Building a Future Sharing a Dream

SHUI ON LAND LIMITED
Annual Report 2006

Stock Code: 272

MISSION STATEMENT

Shui On Land is committed to the same corporate philosophy as the Shui On Group. Its five core values are:

PROFIT: We believe that all our shareholders regard profitability as a prime measure of corporate success and the source of future growth.

CUSTOMERS: We strive to provide the best service and products at competitive prices to build customer loyalty and long-term value.

OUR PEOPLE: We work to ensure that our people are highly competent, motivated, and well rewarded.

MANAGEMENT PHILOSOPHY: Our management approach is consultative, open and participative, and actively encourages and rewards merit and team effort.

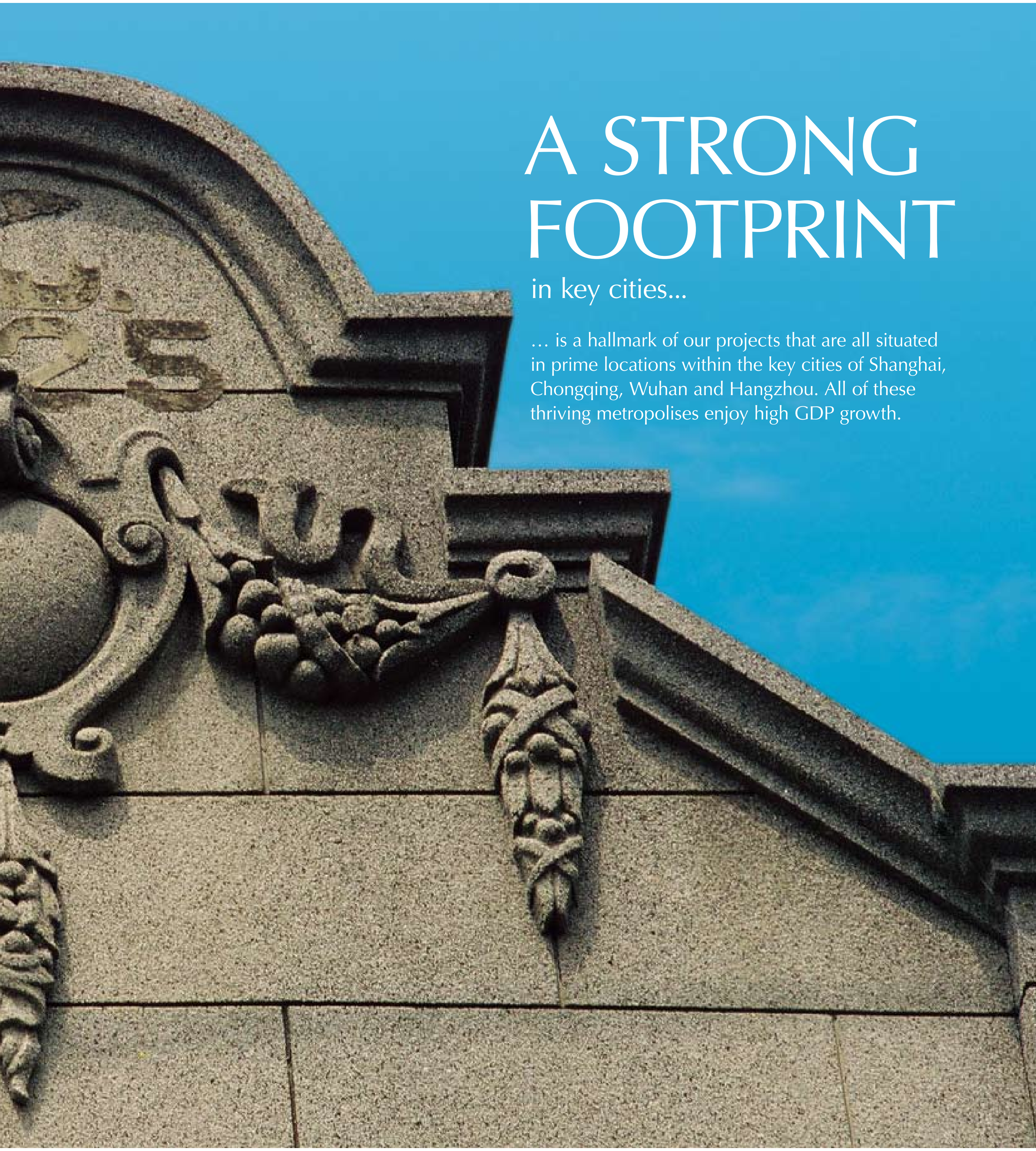
CORPORATE CULTURE: Our corporate culture is founded on integrity, respect, enjoyment, and the quest for excellence in everything we do.

Our

UNIQUE & COMPELLING

business model...

… is behind all of Shui On Land's projects. They are characterised by our trademark approach to master planning and transform neighbourhoods to align with the cities' development plans. We seek to embrace local heritage properties, establish new landmarks, and partner in creating vibrant and integrated communities.



A STRONG FOOTPRINT

in key cities...

... is a hallmark of our projects that are all situated in prime locations within the key cities of Shanghai, Chongqing, Wuhan and Hangzhou. All of these thriving metropolises enjoy high GDP growth.

We bring

A PREMIER BRAND NAME

in the Chinese Mainland's real estate development

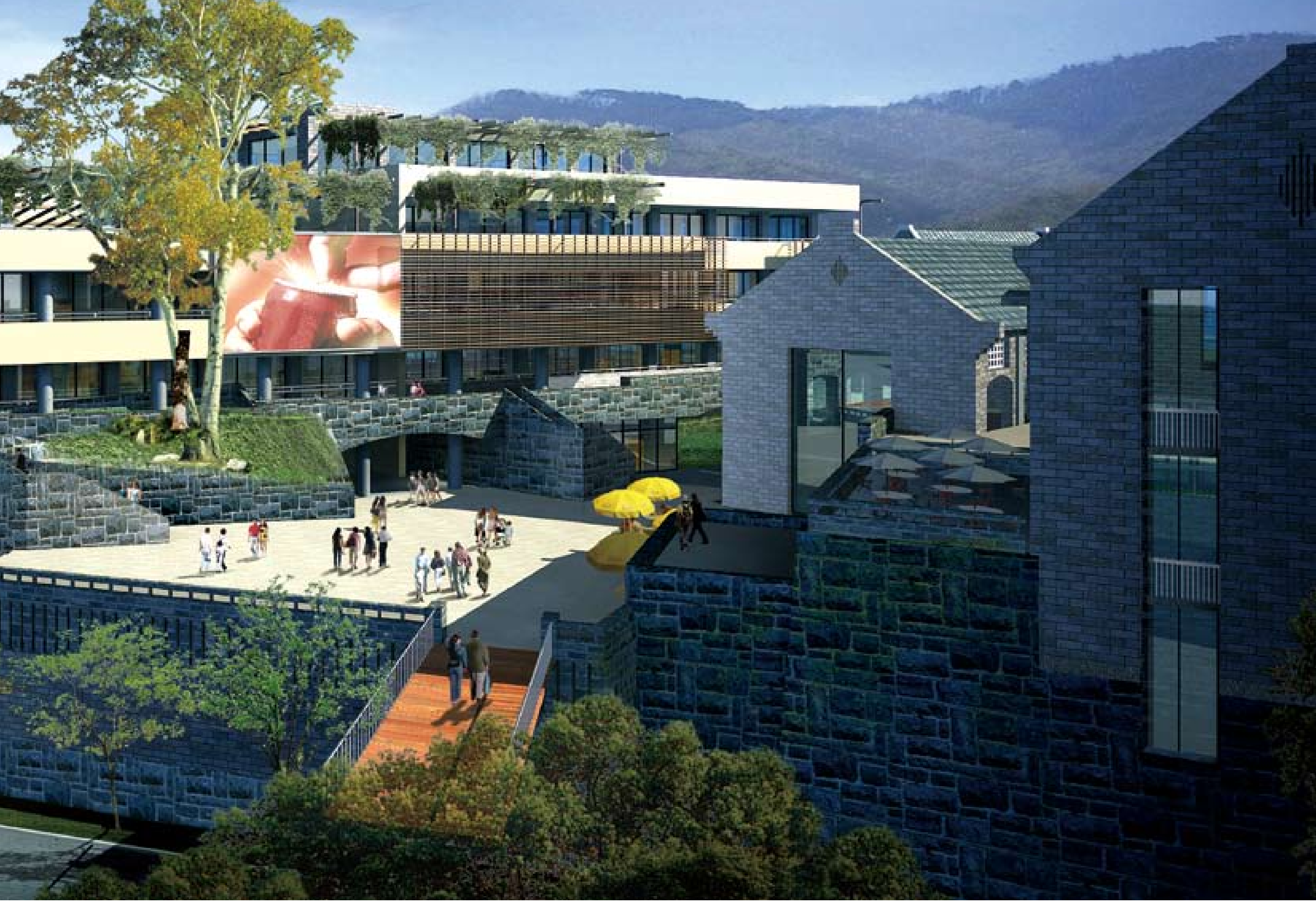
… to the cities with which we partner. Shui On Land has a respected brand that is synonymous with high quality, innovation and excellence, and a lasting commitment that drives premium pricing for our projects.

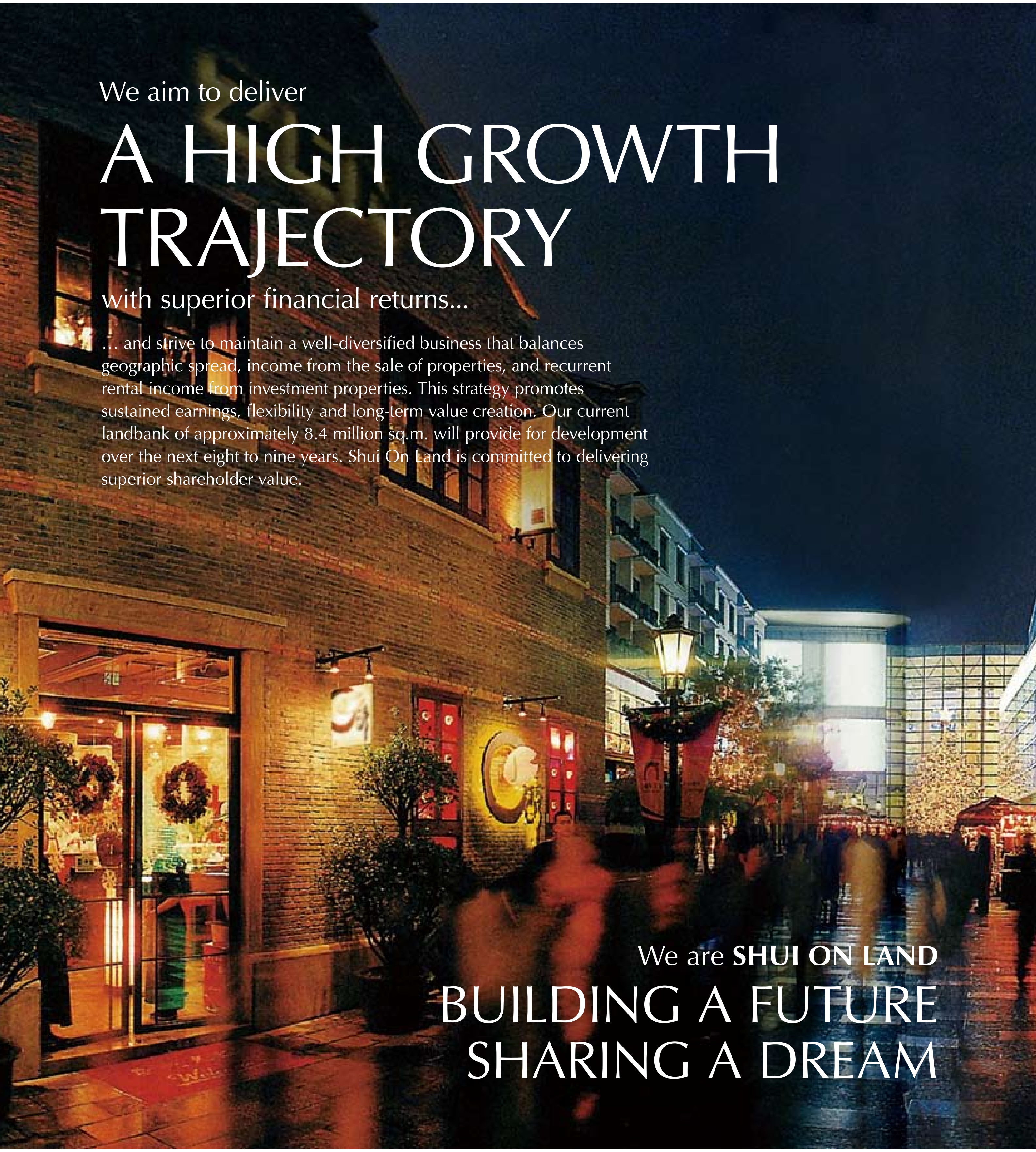
VISIONARY LEADERSHIP

and

QUALITY MANAGEMENT...

... come from our seasoned management team that brings more than two decades of real estate experience in the Chinese Mainland, and a track record of more than 30 years in Hong Kong. Visionary leadership has guided the development of numerous award-winning projects. At the centre of Shui On Land's success is a deep commitment to international best practice and a robust system of corporate governance.





We aim to deliver

A HIGH GROWTH TRAJECTORY

with superior financial returns...

... and strive to maintain a well-diversified business that balances geographic spread, income from the sale of properties, and recurrent rental income from investment properties. This strategy promotes sustained earnings, flexibility and long-term value creation. Our current landbank of approximately 8.4 million sq.m. will provide for development over the next eight to nine years. Shui On Land is committed to delivering superior shareholder value.

