were transferred. Those shares represent the outstanding balance of the call options granted by SOCL under the call option arrangement which have not been exercised.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short position in the shares, underlying shares or 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 SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

**(B) Interests of substantial Shareholders**

As at the Latest Practicable Date, so far as the Directors and the chief executive of the Company were aware, the following persons 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 Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote at general meetings of the Company:

| Name of Shareholder | Capacity | Total number of Shares | Approximate percentage of shareholding |
|---|---|---|---|
| HSBC International Trustee Limited | Trustee | 2,266,756,725 *(Note 1)* | 54.15% |
| Bosrich Holdings Inc. | Trustee | 2,266,756,725 *(Note 1)* | 54.15% |
| SOCL | Interest of Controlled Corporation | 2,266,756,725 *(Note 1)* | 54.15% |
| SOCAM | Interest of Controlled Corporation | 526,279,964 *(Note 2)* | 12.57% |

*Notes:*

(1) The 2,266,756,725 Shares are beneficially owned by SOCL through its subsidiaries comprising 940,000,000 Shares, 800,476,761 Shares and 526,279,964 Shares held respectively by Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited. 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 is a discretionary beneficiary and HSBC International Trustee is the trustee. Accordingly, Mr. Lo, HSBC International Trustee Limited and Bosrich Holdings Inc. are deemed to be interested in such Shares under the SFO.

(2) These Shares are beneficially owned by New Rainbow Investments Limited, a wholly owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such Shares under the SFO.

Save as disclosed herein, the Directors and the chief executive of the Company were not aware of anyone who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote at general meetings of the Company.

### (C) Interests in other members of the Group

Save as disclosed below, as at the Latest Practicable Date and so far as the Directors and the chief executive of the Company were aware, there were no other persons other than the Directors or chief executive of the Company or his respective associate(s) who were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name of owner of shares or equity interest | Name of non wholly owned subsidiary of the Company | Approximate percentage of shareholding |
|---|---|---|
| Equity Millennium Limited | Bondwise Profits Limited | 20% |
| | Cititop Pacific Limited | 20% |
| | Globe State Properties Limited | 20% |
| | Shanghai Lakeville Properties Co., Ltd. | 19.8% |
| Shun Hing China Investment Limited | Bondwise Profits Limited | 10% |
| | Cititop Pacific Limited | 10% |
| | Globe State Properties Limited | 10% |
| Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. | Shanghai Yang Pu Centre Development Company Limited | 30% |
| Trophy Property Development L. P. | Portspin Limited | 49% |
| | Legend City Limited | 49% |
| | Fieldcity Investments Limited | 25% |
| | Super Field Limited | 25% |
| | Wuhan Shui On Tian Di Property Development Co., Ltd. | 25% |
| Main Zone Group Limited | Richcoast Group Limited | 28.20% |
| | Teamachieve Holdings Limited | 28.20% |
| | Asia Great Investment Limited | 28.20% |
| | Tennick Holdings Limited | 28.20% |
| | Charmful Investment Limited | 28.20% |
| | Timeglobe Holdings Limited | 28.20% |
| | Garco Investment Limited | 28.20% |
| | Hopeful Zone Investments Limited | 28.20% |
| | Sinoco Investment Limited | 28.20% |

| Name of owner of shares or equity interest | Name of non wholly owned subsidiary of the Company | Approximate percentage of shareholding |
|---|---|---|
| Many Gain International Limited | Richcoast Group Limited | 10.26% |
| | Teamachieve Holdings Limited | 10.26% |
| | Asia Great Investment Limited | 10.26% |
| | Tennick Holdings Limited | 10.26% |
| | Charmful Investment Limited | 10.26% |
| | Timeglobe Holdings Limited | 10.26% |
| | Garco Investment Limited | 10.26% |
| | Hopeful Zone Investments Limited | 10.26% |
| | Sinoco Investment Limited | 10.26% |

## 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 4. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Group.

## 5. COMPETING INTERESTS

Mr. Vincent H. S. LO is the Chairman and Chief Executive Officer of the Company, and the ultimate controlling shareholder, Chairman and Chief Executive Officer of the Shui On Group. The core businesses of the Shui On Group include property development and investment projects in Hong Kong, New York and the PRC, as more fully described in the section headed "Relationship with the Shui On Group" of the Company's prospectus dated 20 September 2006. The Company has entered into a non-competition agreement with SOCL (the ultimate holding company of the Shui On Group) and Mr. Vincent H. S. LO pursuant to which SOCL and Mr. Vincent H. S. LO have severally undertaken not to compete with the business of the Company. For more details, see the section headed "Relationship with the Shui On Group" of the Company's prospectus dated 20 September 2006.