We are **SHUI ON LAND**

BUILDING A FUTURE SHARING A DREAM

CONTENTS

CORPORATE PROFILE

Headquartered in Shanghai, Shui On Land Limited (HKSE: 272) is the flagship property company of the Shui On Group in the Chinese Mainland. Shui On Land has a proven track record in master planning and developing large-scale, mixed-use city-core projects and integrated residential developments in the Chinese Mainland. The Company has access to approximately 8.4 million sq.m. of gross floor area (GFA), including open areas and other public facilities, and currently has six projects in various stages of development in the city centres of Shanghai, Chongqing, Wuhan and Hangzhou. The Company was listed on The Stock Exchange of Hong Kong Limited on 4 October 2006. Shui On Land was included in the 200-Stock Hang Seng Composite Index Series, Hang Seng Freefloat Index Series, MSCI Standard Index Series and MSCI Global Growth Index Series in March 2007.

Financial Highlights

Operating Results

For the year ended 31 December

	2006	2005	
	RMB million	RMB million	% change
Turnover	**4,729**	1,018	+ 365%
Represented by:			
Sale of properties	**4,283**	604	+ 609%
Rental income	**358**	334	+ 7%
Others	**88**	80	
Gross profit	**2,984**	691	+ 332%
Profit attributable to shareholders	**1,146**	380	+ 202%
Basic earnings per share	**RMB 48 cents**	RMB 22 cents	+ 118%
Dividend per share	**HK 6 cents**	N/A	

Financial Position

As at 31 December

	RMB million	RMB million	% change
Cash and bank balances	**5,654**	2,398	+ 136%
Total assets	**26,035**	18,629	+ 40%
Shareholders' equity	**13,952**	4,756	+ 193%

Financial Ratios

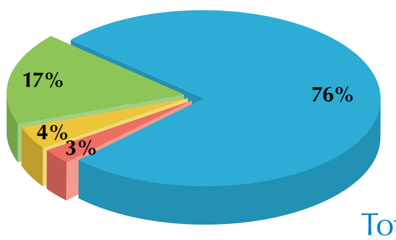
As at 31 December

Current ratio (times)	**3.5**	1.7	
Net gearing ratio	**5%**	54%	- 49%

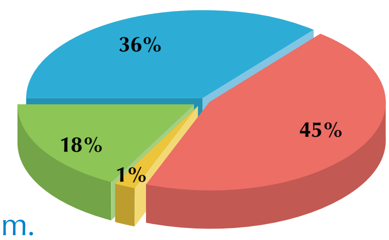
Landbank

As at 31 December 2006

GFA by usage



GFA by city

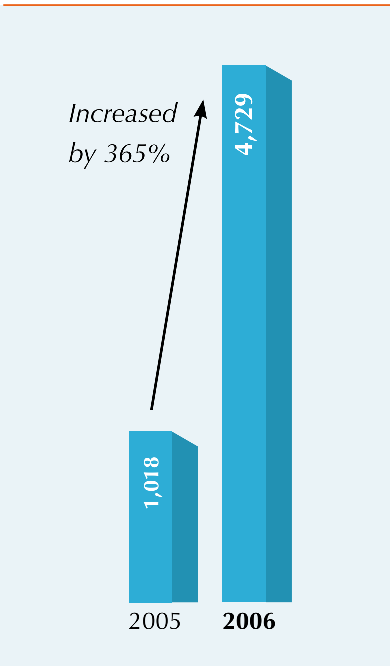


Total GFA: 8.4 million sq.m.

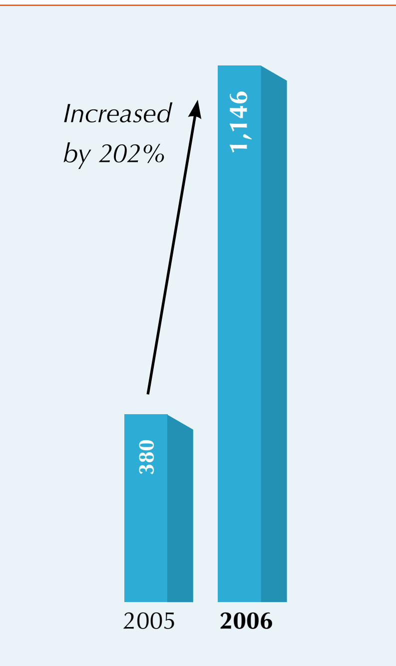
- Investment properties
- Completed properties held for sale
- Properties under development
- Properties for future development

- Shanghai
- Chongqing
- Wuhan
- Hangzhou

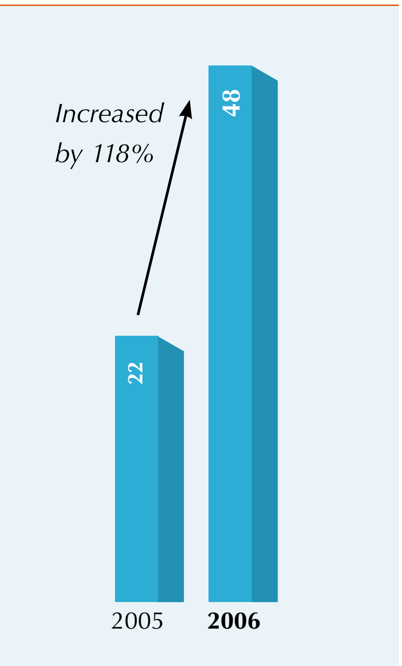
Turnover
(RMB million)



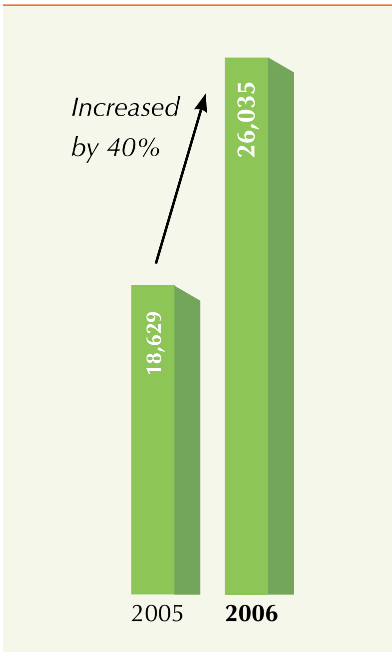
Profit Attributable to
Shareholders (RMB million)



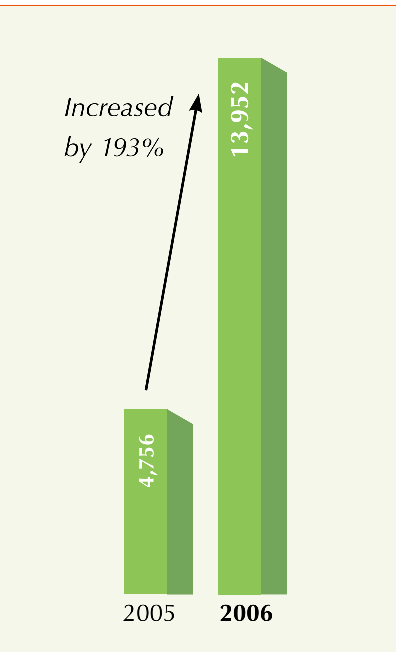
Basic Earnings per Share
(RMB cents)



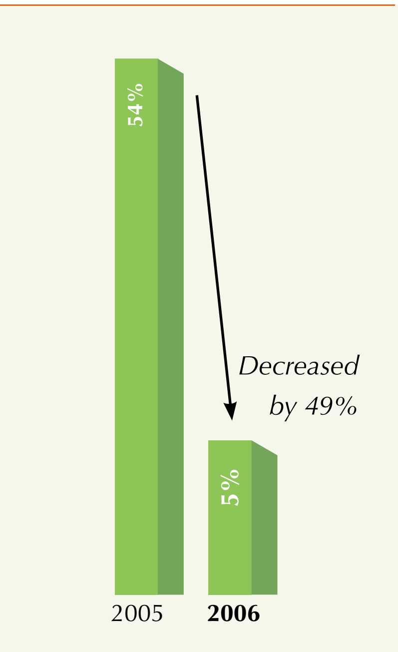
Total Assets
(RMB million)



Shareholders' Equity
(RMB million)



Net Gearing Ratio*
(%)



* *Calculated on the basis of dividing the excess of the sum of bank loans and notes payable over the sum of bank balances and cash by total equity. Convertible redeemable preference shares assumed to be equity in 2005.*

"Our strategy and business model combined with the current market strength position us firmly as a leader in the world's largest property market."

Chairman's Statement

BUILDING A FUTURE, SHARING A DREAM

2006, the year in which Shui On Land became a public company, was both momentous and successful.

The Company was listed on the Stock Exchange of Hong Kong on 4 October 2006 and the listing was well received. Our shares have traded satisfactorily since then and I am optimistic about the share's potential for good long-term growth.

I am pleased to report that we exceeded the profit forecast indicated at the time of our IPO. For the year ended 31 December 2006, we achieved a turnover of RMB 4,729 million, profit attributable to shareholders before revaluation of RMB 1,536 million, and earnings per share were RMB 48 cents. Our Board of Directors has proposed a final dividend of HK 6 cents per share for the year 2006.

Good Progress Ensures Platform for Strong Future Earnings

All our developments in the Chinese Mainland are progressing well. In Shanghai, we have started selling residential units at all of our projects, The Lakeville Regency in Shanghai Taipingqiao, Knowledge and Innovation Community (KIC) and Rui Hong Xin Cheng. All three have been well received by the market. Our Wuhan Tiandi and Chongqing Tiandi projects are also on schedule and the introduction of strategic partners in Chongqing gives us a strong foundation for future growth.

Austerity measures introduced by the PRC Government during the year to curb speculation did not impact our overall development programme, but they did necessitate the re-scheduling of our residential sales programme. As the austerity measures take effect, we believe that the market will consolidate somewhat and this will create opportunities for well-established developers like Shui On Land to acquire additional high quality land.

Today, we have a landbank of approximately 8.4 million sq.m. of GFA in four of China's leading cities, providing a platform for the Company to accelerate our growth trajectory in the future.

In addition, in March 2007, Shui On Company Limited invited Shui On Land to participate in the development of Dalian Software Park Phase 2, a large-scale, mixed-use complex. This will cater to the software outsourcing industry, a sector identified by the Dalian municipal government as an economic growth engine for the city. Our Board of Directors is considering the invitation, and this new project, if approved, will give us access to approximately another 3.9 million sq.m. of buildable GFA.

Our Unique Business Model

Our commitment to investors during our IPO was that Shui On Land would offer a unique and compelling business model. This is based on our proven expertise in master planning; a strong footprint in China and access to prime land; a leading brand name in real estate development; visionary leadership and high quality management; and high growth and world-class corporate governance. Our ability to transform huge parcels of land in the Chinese Mainland is unparalleled, and our large-scale, comprehensive developments add value to the different components within them.

It is not coincidental, therefore, that the theme of our first annual report is 'Building a Future, Sharing a Dream'. These words are very familiar to every member of our staff and all who know our Company, and have been for many years. They capture Shui On Land's spirit of Innovation, Quality, and Excellence, and the pages that follow demonstrate how Shui On Land is delivering on its commitments and is helping to transform some of China's leading cities.

We have entered 2007 on track to deliver the sustained high growth trajectory and superior financial returns that we believe will differentiate Shui On Land in the years ahead. Shui On Land is committed to China for the long term and seeks to contribute to the nation's economic growth. I have every confidence that we will achieve our objectives.

The World's Most Exciting Property Market

China's economy continues to grow rapidly with the property market underpinning its progress.

In 2006, China achieved a 10.7% GDP growth, the fourth successive year of double-digit growth. The cities in which Shui On Land operates also achieved impressive growth, with Shanghai up 12%, Wuhan up 14.8% and Hangzhou up 14.3%, and Chongqing, one of the world's largest cities, up 12.2%.

I have commented on the austerity measures above, and Shui On Land supports totally a healthy and stable property market as this is both in the national and private sector interest. Markets the world over have demonstrated that stability can best be achieved through market forces, and we believe that the Chinese Government will continue to support this overall long-term market trend.

To accelerate the process in the residential sector and to help investors and developers to fulfill their roles, we will continue to work closely with governments at municipal, provincial and state levels to address the need for large-scale affordable housing. Development of this sector would benefit the market generally by bringing a better balance to the supply/demand and public/private equations, and thus stability.

Our Directors and Staff

I want to thank all members of staff within Shui On Land for their hard work and commitment in our endeavour to make our Company a leading property developer in the Chinese Mainland. Our people are key to our success and we have always regarded our employees as our most important asset. We are proud of the Company's achievements in this area, and of our 'people' policies.

I would also make special note of our Vice Chairman and Chief Operating Officer, Mr. Wilfred Y. W. Wong, who will leave the Company in May this year. We thank him for his contribution and wish him every success in the future.

In April, we announced the appointment of Mr. Aloysius T. S. Lee as the Managing Director responsible for the Company's commercial business. He brings with him more than 25 years of relevant experience within the context of a listed company and we look forward to his adding much value to our process. We welcome him to Shui On Land.

Concurrently, we announced the formation of a new Executive Committee to oversee the management of the Company as we go forward. It comprises our three Managing Directors: Mr. William T. Addison (Finance), Mr. Louis H. W. Wong (Project Management), and Mr. Aloysius T. S. Lee (Commercial). Together, our Executive Committee presents a formidable force to meet the challenges in the coming years.

Shui On Land and the Future

Shui On Group has more than 20 years of 'hands-on' experience in China's property market and we feel good about the prospects for the country and for its economy. We know China well and are fortunate in that we have long relationships and a track record for delivering excellence.

Of course, managing the growth of the world's most populous country is not easy for its Government. But extraordinary results have been achieved and we are confident that this progress will continue. In 2006, for example, private enterprise accounted for 59% of industrial output value, up from 32% in 1996. The underlying demand for high quality property developments in a country of 1.3 billion people, who are creating affluence and a fast-growing middle class, is enormous. This is especially so in the four key cities that Shui On Land has carefully identified and where we partner with the local governments.

In these metropolises, prices have risen strongly, but they still represent only a fraction of their comparatives in other cities. This presents a huge upside potential as we participate in China's transformation towards a global economy.

Looking ahead at sustaining our growth in the long term, we are currently in discussion with the governments of a number of other cities with a view to working with them in the master planning and transformation of their urban centres. Were these to come to fruition, our landbank would be very significantly expanded in rapid growth areas. These discussions are most encouraging and are progressing well.

Shui On Land's strategy and business model are unique and robust. They position us firmly as a leader in the world's largest property market, which continues to strengthen. We are financially strong, have an outstanding management team and staff, and are confident in the future. In 2007, we look forward to achieving further growth for our shareholders.

Vincent H. S. Lo
Chairman & Chief Executive Officer

Hong Kong, 20 April 2007

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Management's Chat Room

For Mr. Vincent H. S. Lo,

Chairman & Chief Executive Officer:

Q: What is your landbank strategy? What are the criteria for sourcing new land?

a: We are constantly seeking opportunities in China's high growth cities to increase our landbank, either on our own or by forming strategic partnerships. We will assess, among other things, the potential returns, including cash flow and capital appreciation; the strategic location of the land in relation to China's growth pattern; the economic potential of a city; the presence of historically significant architectural structures that can be preserved and incorporated; and the degree to which our proposed development complements the strategies of the local government.

We believe that the austerity measures introduced will create some market consolidation and that this will give well-established property developers, like Shui On Land, an opportunity to strengthen their landbanks.

Q : What is the situation regarding your loan for Knowledge and Innovation Community from the Shanghai Pudong Development Bank?

a: In August 2006, it immerged that the relevant authorities were investigating the alleged improper investment of pension funds into property developments. Shanghai Pudong Development Bank had arranged a loan for our KIC project, and this loan incorporated an entrustment arrangement with the Shanghai Social Security Fund. Shui On Land was not involved in this investigation, as far as we were aware, and legal advisors confirmed that the loan was legal and binding. However, as we stated at the time, to address possible concerns, we voluntarily repaid the loan in full in December 2006 and arranged alternative financing. These moves did not impact the very satisfactory progress of KIC.

For Mr. Louis H. W. Wong,

Managing Director – Project Management:

Q: Can you tell me more about Shui On Land's new sustainability development policy?

a: I am glad to chair our Sustainability Development Task Force, set up in September 2006. As an environmentally responsible property developer, we are committed to building and maintaining a clean, healthy, safe and energy-efficient living and working environment.

We aim to adopt sustainable development concepts wherever possible. This will help us to achieve the highest possible Leadership in Energy & Environmental Design (LEED) ratings for all our projects. Internally, our Green Office Programme ensures that our staff live up to the spirit of sustainable development.

Q: How do you ensure consistency in quality across all your projects?

a: We strive for excellence in everything we deliver. We have a quality assurance department that performs regular quality audits at each project. Any irregularities or cases of poor workmanship have to be rectified immediately. Our quality management system conforms to ISO9001:2000 requirements in every aspect of our project management activities. And we also maintain an ongoing commitment to the buyers of our residential units.

I am pleased to say that our high quality is well demonstrated by the numerous awards we have won over the years, and the very low number of customer complaints we receive.

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For Mr. William T. Addison,

Managing Director & Chief Financial Officer:

Q: Will you introduce more strategic partners, like those in Chongqing Tiandi? How does this benefit Shui On Land?

a: Forging strategic partnerships is one of our stated objectives and one that demonstrates the flexibility of our business model. We constantly review the suitability of existing sites for future development and, as opportunities arise, are prepared to realise part of the value of our projects at an early stage if we think it is beneficial.

By forming strategic partnerships, Shui On Land is able to share development risks, accelerate the development programme and investment returns, release capital and resources for more projects, and leverage complementary expertise of the partners.

Q: What are the Company's long-term funding requirements?

a: We are comfortable with our existing capacity to fund all our current projects for the foreseeable future. As at 31 December 2006, our committed capital expenditure amounted to RMB 3,874 million. Our net gearing ratio was conservative at 5%, making us well positioned to consider various funding options for new projects as the needs arise. As future projects are taken on, there will be additional capital commitments and the associated financing requirements will be considered.

Q: What is your exposure to relocation costs?

a: In China, relocation is carried out by local governments' relocation companies, after which cleared sites are handed over upon payment. Approximately 75% of Shui On Land's 8.4 million sq.m. landbank has a fixed relocation cost.

For Mr. Aloysius T. S. Lee,

Managing Director – Commercial:

Q: What do you expect will be your biggest challenges over the next two years?

a: I look forward to working as part of the team in formulating fruitful long-term development plans for the Company. More specifically, I would like to see us expanding Shui On Land's reputation for employing commercial practices that exceed the expectations of our customers. Strategies to leverage the "Shui On Land" brand and our multiple sub-brands will be pursued.

In addition, I am committed to developing a highly competent team of property professionals to develop long-term relationships with our multinational and local tenant partners.

1 Mr. Louis H. W. Wong

2 Mr. William T. Addison

3 Mr. Aloysius T. S. Lee

Management Discussion and Analysis

Business Review

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

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

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

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

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

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

Property Development and Sales

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

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

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

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

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

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

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

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

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

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

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

Property Investments

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

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

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

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

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

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

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

Shanghai Xintiandi

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

Corporate Avenue

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

Shanghai Rui Hong Xin Cheng commercial complex

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

Shanghai Knowledge and Innovation Community

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

Xihu Tiandi

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

Landbank

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

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

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

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

		Landbank		Completed properties Unsold			
Project	**Total GFA**	**Leasable GFA**	**Saleable GFA**	**Leasable GFA**	**Saleable GFA**	**Clubhouse GFA**	**Group's Interest**
Shanghai Taipingqiao	1,017,000	474,000	336,000	139,000	53,000	15,000	69%, 97%, & 99%*
Shanghai Rui Hong Xin Cheng	1,080,000	181,000	860,000	28,000	3,000	8,000	99%
Shanghai Knowledge and Innovation Community	518,000	193,000	189,000	67,000	66,000	3,000	70%
Chongqing Tiandi	2,849,000	1,314,000	1,526,000	—	—	9,000	79.4%
Wuhan Tiandi	1,406,000	680,000	725,000	—	—	1,000	100%
Xihu Tiandi	52,000	46,000	—	5,000	—	1,000	100%
Total	**6,922,000**	**2,888,000**	**3,636,000**	**239,000**	**122,000**	**37,000**	

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

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

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

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

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

Accelerate Growth Through Strategic Partnership

In 2006, we sold a 19.8% interest in our Chongqing Tiandi project to two strategic partners for an aggregate consideration of RMB 1,007 million. As a result of this, a gain of RMB 582 million has been reported and is included in the Group's profit in 2006. By seeking opportunities to enter into strategic partnerships with investors, the Company has been able to accelerate capital for other investment opportunities. It has also helped to share the overall risk involved in developing large-scale projects.

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

Outlook

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

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

Financial Review

Turnover and Operating Results

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

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

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

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

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

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

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

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

Capital Structure, Gearing Ratio and Funding

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

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

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

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

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

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

Application of Net IPO Proceeds

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

The net proceeds from the IPO were approximately HK$ 3,302 million, after deduction of related expenses. We have utilised our net proceeds from the IPO in the manner contained in the Company's prospectus dated 20 September 2006 under the section headed "Use of Proceeds". As such, the net proceeds utilised as at 31 December 2006 was as follows:

Use of Proceeds	Net IPO Proceeds (HK$ millions)		
	Available	**Utilised**	**Unutilised**
Existing projects – being Shanghai Taipingqiao, Shanghai Rui Hong Xin Cheng, Shanghai Knowledge and Innovation Community, Chongqing Tiandi and Wuhan Tiandi	1,864	915	949
Future project funding	445	—	445
General corporate purposes	993	143	850
Total	**3,302**	**1,058**	**2,244**

Future Plans for Material Investments, Capital Assets and Sources of Funding

We intend to continue growing organically by pursuing more property development projects, particularly city-core development projects and integrated residential development projects and to continue to promote our geographic diversification by undertaking projects in appropriate regions in new cities.

We actively screened cities in different regions of China to identify suitable locations for our projects and are continually exploring new opportunities. Out of the cities that we have screened in the PRC, we have provisionally identified eight cities (including Kunming and Dalian) as preferred locations for future projects. We currently have no definitive plan for any such projects. The timing and priority of the cities where such developments might take place has not yet been determined.

We may also pursue other plans, including other ways of acquiring land development rights for the purpose of undertaking property projects, or other ways to increase the scale of our operations by leveraging on our master planning expertise, if we feel the right opportunity presents itself. In addition, we will, in appropriate cases, consider other opportunities to participate in projects of various scale where we can leverage our competitive strengths. While our primary focus is on city-core and integrated residential development projects, our track record, good relationships with business partners and well established reputation may give rise to such other opportunities.

In 2006, the Group has entered into the following land acquisitions:

(i) Chongqing Tiandi: The Group acquired phase 3 of this project on 31 December 2006 for a consideration of RMB 1,134,540,000, consisting of land transfer fee, master planning fee and land cost. The site is approximately 333,100 sq.m. in size with an aggregate GFA of approximately 535,400 sq.m. for the development of commercial and residential spaces as well as for other purposes.

(ii) Yangpu Lot 24, Plot A: The Shanghai Knowledge and Innovation Community project has enjoyed positive market response since it was launched. To further consolidate our Shanghai Knowledge and Innovation Community's position as a major centre in the Yangpu district, we have entered into a sale and purchase agreement to acquire a local company that has the right to develop a site known as Lot 24, Plot A. It has a GFA of up to 137,400 sq.m. The Company believes that the purchase of Lot 24, Plot A, will enhance our Shanghai Knowledge and Innovation Community's scale and also satisfy the increasing office demand in the Yangpu area.

Material investments will be funded, in the main, by using a combination of the proceeds from the IPO, project construction loans and mortgage and other loans, and cash provided by operating activities, including from the rental, sale and pre-sale of properties and additional offerings of equity securities, as appropriate.

Landbank

As at 31 December 2006
(All GFA figures are in sq.m. rounded to the nearest thousand)

1. COMPLETED PROPERTIES

Project	Site Area (sq.m.)	Approximate GFA (sq.m.)	Approximate Leasable & Saleable Area (sq.m.)					Group's Interest	Completion Date
			Office	Retail	Residential	Hotel/ Serviced Apartment/ Clubhouse	Total		
(A) HELD FOR INVESTMENT									
Shanghai Taipingqiao									
Shanghai Xintiandi	29,706	69,000	5,000	46,000	–	6,000	57,000	97.0%	2002
Corporate Avenue	11,119	99,000	76,000	7,000	–	–	83,000	99.0%	2004
Shanghai Rui Hong Xin Cheng									
Phase 2 (Lot 149)	45,131	48,000	–	28,000	–	–	28,000	99.0%	2006
Shanghai Knowledge and Innovation Community									
R1, KIC Village	42,708	20,000	8,000	7,000	–	–	15,000	70.0%	2006
Hub 1	34,339	77,000	29,000	23,000	–	–	52,000	70.0%	2006
Hangzhou Xihu Tiandi									
Phase 1	30,490	6,000	–	5,000	–	1,000	6,000	100.0%	2003
Total		**319,000**	**118,000**	**116,000**	–	**7,000**	**241,000**		
(B) HELD FOR SALE									
Shanghai Taipingqiao									
Lakeville (Lot 117)	16,937	15,000	–	–	–	1,000	1,000	69.3%	2003
Lakeville Regency	32,603	95,000	–	–	53,000	9,000	62,000	69.3%	2006
Shanghai Rui Hong Xin Cheng									
Phase 2 (Lot 149)	45,131	18,000	–	–	3,000	5,000	8,000	99.0%	2006
Shanghai Knowledge and Innovation Community									
R1, KIC Village	42,708	89,000	28,000	–	38,000	–	66,000	70.0%	2006
Total		**217,000**	**28,000**	**–**	**94,000**	**15,000**	**137,000**		

2. PROPERTIES UNDER DEVELOPMENT

Project	Site Area (sq.m.)	Estimated GFA (sq.m.)	Estimated Leasable & Saleable Area (sq.m.)					Group's Interest	Status[1]	Expected Completion Date
			Office	Retail	Residential	Hotel/ Serviced Apartment/ Clubhouse	Total			
Shanghai Taipingqiao										
Lot 113	23,975	152,000	–	30,000	80,000	4,000	114,000	99.0%	F	2007/08
Lot 126	11,817	65,000	65,000	–	–	–	65,000	99.0%	R	2010
Lot 127	13,204	73,000	72,000	–	–	–	72,000	99.0%	R	2010
Shanghai Rui Hong Xin Cheng										
Lot 4	18,617	102,000	–	11,000	63,000	2,000	76,000	99.0%	R	2009
Lot 6	34,500	126,000	–	–	126,000	–	126,000	99.0%	R	2009
Lot 8	5,800	45,000	–	2,000	33,000	1,000	36,000	99.0%	R	2008

2. PROPERTIES UNDER DEVELOPMENT (continued)

Project	Site Area (sq.m.)	Estimated GFA (sq.m.)	Estimated Leasable & Saleable Area (sq.m.)					Group's Interest	Status[1]	Expected Completion Date
			Office	Retail	Residential	Hotel/ Serviced Apartment/ Clubhouse	Total			
Shanghai Knowledge and Innovation Community										
Lot 7-7 (R2, KIC Village)	32,690	54,000	7,000	1,000	23,000	3,000	34,000	70.0%	F	2008
Lot 7-9 (R2, KIC Village)		36,000	17,000	2,000	8,000	–	27,000	70.0%	F	2008
Lot 8-2 (R2, KIC Village)		25,000	11,000	1,000	7,000	–	19,000	70.0%	F	2008
Hub 2	27,196	87,000	39,000	8,000	–	–	47,000	70.0%	F	2009
Hangzhou Xihu Tiandi										
Phase 2	25,289	73,000	–	46,000	–	–	46,000	100.0%	R	2009
Chongqing Tiandi										
Lot B1-1/01 (Phase 1A)	49,244	138,000	–	1,000	108,000	3,000	112,000	79.4%	S	2007/08
Lot B2-1/01	68,914	274,000	–	7,000	202,000	6,000	215,000	79.4%	P	2009
Lot B3/01	32,200	82,000	–	38,000	–	17,000	55,000	79.4%	P	2009
Wuhan Tiandi										
Lot A4	34,884	71,000	10,000	30,000	–	17,000	57,000	100.0%	S	2007/08
Lot A9	8,469	42,000	–	–	30,000	1,000	31,000	100.0%	S	2007/08
Total		**1,445,000**	**221,000**	**177,000**	**680,000**	**54,000**	**1,132,000**			

3. PROPERTIES FOR FUTURE DEVELOPMENT

Remaining lots in the above 6 projects	Estimated GFA (sq.m.)	Estimated Leasable & Saleable Area (sq.m.)			Group's Interest	Status[1]	Expected Completion Date
		Leasable	Saleable	Total			
Shanghai Taipingqiao	592,000	307,000	256,000	563,000	98%, 99%[2]	M	2012
Shanghai Rui Hong Xin Cheng	819,000	168,000	638,000	806,000	99.0%	M	2011
Shanghai Knowledge and Innovation Community	274,000	142,000	116,000	258,000	70.0%	M	2010
Chongqing Tiandi	3,296,000	1,251,000	1,216,000	2,467,000	79.4%	M	2015
Wuhan Tiandi	1,410,000	623,000	695,000	1,318,000	100.0%	M	2015
Total	**6,391,000**	**2,491,000**	**2,921,000**	**5,412,000**			

1 M=Masterplanning; R=Relocation; P=Planning; F=Foundation; S=Superstructure
2 We have a 99% interest in our development of the remaining lots within the Shanghai Taipingqiao project, except for Lot 116, in which we have a 98% interest.