## 6. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advice, which is contained in this Circular:

| Name | Qualification |
|---|---|
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| Knight Frank Petty Limited | Property Valuer |

Deloitte Touche Tohmatsu and Knight Frank Petty Limited have given and have not withdrawn their written consent to the issue of this Circular with the inclusions of their respective letter and references to their names in the form and context in which they appear.

## 7. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Knight Frank Petty Limited:

(a) were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up;

(b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(c) both the letter from Deloitte Touche Tohmatsu regarding the unaudited pro forma financial information of the Group and the valuation report of Knight Frank Petty Limited are given as of the date of this Circular for incorporation herein.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

(a) a deed dated 30 May 2006 and entered into between SOD, Shui On Development Limited (formerly known as Shanghai Shui On Land Limited), Shanghai Ruichen Property Company Limited and Shui On Investment Company Limited in relation to the entrustment loan in respect of an entrustment loan contract dated 30 December 2005 entered into between Shanghai Ruichen Property Company Limited, the Industrial and Commercial Bank of China, Shanghai Luwan Branch and Shanghai Shui On Land Limited (now known as Shui On Development Limited) in relation to an entrusted loan of RMB100 million from Shanghai Ruichen Property Company Limited;

(b) a trademark licence agreement dated 30 May 2006 and entered into between Shui On Holdings Limited and the Company with regard to the Company's exclusive use in the PRC of certain trademarks;

(c) an agreement on transfer of domain names dated 30 May 2006 and entered into between Shui On Properties Limited and Shui On Development Limited (formerly known as Shanghai Shui On Land Limited) pursuant to which Shui On Properties Limited agreed to transfer the ownership and control of certain domain names to Shui On Development Limited;

(d) an agreement on transfer of domain names dated 30 May 2006 and entered into between Shanghai Shui On Property Development Management Co., Ltd. (formerly known as Shanghai Shui On Consulting Company Limited) and Shui On Development Limited (formerly known as Shanghai Shui On Land Limited) pursuant to which Shanghai Shui On Property Development Management Co., Ltd. agreed to transfer the ownership and control of certain domain names to Shui On Development Limited;

(e) an agreement on transfer of domain name dated 30 May 2006 and entered into between Shanghai Ruichen Property Co., Ltd. and Shui On Development Limited (formerly known as Shanghai Shui On Land Limited) pursuant to which Shanghai Ruichen Property Co., Ltd. agreed to transfer the ownership and control of the domain name "ruihong.com.cn" to Shui On Development Limited;

(f) a deed of non-competition dated 30 May 2006 and entered into between Mr. Vincent H. S. LO, SOCL and the Company pursuant to which Mr. Vincent H. S. LO and SOCL have given certain undertakings to the Company, among others, that the Company is to be the flagship company of the Shui On Group for the Shui On Group's property development and investment business in the PRC and concerning the Shui On Group's investment in future property development projects in the PRC;

(g) an option deed dated 30 May 2006 and entered into between SOCL and the Company ("Shui On Plaza Option Deed") (as amended by a supplemental deed to the Shui On Plaza Option Deed dated 7 September 2006 and entered into between SOCL and the Company) pursuant to which SOCL has granted the Company an option to acquire the Shui On Group's entire interest in Shanghai Jiu Hai Rimmer Properties Co., Ltd., which is the owner of Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai;

(h) an option deed in respect of Guangzhou Shui Yung Company Limited dated 30 May 2006 and entered into between SOCL and the Company ("Centrepoint Option Deed") (as amended by a supplemental deed to the Centrepoint Option Deed dated 7 September 2006 and entered into between SOCL and the Company) pursuant to which SOCL has granted the Company an option to acquire the entire interest of SOCL and its subsidiaries in Guangzhou Shui Yung Company Limited, which is a wholly-owned subsidiary of SOCL and the owner of the property located at 374 Beijing Road, Yuexiu District, Guangzhou (otherwise known as "The Centrepoint");