VIDAL SASSOON

Market and Project Updates


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Market and Project Updates

Shanghai

Shanghai lies on the east coast of China, just south of the Yangtze River Delta, and is the country's leading commercial and financial centre. In recent years, it has enjoyed rapid economic development with GDP per capita reaching approximately RMB 67,235 in 2005. It has a population of 13.6 million in 2005 and is designated to host the World Expo in 2010.

The continued inflow of foreign investment as foreign companies expand in the market is expected to contribute to a growing demand for upper-end residential properties and Grade A offices. Coupled with the rising income level of locals, it is expected that the growth will be sustainable in the long term.

Luwan District

The Luwan District is located within the main CBD of Shanghai and covers an area of around 8.1 sq.km. The Luwan District is a leading business and commercial district of Shanghai and is well served by good transportation links.

Shanghai Taipingqiao

The Shanghai Taipingqiao project is a city-core development project in Luwan District with an emphasis on the restoration of historic buildings and the establishment of an integrated community. The project is situated just south of Huai Hai Zhong Road, one of Shanghai's principal commercial streets.

The Shanghai Taipingqiao project consists of 19 plots of land. The completed plots are:

- **Shanghai Xintiandi:** the historic restoration zone is a retail and entertainment area with approximately 57,000 sq.m. and was opened in mid-2001. Xintiandi, which means "New Heaven and Earth" in Chinese, features a mix of upscale, well-known retail shops and boutiques, coffee shops, restaurants, sidewalk cafes, art galleries, museum, a boutique hotel (88 Xintiandi) and entertainment, cultural, and recreational facilities.

上海新天地
Xintiandi · Shanghai

翠湖天地
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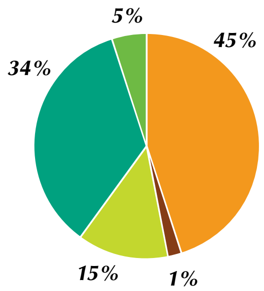
THE
LAKEVILLE REGENCY

- **Corporate Avenue:** the corporate headquarters zone that consists of Grade A office buildings built along the Taipingqiao Lake and adjacent to Shanghai Xintiandi. A portion of Corporate Avenue, Lot 110, was completed in March 2004 with a GFA of approximately 83,000 sq.m. The total planned GFA is 416,000 sq.m.

- **Up-market residential zone:** located at the junction of Zi Zhong Road and Ji Nan Road, southeast of Shanghai Xintiandi and south of the Taipingqiao lake and park. Phase 1, which is known as The Lakeville, with a GFA of approximately 49,000 sq.m., was completed and all units were sold in 2003. Phase 2, which is known as The Lakeville Regency, with a GFA of approximately 136,000 sq.m., was launched in 2006 and, by year end, approximately 60% of the residential GFA was sold.

- **Retail and theatre zone:** located on top of a major metro station in the traditional commercial district of Xizang Road. Once completed, it will have a total GFA of approximately 49,000 sq.m., which consists of a Broadway-style theatre, and retail and entertainment outlets.

The following shows the mix of residential, office and retail properties that we plan for the Shanghai Taipingqiao project upon completion:



	sq.m.
Residential	511,000[1]
Office	388,000
Retail	167,000
Hotels/Serviced Apartments/Schools	58,000
Clubhouse	15,000
Total	**1,139,000[1]**

(1) Of which 122,000 sq.m. of GFA have been sold as at the end of the financial year
Note: All GFA quoted above includes leasable and saleable area only

Development Status and Plan for 2007

Preparation of the construction for Lot 113 (Phase 3 of up-market residential zone) is in good progress and is scheduled for pre-sale in 2007.

The relocation of Corporate Avenue Lot 126 and Lot 127 in the corporate headquarters zone is in progress.


PRICEWATERHOUSECOOPERS

Hongkou District

The Hongkou District is located in the north-eastern part of Shanghai, covering an area of 23.4 sq.km.

The Hongkou District is a major shipping centre. The Shanghai municipal government has ambitious plans to transform the North Bund area to establish the Hongkou District as an international shipping, commerce, residential and leisure hub. Emphasis will be placed on retaining the architectural features of the buildings and ensuring efficient integration with the area's urban renewal.

The North Bund, together with the Outer Strand and Lujiazui area of Pudong, form part of a comprehensive development hub along the Huangpu River. Pudong's Lujiazui is earmarked as a major financial and service industry hub.

Rui Hong Xin Cheng (Rainbow City)

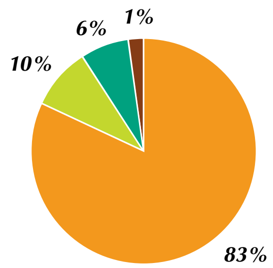
Rui Hong Xin Cheng is an integrated residential development that is revitalising existing residential neighbourhoods into an upper-middle class community, complete with modern amenities. Rui Hong Xin Cheng is situated in a strategic location in Hongkou District and is served by a metro station located under the development.

Upon completion, Rui Hong Xin Cheng will comprise a total GFA of approximately 1.3 million sq.m., of which approximately 183,000 sq.m. were sold at year end.

Development Status and Plan for 2007

Relocation of lots 4, 6 and 8 is on-going. The Company is preparing the construction commencement of Lot 8 by first half 2007.

The following shows the mix of residential and commercial properties that we plan for Rui Hong Xin Cheng project upon completion:



	sq.m.
Residential	1,047,000[1]
Office	85,000
Retail	123,000
Clubhouse	8,000
Total	**1,263,000[1]**

(1) Of which 183,000 sq.m. of GFA have been sold as at the end of the financial year
Note: All GFA quoted above includes leasable and saleable area only

Yangpu District

The Yangpu District is one of the largest urban districts in Shanghai with about 1.24 million registered residents. It is located in the north-eastern part of the central city area, covering an area of 60.7 sq.km., and includes some 15.5 km. of waterfront along the Huangpu River.

The district possesses rich historical and cultural resources and there are 17 universities and colleges, 22 key state laboratories and 15 scientific research institutes located within the district, contributing to its reputation as an intellectual hub of Shanghai.

瑞虹新城
市 中 心 国 际 新 镇

Knowledge and Innovation Community (KIC)

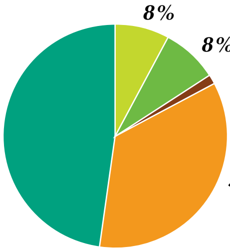
Our KIC project is a city-core, multi-functional community for people to study, live, work and engage in leisure activities. It is located in the Yangpu District adjacent to major universities and colleges, including Fudan University and Tongji University. Through this project, we intend to help transform Yangpu from an industrial and manufacturing district to a knowledge and innovation hub by drawing on the readily available education and human resources surrounding the area.

The master plan consists of four major zones with a GFA of approximately 523,000 sq.m. They are:

- Hub Area: the commercial centre of KIC comprising office buildings, learning centres, exhibition halls, conference and convention facilities, and commercial outlets. Hub 1 with a GFA of approximately 52,000 sq.m. was completed in November 2006.

- KIC Village (Live and Work Area): A mixed-use area comprising low-rise buildings with offices in the front and residential units at the back. It is targeted at entrepreneurs engaged in start-up ventures, professionals and faculty members of nearby universities. The first phase, R1, with a total GFA of approximately 86,000 sq.m. was completed in August 2006.

The following shows the mix of office, retail and other properties that we plan for KIC upon completion:



	sq.m.
Residential	184,000
Office	250,000
Retail	42,000
Hotels/Serviced Apartments	44,000
Clubhouse	3,000
Total	**523,000**[1]

(1) Of which 5,000 sq.m. of GFA have been sold as at the end of the financial year
Note: All GFA quoted above includes leasable and saleable area only

Development Status and Plan for 2007

Preparation of the construction of KIC Village phase 2 (R2) is progressing well, and foundation work for KIC Hub 2 is scheduled to commence in 2007. The Jiangwan Stadium, which held its soft opening on 28 December 2006, is currently being fitted out for tenants.

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Chongqing

Chongqing is located to the east of Sichuan Province in the Sanxia (Three Gorges) area on the upper reaches of the Yangtze River. Chongqing is both a commercial and industrial centre, and an inland transport hub. GDP per capita was about RMB 10,978 in 2005, and strong economic growth was recorded for the period from 2000 to 2006. It is also one of the world's largest cities with a population of 31.7 million in 2005.

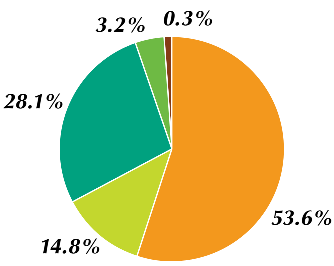
The Jialing and Yangtze Rivers separate the city centre into three major residential and business districts — Jiangbei, Yuzhong and Nan'an. These three key districts house 69% of the upper-mid residential units, and almost all the stock of upper residential units.

The future prospects for Chongqing's upper-mid and upper residential market are bolstered by China's "Go West" policies that promote foreign investment to the western regions of the country. Continued strong infrastructure investment, improving links to China's western regions, and the development of the city's metro system all encourage further growth.

Chongqing Tiandi

The Chongqing Tiandi project is a city-core development project comprising, on completion, an estimated GFA of approximately 2.8 million sq.m. The project is situated on the south bank of the Jialing River, just upstream of the confluence of the Yangtze and Jialing Rivers. It is located adjacent to the central business district in the Yuzhong District. This project is positioned to support and serve Chongqing's extensive manufacturing and service industries.

The following shows the mix of office, residential, retail and other properties that we plan for Chongqing Tiandi upon completion:



	sq.m.
Residential	1,526,000
Office	799,000
Retail	424,000
Hotels/Serviced Apartments	91,000
Clubhouse	9,000
Total	**2,849,000**

Note: All GFA quoted above includes leasable and saleable area only

The main features of the Chongqing Tiandi project are planned to include a man-made lake with pavilions and walkways along the shore; a commercial core comprising business service facilities, an exhibition, conference and merchandise centre, luxury hotels and offices, and retail and entertainment properties. Residential clusters on the hillside will replicate Chongqing's traditional hill-town characteristics and offer scenic views of the lake and the river.

Development Status and Plan for 2007

Construction of phase 1 (Lot B1-1/01) of the residential units is progressing well and pre-sale is scheduled for late 2007/ early 2008. Construction of residential units on Lot B2-1/01 and a retail and entertainment zone resembling Shanghai Xintiandi on Lot B3/01 is scheduled to commence in 2007. Construction of the man-made lake is also being planned within 2007.

重庆天地
CHONGQING TIANDI

Wuhan

Wuhan dominates the junction of the Yangtze and Han Rivers, and is the capital of Hubei Province. Well-established steel and automobile industries have driven the city's development into a centre of industry, finance, commerce, science, and education in central China. Wuhan's GDP per capita was approximately RMB 26,238 in 2005, having shown significant growth in the prior five years. Its population is 8.0 million in 2005.

Wuhan's economy has grown significantly since 2004 when the PRC Government introduced its policy to develop the central part of China with Wuhan taking a central role, particularly as a major transportation hub.

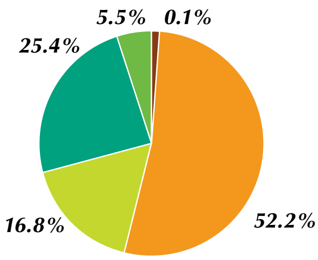
There are two major upper-mid and upper residential districts in Wuhan city, namely Hankou District, which includes the Jiang'an, Jianghan, and Qiaokou areas, where the city's CBD is located; and Wuchang District, which is characterised by a significant concentration of educational institutions.

Over the mid to long term, the demand for upper-mid and upper end residential properties is expected to be relatively firm due to the steady growth of Wuhan's economy, influx of immigrants, and decentralisation of residents. The migrant inflow from outer cities and suburbs, as well as from other provinces and foreign countries, is expected to further increase as a result of government policies seeking to attract quality talent to contribute to Wuhan's growing economy. Wuhan's business areas are also expected to develop in response to the increased business activity and economic growth.

Wuhan Tiandi

Wuhan Tiandi is a city-core development project with an estimated total GFA upon completion of approximately 1.4 million sq.m., divided into Site A and Site B. The project is located in Hankou's Jiang'an District, at a prominent position on the Yangtze River where the city's second bridge connects Hankou to Wuchang.

The following shows the mix of office, residential, retail and other properties which we plan for Wuhan Tiandi upon completion:



	sq.m.
Residential	734,000
Retail	236,000
Office	357,000
Hotels/Serviced Apartments	78,000
Clubhouse	1,000
Total	**1,406,000**

Note: All GFA quoted above includes leasable and saleable area only

The master plan of Wuhan Tiandi includes a mix of office, residential, retail, hotel and serviced apartments. It is also planned to include a historic restoration area resembling Shanghai Xintiandi, and a 250-metre tall landmark office tower next to the light transit station.

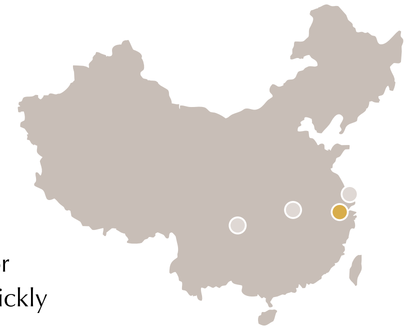
Development Status and Plan for 2007

The Company plans to launch the soft opening of the first phase of Lot A4, a retail and entertainment zone resembling Shanghai Xintiandi, in 2007.

Construction of phase 1 of residential units (Lot A9) is on track and the low rise blocks are scheduled to complete by the end of 2007. The Company plans to launch pre-sale of Lot A9 in 2007, and to commence construction of lots A6, A8 and A10 residential units within 2007. Relocation of residents at the remaining lots of Site A is progressing well and the Company is targeting to receive cleared land on schedule.

武汉天地
WUHAN TIANDI

Hangzhou



Hangzhou is a tourist destination well known for its scenic West Lake, and is the capital of Zhejiang Province. About 180 miles south-west of Shanghai, it is a major transportation hub, and has an international airport. Hangzhou has developed quickly in recent years and its GDP per capita was RMB 44,487 in 2005. Approximately 6.6 million people live in Hangzhou.

The most developed retail market in Hangzhou is the Hubin area, to the east of the West Lake, but the majority of high end international retailers are clustered in Xihu International Boutique Street. Due to the high residential land prices, this area consists mainly of high end and expensive villas. Prime offices are centralised in Huanglong area, which is to the north of the Xihu area, and where multi-national corporations and state-owned enterprises (SOE) have offices.

Growing numbers of domestic and foreign visitors are expected to boost the demand for lifestyle oriented retail space, given the uniqueness and beauty of the city, ringed around the West Lake. Hangzhou's proximity to Shanghai is another important positive factor.

Xihu Tiandi

Our Xihu Tiandi project is a mixed-use entertainment, retail, and food and beverage development consisting of approximately 52,000 sq.m. of GFA. It is a historic restoration project that is designed to offer a blend of traditional and modern architecture, set in a park on the southern edge of Hangzhou's fabled West Lake.

Phase 1 of Xihu Tiandi was completed in April 2003 and features restaurants, cafes, retail shops and other entertainment properties. It has approximately 6,000 sq.m. of GFA.

Development Status and Plan for 2007

Site clearance in Phase 2 is in hand and the Company is working with the local government to establish a start date for construction commencement.

A Strong Pipeline of New Projects

Strong economic growth in China is spreading from the coastal areas to the inner regions and this is opening up exciting new opportunities for the Company. The Company has already leveraged its experience in Shanghai to develop business in other cities.

Dalian

The Company was invited by Shui On Company Limited to consider a co-investment with Shui On Construction and Materials Limited (SOCAM) and YIDA, a local developer, to develop Dalian Software Park Phase 2. This is subject to Board approval and, if necessary, shareholders' approval.

The master plan covers 633 hectares of land comprising of six sites with a total planned GFA of 3.9 million sq.m. This would accommodate a mixed development consisting of a software park, office, residential, commercial, education facilities, hotels and Shanghai Xintiandi-type entertainment and retail area.

This project is positioned to serve the fast-growing information technology and business process outsourcing industries in Dalian. These industries have grown at an average 60% per annum during the 2000-2005 period, and are forecasted to grow 24-41% per annum from 2007 to 2012.

Kunming

The Company has entered into a framework agreement with Kunming government in July 2006 to collaborate in the redevelopment of the northern Caohai District as a mixed-use community consisting of entertainment, cultural, live, work, research and development facilities. The planned GFA of the project is 2.5 million sq.m.

The identified site is approximately 4 sq.km. and is adjacent to the current city centre, the famous Dianchi Lake, and surrounding the Daguan Park.

Kunming has excellent potential in tourism due to its unique historical and cultural attributes, as well as its favourable mild year-round climate, which gives rise to its nickname "Spring City". Government policies with respect to the Greater Mekong Sub-region and ASEAN + 1, and improved land transport infrastructure linking Kunming with various Southeast Asian cities, are expected to drive GDP growth, which is forecasted to increase significantly in the future from 11% in 2005.

Shanghai Yangpu Lot 24

Our KIC project in Shanghai was well received by the market since it was launched. To further consolidate KIC's position as the de facto centre in the Five Corners City Sub-centre in Yangpu District, we have entered into a sales and purchase agreement to acquire a local company that has the right to develop an adjacent site known as Plot A of Lot 24 with developable GFA of approximately 137,000 sq.m.

The Company believes that with the purchase of Lot 24, it will enhance the KIC project's scale and also satisfy the strong office demand in the Yangpu area.


Dalian
Shanghai
Wuhan
Hangzhou
Chongqing
Kunming

Corporate Social Responsibility

Shui On Land, as a world-class property developer, is committed to corporate social responsibility and seeks to achieve standards beyond basic regulatory and compliance requirements. We believe that contribution to society and to the cities and communities in which we are involved is an integral part of our business. We foster partnerships with all of our stakeholders to ensure long-term sustainability and value.

Corporate Governance

As we develop into a leading property developer in the Chinese Mainland, we place strong emphasis on applying international industry standards and best practice. A detailed Corporate Governance Report is provided on pages 52 to 60.

Philanthropy / Community Involvement

Shui On Land shares a concern for the well-being of the communities in which we operate and has long been active in giving back to these communities through charitable donations, sponsorships and scholarships.

In 2006, to celebrate Shui On Land's listing on the Stock Exchange of Hong Kong, we donated HK$ 1 million to the Community Chest of Hong Kong. We also donated RMB 10 million to China Welfare Fund for the Handicapped, and donated to China Red Ribbon Foundation that facilitates HIV/AIDS-related medical treatment, prevention, research and development.

We also established the Shui On Land-Fudan Overseas Exchange Scholarship to help strengthen Fudan University's cooperation with prominent universities abroad and to subsidise students studying overseas.

In 2006, we supported the Youth and Children's Palace of Wuhan for the construction of the first professional training facilities in the Chinese Mainland dedicated to cultivating all-round qualities of teenagers.

In addition, during the year, we gave subsidies to impoverished university students in Chongqing, and our Shanghai Taipingqiao hosted numerous groups of MBA/EMBA students and alumni from world-renowned universities.

Our efforts in promoting cultural and sports events included the performances of the Asian Youth Orchestra in Shanghai and Chongqing in August, the Grand Slam hosted by the International DanceSport Federation in Shanghai in December, and the Tennis Masters Cup in Shanghai in November.

Shui On Seagull Club

Throughout Shui On Land, we encourage our staff to care for others and to contribute to society. We take pride in our Shui On Seagull Club, an employee-run social service unit that focuses on improving the welfare of underprivileged children, the handicapped and the less fortunate. As part of our overall sustainability development efforts, the Seagull Club organises environmental protection and ecological preservation activities and, in 2006, raised funds through a charity walk and a concert. In addition to the external benefits created by the Seagull Club, staff members themselves gained the opportunities to collaborate and to work together on meaningful causes.

瑞安海鸥社
SHUI ON SEAGULL CLUB

Sustainability Development

The nature of our business places on us an obligation to protect the environment wherever practicable. We are committed to introducing environmental improvements as part of our sustainability development strategy in order to create cleaner, more energy-efficient and safer places to live and work. To this end, we established a task force in September 2006 chaired by Mr. Louis H. W. Wong, Managing Director – Project Management, and this group is developing guidelines for the implementation of action plans, to marshal resources, and to promote sustainable results.

We have formulated a number of policies for the Sustainability Development Task Force:

- Sustainable Development concepts will be incorporated into every phase of our developments – from master plan, architectural design, project and construction management, procurement, construction, sales and marketing, and property management.

- We will aim for the highest possible Leadership in Energy & Environmental Design (LEED) ratings, a recognised environmental building rating granted by the US Green Building Council, wherever possible.

- Sustainable Development concepts have been extended to a Green Office Programme so that every employee of Shui On Land can act and work in a spirit consistent with the aims of Sustainable Development.

SOL Green Office

Our Sustainable Development initiatives include the adoption of green construction materials accredited by the State Environmental Protection Administration of China or equally reputable international organisations; application of energy-saving construction materials, heating and cooling systems, water recycling, and greenery and eco-conservation.

Our efforts to practise sustainable development are well recognised. Our Xihu Tiandi in Hangzhou has been designed to conserve non-renewable energy and preserve the natural environment. Phase 2 of the project, as a result, was awarded the 2005 Platinum Precertification Certificate of the Leadership in Energy and Environmental Design Core and Shell (LEED-CS) from the US Green Building Council.

The residential section (Lot B1) of our Chongqing Tiandi has also been designed to minimise construction waste as well as noise and air pollution during construction, and provide a green neighbourhood. This resulted in an accreditation of Housing Quality "AA" Precertification Award by Chongqing Municipal Construction Commission.

Talent Development

At Shui On Land, we believe that the Company's long-term success lies in the quality and training of our people and their pursuit of common objectives. They are our most important asset. Thus, at all times, we endeavour to provide an environment to attract and develop talent of the highest character and competence and retain them through providing the opportunities for them to grow with the Company.

We offer two well-structured talent development programmes – a three-year Management Trainee Training Programme and a fast-track Management Cadet Programme. These programmes aim to cultivate promising graduates and to retain and grow existing staff members who demonstrate strong potential, respectively. Our Chairman & Chief Executive Officer, Mr. Vincent H. S. Lo, personally mentors the Management Cadets.

We also offer a four-year Graduate Engineer Training Programme that aims to assist fresh graduates to acquire cross-functional technical knowledge and skills, site experience, design work experience and project-related management techniques through well-structured and systematic training.

A series of other in-house training programmes is conducted to foster the continuous development of our staff and to meet the management needs of our rapidly expanding business. The Company also sponsors our staff to attend external professional courses, workshops and seminars in the form of financial and/or day-release support to encourage our staff to enhance their skills and knowledge.

Fostering Entrepreneurship and Innovation

Shui On Land strives to foster a strong entrepreneurial and innovative spirit among the future generation and potential business leaders in the Chinese Mainland. Our KIC project was developed with this mission in mind – providing an environment that encourages education, technology, research and business incubation, growth and development.



To further live up to this mission, in 2005 and 2006, we twice co-sponsored with Dragon TV and CBN in Shanghai a reality television programme – "Wise Man Takes All". Contestants were exposed to a series of business- and team work-related competitions on television over a 13-week period. The winner was rewarded with RMB 1 million to seed a start-up of his/her own business. These highly successful programmes gained a high profile for Shui On Land among their huge audiences across the nation.

Shui On Land wants to help young entrepreneurs to realise their dreams and to start their own businesses. We also understand that the availability of capital is fundamental to start-ups. Thus, in July 2006, KIC and two venture capital companies under Fudan University jointly agreed to establish the Shanghai Fudan-KIC Investment Company Limited and launch a RMB 80-100 million Fudan-KIC Investment Fund. This fund will invest in early-stage companies in the area of digital media, animation, gaming and wireless value-added services while attracting better and more start-up companies to KIC.

Cultural and Historical Preservation

A key guiding principle of our master planning expertise is that we are committed to preserving and restoring the historical and cultural elements in the communities in which we operate. As a result, the completed property developments are unique, rich in culture, and a local landmark.

Our contributions in this area were first demonstrated in Shanghai Xintiandi. We designed this retail and entertainment area to echo a post-modern 'yesterday-meets-tomorrow' concept, preserving early 20th century Shikumen buildings in a modern 'lifestyle' setting. The success of Shanghai Xintiandi has been recognised the world over. The project received the 2002 Cultural Heritage Architectural Award from the American Institute of Architects and the 2003 Urban Land Institute Award for Excellence from the American Urban Land Institute, the first project in Chinese Mainland to receive the award.

The same commitment was replicated in Wuhan and Hangzhou. At our Wuhan Tiandi, nine local buildings of architectural and historic merit would be preserved and made a focal point of the project. Xihu Tiandi, our other historic restoration project in Hangzhou, has drawn design inspiration from the city's Southern Chinese architectural style set in a lush, green environment.

Corporate Governance Report

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

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since it was listed on the Stock Exchange on 4 October 2006 (the "Listing Date") up until 31 December 2006, except for certain deviations as specified with considered reasons as explained below.

The Company is committed to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Company's businesses, strategic decisions and performances. The Board has reserved for its decision or consideration on matters covering mainly the Company's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the management. The respective functions of the Board and management of the Company have been formalized and set out in writing which was approved by the Board in March 2007. The Board will review the same once a year. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. In addition, a written procedure was established in March 2007 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

The Board has the full support of the Chief Executive Officer, Managing Directors and the senior management to discharge its responsibilities.

BOARD COMPOSITION

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board is currently made up of ten members in total, with three Executive Directors, one Non-executive Director and six Independent Non-executive Directors.