(i) a deed of indemnity dated 30 May 2006 and entered into between SOCL and the Company pursuant to which SOCL agreed to give certain indemnities in respect of litigation and taxation matters in favour of the Company and its subsidiaries;

(j) the HSBC investment agreement dated 4 June 2006 between HSBC Securities Investments (Asia) Limited and the Company pursuant to which HSBC Securities Investments (Asia) Limited subscribed for 102,754,966 Shares at a price of HK$7.55 per Share conditional upon the satisfaction of certain conditions;

(k) an amendment agreement dated 31 August 2006 and entered into between the Company, JP Morgan Chase Bank, N.A. and J.P. Morgan Bank Luxembourg S.A. to amend the terms of the warrants issued by the Company on 12 October 2005 to accelerate conversion;

(l) a global custody agreement dated 31 August 2006 and entered into between the Company and JP Morgan Chase Bank, N.A. (London Branch) setting out the terms governing custodial, settlement and other services to be provided in connection with the conversion to the warrants issued by the Company on 12 October 2005;

(m) a call option deed dated 1 September 2006 and entered into between Shui On Investment Company Limited and the Company pursuant to which Shui On Investment Company Limited has granted the Company an option to purchase 9.9% of the issued share capital of Score High Limited from Shui On Investment Company Limited;

(n) an agreement relating to the sale and purchase of 9.9% of the issued share capital of Score High Limited dated 1 September 2006 and entered into between SOD and Winnington Capital Limited pursuant to which SOD sold 99 shares in Score High Limited, representing 9.9% of the issued share capital of Score High Limited to Winnington Capital Limited for a consideration of RMB503,381,555;

(o) an agreement relating to the sale and purchase of 9.9% of the issued share capital of Score High Limited dated 9 September 2006 and entered into between SOD and Ocean Equity Holdings Limited pursuant to which SOD sold 99 shares in Score High Limited, representing 9.9% of the issued share capital of Score High Limited to Ocean Equity Holdings Limited for a consideration of RMB503,381,555;

(p) a shareholders' agreement relating to Score High Limited dated 9 September 2006 and entered into between SOD, Winnington Capital Limited, Ocean Equity Holdings Limited and Score High Limited for the purpose of recording the terms and conditions upon which SOD, Winnington Capital Limited and Ocean Equity Holdings Limited have invested in Score High Limited;

(q) a call option deed dated 9 September 2006 and entered into between Shui On Investment Company Limited and the Company pursuant to which Shui On Investment Company has granted the Company an option to purchase 9.9% of the issued share capital of Score High Limited from Shui On Investment Company Limited;

(r) the Hong Kong underwriting agreement dated 19 September 2006 relating to the offer and underwriting of 115,875,000 Shares for subscription by the public in Hong Kong and entered into among the Company, SOCL, Mr. Vincent H. S. LO, SOCAM, Deutsche Bank AG, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities (Asia Pacific) Limited and other Hong Kong underwriters;

(s) the international underwriting agreement dated 27 September 2006 relating to the offer and underwriting of 1,042,871,000 Shares to professional, institutional and other investors and entered into among the Company, SOCL, Mr. Vincent H. S. LO, SOCAM, Asia Real Estate Income Fund SICAV, MetroProp (China), Co-Investment Limited Partnership V (SOL), Ocean Equity Holdings Limited, Standard Chartered Bank (Hong Kong) Limited, Jebsen and Company Limited, Shanghai Hope International Limited, Deutsche Bank A.G., Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities Ltd. and other international underwriters;

(t) a guarantee entered into by the Company and SOD and dated 21 December 2006 in favour of The Hongkong and Shanghai Banking Corporation Limited to secure 70% of the principal amount and interest payable under the loan of RMB875,000,000 granted to Shanghai Yang Pu Centre Development Company Limited, a non-wholly owned subsidiary of the Company;