The Board of the Company comprises the following Directors:

Executive Directors:
Mr. Vincent H. S. Lo
(Chairman of the Board, Chief Executive Officer and member of Remuneration Committee)
Mr. Wilfred Y. W. Wong (will resign w.e.f. 1 May 2007)
(Vice Chairman of the Board and Chief Operating Officer)
Mr. William T. Addison
(Managing Director and Chief Financial Officer)

Non-executive Director:
The Honourable Chun Ying Leung

Independent Non-executive Directors (INEDs):
Sir John R. H. Bond
Dr. Edgar W. K. Cheng *(member of Audit Committee)*
Dr. William K. L. Fung *(Chairman of Remuneration Committee)*
Professor Gary C. Biddle
(Chairman of Audit Committee and member of Remuneration Committee)
Dr. Roger L. McCarthy *(member of Audit Committee)*
Mr. David J. Shaw

The brief biographical details of the Directors are set out in the "Board of Directors and Senior Management" section on pages 61 to 64.

Currently, the Company has six INEDs representing more than half of the Board. Three of the six INEDs have the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules. None of the members of the Board is related to one another.

All Directors, including Non-executive Directors and INEDs, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functions. INEDs are invited to serve on the Audit and Remuneration Committees of the Company. Their active participation in the Board and committee meetings brings independent judgment on issues relating to the Company's strategy, performance and management process, taking into account the interests of all shareholders.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of INEDs.

In March 2007, the Board has established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Chairman of the Board shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

Each of the Non-executive Directors of the Company is appointed for a specific term of 3 years and shall be subject to retirement by rotation once every 3 years.

Code provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Articles of Association are inconsistent with code provision A.4.2 of the CG Code. It provides that any new Director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with code provision A.4.2 of the CG Code, a special resolution will be proposed at the next forthcoming annual general meeting of the Company to amend the Article 97(3) of the existing Articles of Association of the Company so that any new Director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities.

BOARD AND BOARD COMMITTEES MEETINGS

Number of Meetings and Directors' Attendance

The Company had only held one full Board meeting in the year of 2006 since its listing and has already set a schedule for its regular board meetings and committee meetings in the year 2007 and 2008 in order to comply with the CG Code.

The attendance records of each Director at the Board meeting are set out below:

Name of Directors	Attendance / Number of Meetings
Mr. Vincent H. S. Lo *(Chairman)*	1/1
Mr. Wilfred Y. W. Wong	1/1
Mr. William T. Addison	1/1
Sir John R. H. Bond	1/1
The Honourable Chun Ying Leung	1/1
Dr. Edgar W. K. Cheng	1/1
Dr. William K. L. Fung	0/1
Professor Gary C. Biddle	1/1
Dr. Roger L. McCarthy	1/1
Mr. David J. Shaw	1/1

Practices and Conduct of Meetings

All Directors have been given an opportunity to include matters in the agenda for regular Board meetings. Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Board and committee meetings are scheduled at least one year in advance to facilitate maximum attendance of Directors.

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

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

The senior management attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

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

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The interested Directors shall abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual.

Mr. Vincent H. S. Lo, is the Chairman, CEO and the founder of the Company. The Board considers that vesting the roles of the Chairman and CEO in the same person is necessary because of the unique role and market importance of Mr. Vincent H. S. Lo in the business development of the Company. This vesting provides strong and consistent market leadership and is critical for efficient business planning and decisions of the Company. Furthermore, all major decisions are made in consultation with members of the Board and appropriate Board committees. There are six INEDs on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

With the support of the Company Secretary and the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Company will continue to review the effectiveness of the Company's corporate governance structure and consider whether any changes, including the division of responsibilities and the roles of Chairman and Chief Executive Officer, are necessary.

BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference, approved by the Board, which set out the Committees' major duties. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 152.

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

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in June 2004. The Remuneration Committee was re-constituted in May 2006 with terms of reference in compliance with the CG Code. The Remuneration Committee currently comprises three members, Dr. William K. L. Fung (Chairman), Mr. Vincent H. S. Lo and Professor Gary C. Biddle. The majority of them are INEDs.

The primary functions of the Remuneration Committee include:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the Executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;
- To determine the specific remuneration packages of the Executive Directors and the senior management and to make recommendations to the Board of the remuneration of Non-executive Directors; and
- To review and approve the compensation arrangements for the Executive Directors and the senior management.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee normally meets twice a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Executive Directors and the senior management and other related matters.

The Remuneration Committee met once during the period from the Listing Date to 31 December 2006 and the attendance records are set out below:

Name of Committee Members	**Attendance / Number of Meeting(s)**
Dr. William K. L. Fung *(Chairman)*	1/1
Mr. Vincent H. S. Lo	1/1
Professor Gary C. Biddle	1/1

Details of the remuneration of the Directors for the year ended 31 December 2006 are set out in note 12 to the financial statements.

AUDIT COMMITTEE

The Company established an Audit Committee in June 2004. The Audit Committee was re-constituted in May 2006 with terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee currently comprises three INEDs, namely Professor Gary C. Biddle (Chairman), Dr. Edgar W. K. Cheng and Dr. Roger L. McCarthy, including 2 INEDs who possess the appropriate professional qualifications or accounting or related financial management expertise. To retain independence and objectivity, the Audit Committee has been chaired by an INED (with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial controls system, internal controls system and risk management system and associated procedures.

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

The Audit Committee has the same view with the Board regarding the selection, appointment resignation or dismissal of external auditors.

No meeting was held by the Audit Committee during the period from the Listing Date to 31 December 2006.

The Company's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.

To comply with the code provisions A.5.4 of the CG Code, the Company has also established and adopted in March 2007 a Code for Securities Transactions by Relevant Employees, on no less exacting terms than the Model Code, to regulate dealings in the shares of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its shares.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The Board is responsible for overseeing the preparation of financial statements of the Company with a review to ensuring that such financial statements give a true and fair view of the state of affairs of the Company and that relevant statutory requirements and applicable accounting standards are complied with.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on pages 82 and 83.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2006 is set out as follows:

Services rendered for the Company	Fee paid/payable
Audit services:	HK$ 5,700,000
Non-audit services: 1. Professional fee in connection to the issuance of the prospectus dated 12 June 2006 2. Professional fee in connection to the issuance of the prospectus dated 20 September 2006 3. Professional fee in connection to the agreed upon procedures on adjusted conversion price of the Preference shares 4. Professional fee in connection to the agreed upon procedures on interest service coverage ratio	HK$ 27,600,000
Total:	HK$ 33,300,000

INTERNAL CONTROLS

During the year under review, the Company engaged an external professional adviser to initiate an independent review covering the overall financial, operational, compliance, risk management and monitoring control aspects of the Company. A report from the external professional adviser was addressed and presented to, and reviewed by the Board. The Board had noted the findings and recommendations in the report, and the management has been instructed to take steps to implement those recommendations.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS / INVESTOR RELATIONS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide the best opportunity for exchange of views between the Board and the shareholders. The Chairman of the Board as well as Chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings. The chairman of the independent Board committee will also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

To promote effective communication, the Company maintains a website at www.shuionland.com where up-to-date information in the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting at which voting is taken on a poll and posted on the websites of the Company and of the Stock Exchange.

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

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

Biographies of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors:

Mr. Vincent H. S. Lo, GBS, JP
aged 59, has served as our Chairman and Chief Executive Officer since the inception of our Company in February 2004. He is also Chairman and Chief Executive Officer of the Shui On Group, which he founded in 1971, and Chairman of Shui On Construction And Materials Limited ("SOCAM"). He is a member of The Tenth National Committee of the Chinese People's Political Consultative Conference, the Honorary Life President of the Business and Professionals Federation of Hong Kong, the President of the Shanghai-Hong Kong Council for the Promotion and Development of Yangtze, Vice Chairman of the All-China Federation of Industry and Commerce, an economic advisor of the Chongqing Municipal Government, Vice Chairman of the Chamber of International Commerce Shanghai, a court member of the Hong Kong University of Science and Technology, Director of Great Eagle Holdings Limited, Non-executive Director of Hang Seng Bank Limited, and an Independent Non-executive Director of China Telecom Corporation Limited.

He was awarded the Gold Bauhinia Star in 1998 and appointed Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region. He was made an Honorary Citizen of Shanghai in 1999. He was named Businessman of the Year at the Hong Kong Business Awards in 2001 and won the Director of the Year Award in the category of Listed Company Executive Directors from the Hong Kong Institute of Directors in 2002.

Mr. Wilfred Y. W. Wong, JP
aged 54, has served as our Vice Chairman and Chief Operating Officer since our inception in February 2004. Mr. Wong is also responsible for the sales and marketing functions of our Company's residential, office and retail properties. He was formerly Vice Chairman of SOCAM and Shui On Holdings Limited. He had been a Non-executive Director of SOCAM since 1997. Between the period of September 2000 and June 2006, he was an Executive Director of SOCAM and Managing Director of Shui On Holdings Limited.

Mr. Wong has over 13 years of working experience in real estate development in China. He was previously Deputy Chief Executive of K.Wah International Limited, a Hong Kong-listed group engaged in real estate and hotel development in Hong Kong and the PRC. Before joining the Shui On Group, he was Managing Director of Henderson China Holdings Limited, which was engaged in real estate development in the PRC.

He is currently a Deputy to The Tenth National People's Congress of the PRC, Chairman of the HKSAR Social Welfare Advisory Committee, a board member of HKSAR Airport Authority, a board member of the Hong Kong Tourism Board, a member of HKSAR Commission on Strategic Development, a member of HKSAR Commission on Poverty, Chairman and a trustee of the Business and Professionals Federation of Hong Kong, Vice President of the Shanghai-Hong Kong Council for the Promotion and Development of Yangtze, Chairman of Hong Kong International Film Festival Society Limited and Chairman of the Court and Council of Hong Kong Baptist University.

Mr. Wong graduated with a Bachelor of Social Science degree from The University of Hong Kong. He received a Diploma in Management from The Chinese University of Hong Kong and studied Post-graduate Administrative Development at Oxford University. Mr. Wong also holds a Master's degree in Public Administration from Harvard University.

Mr. William T. Addison

aged 54, has served as our Director since April 2005. He is our Managing Director and Chief Financial Officer, and is also in charge of all aspects relating to our Financial Policy and Formulation, Treasury, Financial Control and Reporting, Financial Planning and Analysis, Funding and Cash Flow Management, Taxation, Corporate Finance and Investor Relations, as well as the legal functions of the Company. Mr. Addison and the other two managing directors also assist the Chairman in the strategic development of the Company, and are jointly responsible for the day-to-day running of the Company. Mr. Addison has extensive experience in all aspects of corporate finance in Asia with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") where he worked for over 21 years. He was a Director of HSBC Corporate Finance Limited from 1992 until he left HSBC in 2002, at which time he held the position of Chief Operating Officer, Corporate Finance of HSBC Markets (Asia) Limited.

Non-executive Director:

The Honourable Chun Ying Leung, GBS, JP

aged 52, has served as an Independent Non-executive Director of our Company since May 2006 and re-designated to a Non-executive Director with effect from 12 January 2007. He is a Director of DTZ Holdings Plc. ("DTZ") and the Chairman of DTZ in Asia Pacific. Mr. Leung is the Convenor of the Executive Council of Hong Kong. He is also a member of the National Standing Committee of the Chinese People's Political Consultative Conference, a member and Chairman of the Council, Lingnan University, a member of the Court of Lingnan University, a member of the Honours Committee, Chairman of the Professional Services Advisory Committee, Hong Kong Trade Development Council, Chairman, Coalition of Professional Services and Chairman of One Country Two Systems Research Institute Limited, a Non-executive Director of Sing Tao News Corporation Limited and a Director of DBS Group Holdings Limited and Keppel Corporation Limited. Mr. Leung holds a Bachelor of Science degree in Valuation and Estate Management from Bristol Polytechnic, England. He is an Honorary Doctor of Business Administration, University of the West of England, an Honorary Doctor of Business Administration, Hong Kong Polytechnic University and a Fellow of the Hong Kong Institute of Surveyors.

Independent Non-executive Directors:

Sir John R. H. Bond

aged 65, has served as Independent Non-executive Director of our Company since September 2006. He was previously the Group Chairman of HSBC Holdings plc. and was with HSBC from 1961 until May 2006. He is the Chairman of Vodafone Group Plc and a Non-executive Director of Ford Motor Company. He is also the Chairman of the Mayor of Shanghai's International Business Leaders' Advisory Council, a participant in the China Development Forum and a member of the International Advisory Board to the Tsinghua University School of Economics and Management.

Dr. Edgar W. K. Cheng

aged 63, has served as an Independent Non-executive Director of our Company since September 2006. He has pursued several careers in the fields of medicine, public service and business and finance in the United States and Hong Kong over the past 35 years. A graduate from the University of Notre Dame and the Medical College of Wisconsin, USA, Dr. Cheng was Clinical Associate Professor of Medicine at Cornell University Medical College and practised medicine and conducted clinical research at the Memorial Sloan-Kettering Cancer Centre in New York. A former Chairman of the University Grants Commission in Hong Kong, and a member of the Education Commission, he is at present Chairman of the Council of The Chinese University of Hong Kong. Dr. Cheng is currently the Chairman of the World-Wide Investment Co. Limited and has been in other financial market positions such as Chairman of The Stock Exchange of Hong Kong Limited, Vice-Chairman and Non-executive Director of the Hang Seng Bank Limited, Vice President of the International Federation of Stock Exchange, Founding Chairman of the Hong Kong Securities Institute, member of the Board of Directors of the Hong Kong Futures Exchange Limited, and member of the Conference Board's Global Advisory Council and an Independent Director of Goldman Sachs Guo Hua Securities Co. Limited. He is currently a member of the Board of Directors of the Hong Kong Institute for Monetary Research, an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited, an Independent Non-executive Director of CNOOC Limited and an Independent Director of American International Assurance Co. Limited. Dr. Cheng served as the Head of the Central Policy Unit of the Government of Hong Kong Special Administrative Region from 1999 - 2001. He is currently a member of the Commission on Strategic Development as well as the Vice-Chairman of the Council for Sustainable Development. He is also a member of the Greater Pearl River Delta Business Council and a member of the Judicial Officers Recommendation Commission. Dr. Cheng also plays an active role in Hong Kong-China affairs. He was appointed by the PRC Government as a Hong Kong Affairs Advisor (1991 - 1997). He became a member of the Preparatory Committee and also the Selection Committee for the Hong Kong Special Administrative Region of the National People's Congress (1996 - 1997). At present, he is a member of The Tenth National Committee of the Chinese People's Political Consultative Conference.