(u) a joint venture agreement dated 25 May 2007 and entered into among Innovate Zone Group Limited (an indirect wholly owned subsidiary of the Company), Main Zone Group Limited (a direct wholly owned subsidiary of SOCAM) and Many Gain International Limited whereby the parties agreed to form a joint venture company under the name of Richcoast Group Limited for the establishment of a chain of subsidiaries which are formed to acquire a 78% interest in each of the four PRC joint venture companies (the "PRC JV Companies") from Yida Group. The PRC JV Companies and its two PRC project companies (together the "Dalian Onshore Group") will acquire the 23 plots of land at Dalian Software Park Phase II in Dalian, the PRC and undertake the development and operation of Dalian Software Park Phase II. Pursuant to such joint venture agreement, various agreements have been entered for the acquisitions of the Dalian Onshore Group and the said land, development and operation of Dalian Software Park Phase II.

Mr. Vincent H. S. LO as the chairman of the Company is also interested in approximately 56.59% of the issued share capital of SOCAM as at the Latest Practicable Date. As such, Mr. Vincent H. S. LO is interested in the acquisition of the interests in the PRC JV Companies through its interest in SOCAM and Main Zone Group Limited;

(v) an agreement relating to the sale and purchase of 25% of the issued share capital of Fieldcity Investments Limited dated 29 June 2007 and entered into between SOD and Trophy Property Development L. P. pursuant to which SOD sold (i) 25 shares in Fieldcity Investments Limited, representing 25% of the issued share capital of Fieldcity Investments Limited and (ii) the shareholder loans in the amount of US$98,095,696 to Trophy Property Development L. P. for a consideration of RMB1,245 million;

(w) an agreement relating to the sale and purchase of 49% of the issued share capital of Portspin Limited dated 29 June 2007 and entered into between SOD and Trophy Property Development L. P. pursuant to which SOD sold 49 shares in Portspin Limited, representing 49% of the issued share capital of Portspin Limited to Trophy Property Development L. P. for a consideration of RMB363,915,691;

(x) The agreement between the Company, SOD, Equity Millennium Limited and Shun Hing China Investment Limited in relation to the sale and purchase of 30% of the issued share capital of Profitstock Holdings Limited; and

(y) the Confirmation Agreement.

**9. GENERAL**

(a) The company secretary of the Company is Mr. UY Kim Lun, a qualified lawyer in Hong Kong.

(b) The qualified accountant of the Company is Mr. George W. K. CHAN, a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

(c) The principal share registrars and transfer office of the Company is Butterfield Fund Services (Cayman) Limited, Butterfield House, 68 Fort Street, P. O. Box 705, George Town, Grand Cayman, Cayman Islands.

(d) The branch share registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(e) The registered office of the Company is Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

(f) The place of business in Hong Kong is 34th Floor, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong.

(g) The English version of this Circular shall prevail over the Chinese text.

(h) Save as disclosed in section 8 above, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

(i) Save as disclosed in section 5 above, as at the Latest Practicable Date, none of the Directors or their respective associates (as defined under the Listing Rules) had any interest in a business which competes or is likely to compete with the business of the Group.

(j) Save as disclosed in section 8 above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Group.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the place of business of the Company in Hong Kong at 34/F, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 6 March 2008:

(a) the Memorandum and Articles of Association of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(c) the annual report of the Group for the financial year ended 31 December 2006;

(d) the letter from Deloitte Touche Tohmatsu regarding the unaudited pro forma financial information of the Group as set out in Appendix II to this Circular;

(e) the valuation report from Knight Frank Petty Limited on the Land, the text of which is set out in Appendix IV to this Circular;

(f) the written consents referred to in paragraph headed "Experts and Consents" of this Appendix;

(g) discloseable and connected transaction circular dated 4 June 2007 in relation to the formation of a joint venture for the development of Dalian Software Park Phase II;

(h) discloseable transaction circular dated 17 July 2007 in relation to the disposal of a 25% interest in Fieldcity Investments Limited and a 49% interest in Portspin Limited; and

(i) major and connected transaction circular dated 28 September 2007 in relation to the acquisition of further interest in a joint venture in respect of Lot 114, Taipingqiao Area, Lu Wan District in Shanghai, PRC.