Dr. William K. L. Fung, JP

aged 58, has served as an Independent Non-executive Director of our Company since May 2006. Dr. Fung is Group Managing Director of Li & Fung Limited and has held key positions in major trade associations. He is a past Chairman of the Hong Kong General Chamber of Commerce, Hong Kong Exporters' Association and Pacific Economic Cooperation Committee. Currently he is a member of the Hong Kong Trade Development Council. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred an Honorary Doctorate degree of Business Administration by Hong Kong University of Science and Technology in 1999. Dr. Fung is an Independent Non-executive Director of HSBC Holdings plc., CLP Holdings Limited and VTech Holdings Limited. He is also a Non-executive Director of other listed Li & Fung group companies including Convenience Retail Asia Limited and Integrated Distribution Services Group Limited.

Professor Gary C. Biddle

aged 55, has served as an Independent Non-executive Director of our Company since May 2006. Professor Biddle is Synergis-Geoffrey Yeh Chair Professor, Department Head of Accounting, and Associate Dean of the School of Business and Management of Hong Kong University of Science and Technology ("HKUST"). He is also a Court Member of HKUST and served as Council Member from 2003 to 2005. Professor Biddle obtained his MBA and Ph.D. degrees from the University of Chicago. He served as professor at the University of Chicago and the University of Washington before joining HKUST in 1996. He is a member of the American Accounting Association, American Chamber of Commerce of Hong Kong, American Institute of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants, Washington Society of Certified Public Accountants, and is past President and co-founding Council Member of the Hong Kong Academic Accounting Association. Professor Biddle is also a Director of Kingdee International Software Group Company Limited.

Dr. Roger L. McCarthy
aged 58, has served as Independent Non-executive Director of our Company since May 2006. Dr. McCarthy is Chairman Emeritus and Executive Director of Exponent, Inc., (NASDAQ symbol "EXPO"). He is also Chairman of Exponent Science and Technology Consulting Co., Ltd. (Hangzhou) (毅博科技諮詢（杭州）有限公司), a wholly owned subsidiary of Exponent, Inc., which he founded in 2005 to expand Exponent Inc.'s services to the PRC. Dr. McCarthy holds five academic degrees: an Arts Bachelor (A.B.) in Philosophy and a Bachelor of Science in Mechanical Engineering (B.S.E. M.E.) from the University of Michigan; and an S.M. degree in Mechanical Engineering, the professional degree of Mechanical Engineer (Mech.E.), and a Ph.D. in Mechanical Engineering all from the Massachusetts Institute of Technology ("MIT"). He graduated from the University of Michigan Phi Beta Kappa, summa cum laude, the Outstanding Undergraduate in Mechanical Engineering in 1972. He was a National Science Foundation Fellow. Dr. McCarthy is one of approximately 150 Mechanical Engineers elected to the US National Academy of Engineering. He currently serves on the External Advisory Boards of the Department of Mechanical Engineering at the University of Michigan and the Material Sciences Department at Stanford University.

Mr. David J. Shaw
aged 60, has served as an Independent Non-executive Director of our Company since May 2006. Mr. Shaw is employed by the HSBC Group as Adviser to the Board of HSBC Holdings plc, a London-based appointment which he took up in June 1998. Mr. Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 until 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University. He is also a Non-executive Director of certain companies within the HSBC Group, including HSBC Private Banking Holdings (Suisse) SA and The Bank of Bermuda Limited.

SENIOR MANAGEMENT

Mr. Louis H. W. Wong

aged 56, is Managing Director responsible for project management. Mr. Wong and the other two Managing Directors also assist the Chairman in the strategic development of the Company, and are jointly responsible for the day-to-day running of the Company. He joined the Shui On Group in 1981. From November 2002 until May 2004, he was Managing Director of Shui On Properties Limited. He resigned as a Non-executive Director of SOCAM and Executive Director of Shui On Company Limited on 1 June 2006. He is currently a member of the Chinese People's Political Consultative Conference Committee of Luwan District of Shanghai, Vice President of the Shanghai Real Estate Trade Association, Vice President of the Hong Kong Association for the Advancement of Real Estate and Construction Technology Ltd., a governing council member of the Construction Industry Institute of Hong Kong and a member of the Occupational Safety and Health Council in Hong Kong. He has also served as a member of the Construction Industry Training Authority, First Vice President of the Hong Kong Construction Association, a Director of the Real Estate Developers Association of Hong Kong, a member of the Construction Advisory Board in Hong Kong, chairman of the Departmental Advisory Committee for the Department of Building and Construction of the City University of Hong Kong, a member of the Provisional Construction Industry Co-ordination Board, a member of the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption and Honorary President of the Hong Kong Institution of Construction Engineers. He holds a Bachelor of Science degree in Civil Engineering from the University of Manchester and is a Fellow Member of the Institution of Civil Engineers and a member of the Hong Kong Institution of Engineers.

Mr. Aloysius T. S. Lee

aged 58, is Managing Director, Commercial. He joined our Company in April 2007 and is responsible for the branding, marketing and promotion, sales channel management, leasing strategy and execution, sales strategy and execution, commercial research, product planning and pricing strategy. Mr. Lee and the other two Managing Directors also assist the Chairman in the strategic development of the Company, and are jointly responsible for the day-to-day running of the Company. Mr. Lee has over 25 years experience in the commercial field and has extensive working experience in USA and Singapore. He has held senior management positions in Lotus International Limited, Pacific Century Cyber Works, Sun Cruises, Star Cruises, Morning Star Travel Services and Singapore Airlines. He is currently a Member of the Chartered Management Institute and a Fellow Member of Chartered Institute of Marketing. Mr. Lee holds an MBA from The University of Hong Kong.

Mr. Shing Sun Hui

aged 51, is Director of Projects of our Company and is also an Executive Director of Shui On Development Limited. He is responsible for the overall management of projects in Shanghai. Mr. Hui joined the Shui On Group in 1982 and has over 24 years of working experience in project management. Mr. Hui holds a Bachelor of Science degree in Architectural Studies and Structural Design from the University of Aston, England.

Mr. Maximus K. M. Li

aged 48, is Director of Projects and is responsible for all aspects of our Chongqing Tiandi project. Mr. Li is also an Executive Director of Shui On Development Limited and in that capacity is a senior member of the Chairman's Office. Mr. Li joined the Shui On Group in 2002. He holds a Bachelor's degree in Social Sciences from The University of Hong Kong.

Mr. Clement C. C. Lau

aged 57, is Director of Project Planning and Design. He is responsible for project planning and design of our Company's development projects. He joined our Company in August 2004. Prior to that, from 1994 he was Deputy Director of Wong Tung & Partners Ltd. and Wong & Tung International Ltd. He is currently a Chartered Member of the Royal Institute of British Architects, a member of the Royal Australian Institute of Architects and a Fellow Member of the Hong Kong Institute of Architects. He is also a Registered Architect in Hong Kong and China. Mr. Lau holds degrees in Bachelor of Arts (Architectural Studies) and Bachelor of Architecture from The University of Hong Kong.

Mr. Charles W. M. Chan

aged 51, is Director of Business Development of our Company and is responsible for identifying new sites and projects for development through acquisitions or joint ventures across the PRC. Mr. Chan joined the Shui On Group in January 2004. Prior to joining our Company, he was Deputy Managing Director of Vision Century Corporation Limited (now known as Frasers Property (China) Limited), Executive Director of SunCorp Technologies Limited, Vice President of Citibank N.A. and Manager of PricewaterhouseCoopers. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in Australia. Mr. Chan holds a Bachelor's degree in Economics from the University of Sydney.

Mr. Albert K. B. Chan

aged 47, is Director of Planning and Development. He is currently responsible for the conceptualisation and master planning of our Company's new projects. He was previously responsible for the overall planning and design of the Shanghai Xintiandi development project. Mr. Chan joined Shui On Properties Limited in 1997. Prior to joining our Company, he was a Project Director at the Department of Design and Construction, New York City. Mr. Chan holds a Bachelor's degree in Architectural Design from the University of Minnesota, a Master's degree in Architecture from the University of California, Berkeley, and a Master's degree in Science in Architecture and Urban Design from Columbia University. He also holds an MBA, majoring in finance from New York University. He is a member of the American Institute of Architects, a member of the American Planning Association, a member of the Urban Land Institute and a Registered Architect of New York State.

Mr. Eddie K. K. Heng

aged 42, is Director of the Chairman's Office and his main responsibilities include working with the Chairman in strategy development and implementation as well as organisational development. He also works with the senior management in new business ideas development for the Group. Mr. Heng joined the Company in January 2006 and has worked in management consulting with McKinsey & Co. in Asia and the USA. He holds an MBA from the International Institute for Management Development (IMD), Lausanne, Switzerland and Bachelor of Business Administration (Marketing and Finance) from the National University of Malaysia.

Mr. Freddy C. K. Lee

aged 45, is Director of Projects and is responsible for all aspects of our project in Wuhan. He joined the Shui On Group in 1986 and has over 15 years of working experience in construction management and 5 years of working experience in property development in the PRC. He is currently a member of the Royal Institution of Chartered Surveyors in the United Kingdom and a member of the Hong Kong Institute of Surveyors. Mr. Lee holds a Master's degree in construction management from the City University of Hong Kong and a Bachelor's degree in quantity surveying from Reading University, England.

Mr. George W. K. Chan

aged 49, is Director of Finance of our Company. He is responsible for overseeing the financial and accounting functions of the Group. Mr. Chan joined our Company in January 2007. Prior to this, Mr. Chan was General Manager - Finance of a leading property development and investment company with a significant presence in China and headquarters based in Hong Kong. He has over 20 years of progressive experience in accounting, auditing, taxation, financial control, and general management. He had held senior management positions with listed companies from various industries including property development and investment, the design, development and marketing of promotional toys and magazine publication. Mr. Chan is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor of Science degree in Economics & Accountancy from The City University, London, U.K. and an MBA from The Chinese University of Hong Kong.

QUALIFIED ACCOUNTANT

Mr. Derek W. Y. Feng

aged 45, is the Deputy General Manager, Finance, of our Company and is responsible for financial and treasury management. He joined our Company in 2005 and has over 22 years of experience in the auditing and financial management of large corporations. Mr. Feng is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He also obtained a Master's degree in business administration from the University of Hull, England.

COMPANY SECRETARY

Mr. Kim Lun Uy

aged 43, is our General Counsel and Company Secretary. He joined our Company in 2005 and is responsible for legal, company secretarial and compliance issues of our Company. Mr. Uy holds a Bachelor's degree, with honours, in Law and a Postgraduate Certificate in Law from The University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1994. He has over 15 years of post-qualification experience and has worked in the legal departments of several blue-chip companies in Hong Kong before joining our Company.

Directors' Report

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

PRINICIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries, associates and jointly controlled entities are set out in notes 46, 19 and 20 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 84.

The Directors now recommend the payment of a final dividend of HK6 cents per ordinary share to shareholders on the register of members on 8 June 2007, amounting to approximately RMB 248,065,000.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

On 4 October 2006, the shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the movements in the share capital of the Company during the year ended 31 December 2006 are set out in note 31 to the consolidated financial statements.

Except as disclosed in that note, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the year ended 31 December 2006.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2006 were RMB 9,693,710,000 (2005: RMB 1,910,893,000).

DIRECTORS

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

Executive Directors:

Mr. Vincent H. S. Lo	
Mr. Wilfred Y. W. Wong	(will resign w.e.f. 1 May 2007)
Mr. William T. Addison	
Mr. Louis H. W. Wong	(resigned on 12 May 2006)
Mr. Shing Sun Hui	(resigned on 12 May 2006)

Non-executive Directors:

The Honourable Chun Ying Leung	(appointed on 29 May 2006 and re-designated on 12 January 2007)
Mr. Eric M. H. Leung	(resigned on 12 May 2006)
Mr. Frankie Y. L. Wong	(resigned on 12 May 2006)
Mr. Lawrence Y. K. Choi	(resigned on 12 May 2006)
Professor Michael J. Enright	(resigned on 12 May 2006)
Mr. Frank-Rainer Vaessen	(resigned on 12 May 2006)
Mr. Hie Koan Ong	(resigned on 12 May 2006)
Mr. Eric N. Solberg	(resigned on 12 May 2006)
Mr. Stephen Wong	(resigned on 12 May 2006)
Ms. Helen H. L. Li	(resigned on 12 May 2006)
Mr. Gurcharan S. Kadan	(resigned on 12 May 2006)
Mr. Benett M. Theseira	(resigned on 12 May 2006)
Mr. Ah Long Wong	(resigned on 12 May 2006)

Independent Non-executive Directors:

Sir John R. H. Bond	(appointed on 18 September 2006)
Dr. Edgar W. K. Cheng	(appointed on 18 September 2006)
Dr. William K. L. Fung	(appointed on 29 May 2006)
Professor Gary C. Biddle	(appointed on 29 May 2006)
Dr. Roger L. McCarthy	(appointed on 29 May 2006)
Mr. David J. Shaw	(appointed on 29 May 2006)

The Honourable Chun Ying Leung was re-designated from an Independent Non-executive Director to a Non-executive Director on 12 January 2007.

Mr. Wilfred Y. W. Wong will resign as an Executive Director, the Vice Chairman and Chief Operating Officer of the Company with effect from 1 May 2007.

In accordance with Article 97(3) of the Company's Articles of Association, Sir John R. H. Bond, The Honourable Chun Ying Leung, Dr. Edgar W. K. Cheng, Dr. William K. L. Fung, Professor Gary C. Biddle, Dr. Roger L. McCarthy and Mr. David J. Shaw will hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 102 of the Company's Articles of Association, Mr. Vincent H. S. Lo will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) 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 they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

(a) The Company

Long position in the shares of the Company

Name of Director	Nature of interests	Total number of ordinary shares	Approximate percentage of interests in the Company
Mr. Vincent H. S. Lo	Other	2,250,409,225 (Note 1)	53.77%
Dr. William K. L. Fung	Personal	3,200,000	0.07%

Note:

(1) The shares of the Company are directly held by subsidiaries of Shui On Company Limited ("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. Vincent H. S. Lo is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Vincent H. S. Lo, Bosrich Holdings Inc. and HSBC International Trustee Limited are deemed to be interested in such shares under the SFO. Mr. Vincent H. S. Lo is also deemed to be interested in the shares held by New Rainbow Investments Limited, a wholly-owned subsidiary of Shui On Construction and Materials Limited.

Save as disclosed above, as at 31 December 2006, no short positions were recorded in the register required to be kept under section 352 of the SFO.

(b) Associated Corporation – Shui On Construction and Materials Limited ("SOCAM")

(i) Long position in the shares of SOCAM

Name of director	Nature of interests	Total number of ordinary shares	Approximate percentage of interests in SOCAM
Mr. Vincent H. S. Lo	Other	189,615,000 (Note 1)	66.86%
Mr. Wilfred Y. W. Wong	Other	189,615,000 (Notes 1 & 2)	66.86%
Dr. William K. L. Fung	Personal	682,000	0.24%

Notes:

(1) These shares comprised 181,871,000 SOCAM shares beneficially owned by SOCL and 7,744,000 SOCAM shares in which SOCL is deemed to be interested under sections 317 and 318 of the SFO.

The 181,871,000 SOCAM shares beneficially owned by SOCL comprise 166,148,000 SOCAM shares held by SOCL and 15,723,000 SOCAM shares held by 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. Vincent H. S. Lo is a discretionary beneficiary. Accordingly, Mr. Vincent H. S. Lo is deemed to be interested in such shares under the SFO.

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. Wilfred Wong"), Mr. Louis H. W. Wong ("Mr. Louis Wong") and Mr. Frankie Y. L. Wong , as part of the incentive reward for the services to SOCAM. 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. Mr. Wilfred Wong and Mr. Louis Wong have exercised all their call options and accordingly are deemed to be parties to an agreement to acquire SOCAM shares under section 317 of the SFO. As such, under section 318 of the SFO, SOCL is deemed to be interested in an aggregate of 7,744,000 SOCAM shares, comprising 3,700,000 SOCAM shares and 3,000,000 SOCAM shares underlying equity derivatives of SOCAM (as explained in note (2) below) owned by Mr. Wilfred Wong and 1,044,000 SOCAM shares owned by Mr. Louis Wong.

(2) Mr. Wilfred Wong was interested in 3,700,000 SOCAM shares. He was also interested in 3,000,000 underlying equity derivates of SOCAM by Sino Grand Investments Limited (which is wholly-owned by Mr. Wilfred Wong). Such underlying shares are unlisted cash settled options with an expiry date of 20 December 2008.The aggregate interests as set out in the table above also include the deemed interests of SOCL and Mr. Louis Wong under sections 317 and 318 of the SFO as mentioned in the note 1 above.

(ii) Short position in the shares of SOCAM

Name of Director	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in SOCAM
Mr. Vincent H. S. Lo	Other	1,600,000 (Note 1)	0.56%

Note:

(1) Those shares represent the outstanding balance of the call options granted by SOCL under the call option arrangement mentioned in the note (1) to item (b)(i) above.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2006, the following shareholders (other than Directors or the chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of shareholding
HSBC International Trustee Limited	Trustee	2,250,409,225 (Note 1)	53.77%
Bosrich Holdings Inc.	Trustee	2,250,409,225 (Note 1)	53.77%
Shui On Company Limited	Interest of Controlled Corporation	2,250,409,225 (Note 1)	53.77%
Shui On Holdings Limited	Interest of Controlled Corporation	1,503,713,901 (Note 2)	35.93%
Shui On Investment Company Limited	Beneficial Owner and Interest of Controlled Corporation	1,503,713,901 (Note 2)	35.93%
Shui On Properties Limited	Beneficial Owner	940,000,000 (Note 2)	22.46%
SOCAM	Interest of Controlled Corporation	746,695,324 (Note 3)	17.84%
New Rainbow Investments Limited	Corporate	746,695,324 (Note 3)	17.84%

Notes:

(1) These shares are directly held by subsidiaries of SOCL, namely Shui On Properties Limited ("SOP"), Shui On Investment Company Limited ("SOI") and New Rainbow Investments Limited ("NRI"). 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. Vincent H. S. Lo is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Vincent H. S. Lo, Bosrich Holding Inc. and HSBC International Trustee Limited are deemed to be interested in such shares under the SFO.

(2) These shares comprised 563,713,901 shares beneficially owned by SOI and 940,000,000 shares beneficially owned by SOP, which is a wholly-owned subsidiary of SOI. SOI is deemed to be interested in the 940,000,000 shares owned by SOP under the SFO and has an aggregate interest in 1,503,713,901 shares. SOI is owned by Shui On Holdings Limited. Accordingly, Shui On Holdings Limited is also deemed to be interested in the 1,503,713,901 shares held by SOI under the SFO.

(3) These shares are beneficially owned by NRI, a wholly-owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such shares under the SFO.

(4) All the interests stated above represent long positions.

Save as disclosed above, as at 31 December 2006, no short positions were recorded in the register required to be kept under section 336 of the SFO.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 52 to 60.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 44 to the Financial Statements also constituted non-exempt connected transactions of the Company and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company are ongoing and are subject to the reporting, announcement and/or independent shareholders' approval requirements of Chapter 14A of the Listing Rules. At the time of application for listing of the Company's shares on the Stock Exchange, waivers were granted to the Company from strict compliance with the announcement and independent shareholders' approval requirements.

(1) Provision of project management services by Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. to the Company

Pursuant to an agreement between the Company and Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd., which commenced on 26 August 2003, Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. provides Shanghai Yangpu Centre Development Co. Ltd, our 70%-owned subsidiary, with advisory services in respect of the Shanghai Knowledge and Innovation Community project, including assisting with obtaining the relevant regulatory and government approvals and permits as well as the marketing and administrative aspects of the Shanghai Knowledge and Innovation Community project.

Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. owns 30% of Shanghai Yangpu Centre Development Co. Ltd. and is a substantial shareholder of our subsidiary, Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. Its associates are also our connected persons under the Listing Rules. Shanghai Yangpu Centre Development Co., Ltd. itself is our connected person, as it is an associate of Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd.

Pursuant to a supplemental agreement signed on 30 May 2006, the project management services agreement will terminate on 31 December 2008 but will be automatically renewed for consecutive one-year periods thereafter, unless terminated with 60 days prior written notice by either party.

The total service fees payable by us to Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. for the advisory services is fixed at 0.9% of the construction costs for the Shanghai Knowledge and Innovation Community project incurred by Shanghai Yangpu Centre Development Co. Ltd., the developer of the Shanghai Knowledge and Innovation Community project. Our Directors believe that the advisory services agreement is on normal commercial terms. The service fee rate of 0.9% was determined based on the rate of 3% generally charged to independent third parties for similar services, adjusted to be proportionate with Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd.'s shareholding.

Each of the percentage ratios (other than the profit ratios), where applicable, in relation to these transactions, on an annual basis, is expected to be less than 2.5% under Rule 14A.34(1) of the Listing Rules. Accordingly, such transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Company expects that the total amount payable by the Company to Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. for advisory services for the three years ending 31 December 2008 will not in aggregate exceed RMB6,300,000, RMB10,500,000 and RMB10,500,000, respectively.

An aggregate total amount of RMB 3,272,000 was paid or is payable by the Company to Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. for advisory services during the year under review.

(2) Leases of property by the Company from the Shui On Group

In the ordinary course of the Group's business, the Company, as tenant, has entered into a number of property leasing agreements with subsidiaries of Shui On Company Limited. As Shui On Company Limited is a controlling shareholder of the Company, Shui On Company Limited and each of the subsidiaries of Shui On Company Limited is a connected person of the Company.

In Shanghai, the Company has entered into property leasing agreements with Shanghai Jiu Hai Rimmer Properties Co. Ltd., which is 80% owned by Shui On Company Limited, for various units in Shui On Plaza at an aggregate monthly rent of approximately RMB 1,116,000 (inclusive of building management fees and rental of fixed assets) for a term ending on 31 December 2008, subject to renewal. These properties are used for offices and a showroom. The Company has also entered into a property leasing agreement dated 8 May 2005 and a supplemental agreement dated 12 April 2006 with Shanghai Ruichen Property Co. Ltd., which is wholly-owned by Shui On Company Limited, to lease a site office at Rui Hong Xin Cheng in Shanghai at an average monthly rent of approximately RMB 33,000 (inclusive of building management fees) for a term ending on 31 December 2008, subject to renewal. In Hong Kong, the Company has entered into property leasing and licensing agreements with Shui On Centre Co. Ltd. and Shui On Investment Company Limited, both of which are wholly-owned by Shui On Company Limited, for various units in Shui On Centre at an aggregate monthly rent of approximately HK$ 207,000 (inclusive of building management fees and rates) for a term ending on 9 October 2006 and 31 May 2007, respectively, with an option to extend to 31 December 2008 (other than for the leasing of the 3rd floor of Shui On Centre) at the then prevailing market rent. These properties are used for offices and a showroom.

The Company entered into a framework lease agreement on 30 May 2006 with Shui On Company Limited expiring on 31 December 2008, subject to renewal, pursuant to which it may lease from Shui On Company Limited and its subsidiaries (except SOCAM and its subsidiaries) ("Shui On Group") such other properties as are necessary for its future business needs on normal commercial terms and at the prevailing market rent.

The Company expects that the total amount payable by the Company to the Shui On Group for leasing of the premises under the property leasing agreements and the framework lease agreement for the three years ending 31 December 2008 for the properties in Shanghai will not exceed RMB 17,100,000, RMB 20,900,000 and RMB 24,500,000, respectively, and for the properties in Hong Kong will not exceed HK$ 3,720,000, HK$ 3,760,000 and HK$ 4,360,000, respectively.

An aggregate amount of RMB 17,064,000 for the properties in Shanghai and RMB 3,339,000 for the properties in Hong Kong respectively was paid or is payable by the Company to the Shui On Group for leasing of the premises under the property leasing agreements and the framework lease agreement during the year under review.

(3) Provision of construction services by SOCAM to the Company

In the ordinary course of the Group's business, the Company has in the past entered into a number of construction contracts with Shanghai Shui On Construction Co., Ltd. and Pat Davie (China) Limited (the "SOCAM Contractors") as the contractors for construction works in relation to our projects in the PRC. The construction contracts include renovation works contracts, building decoration works, mechanical and electrical system materials procurement and building materials procurement. The SOCAM Contractors are each subsidiaries of SOCAM and are therefore connected persons of the Company.

For contracts over RMB 1,000,000, construction contracts were generally put out to tender and contractors selected through a bidding process under which each potential contractor was assessed on its qualifications, reputation for reliability, quality and price. The construction contracts with SOCAM Contractors of over RMB 1,000,000 were entered into pursuant to and on the basis of bids tendered. For contracts of RMB 1,000,000 or less, the price was agreed with SOCAM Contractors with reference to prevailing market rates.

The Company expects that Shanghai Shui On Construction Co., Ltd. will continue to provide construction services to it, including pursuant to successful bids for construction contracts put out to tender by the Group. In this connection, the Company entered into a construction services framework agreement with Shanghai Shui On Construction Co., Ltd. on 4 June 2006 for a term expiring on 31 December 2008, subject to renewal, details of which were described in the Prospectus of the Company dated 20 September 2006.

The Company expects that the total annual payment for all construction services provided by Shanghai Shui On Construction Co., Ltd. to the Company for the three years ending 31 December 2008, will not exceed RMB 285,000,000, RMB 535,000,000 and RMB 750,000,000, respectively.

An aggregate amount of RMB 30,424,000 was paid or is payable to Shanghai Shui On Construction Co., Ltd. for all construction services during the year under review.

(4) Guarantee provided by the Company for loan facility granted to Shanghai Jing Fu Property Co., Ltd.

The Company entered into a guarantee dated 19 July 2006 as guarantor in favour of Bank of China Limited, Shanghai Luwan Branch in respect of a bridging loan facility in the aggregate amount of up to HK$ 500,000,000 provided by Bank of China Limited to Shanghai Jing Fu Property Co., Ltd., its indirect 69.3%-owned subsidiary. This bridging loan replaced a previous loan facility in the aggregate amount of up to HK$ 750,000,000 provided to Shanghai Jing Fu Property Co., Ltd. by Standard Chartered Bank, Shanghai Branch (on its own behalf and as agent for Development Bank of Singapore, Hang Seng Bank and Wing Hang Bank).

Under the guarantee, the Company is liable as guarantor for 70% of the indebtedness of Shanghai Jing Fu Property Co., Ltd. under the bridging loan facility. The guarantee continues while the indebtedness remains outstanding under the bridging loan facility, which expires on 31 July 2007.

The guarantee was granted by the Company in its capacity as a shareholder of, and in the proportion of its beneficial shareholding in Profitstock Holdings Limited, the holding company of Shanghai Jing Fu Property Co., Ltd., the developer company for Lot 114 of the Shanghai Taipingqiao project. The guarantee was entered into in the ordinary course of business for the purpose of facilitating the grant of the bridging loan facility to Shanghai Jing Fu Property Co., Ltd. The other shareholders of Shanghai Jing Fu Property Co., Ltd. have also procured corresponding guarantees in proportion to their respective beneficial shareholdings. It is common practice in the PRC that the lending banks require the provision of corporate guarantees or other forms of security from a borrower's shareholders. It is also normal commercial practice for a company within the group to provide guarantees and security in respect of bank loans of another member of the same group.

The guarantee constitutes financial assistance from the Company to a connected person. The Company has not charged any fees in relation to the provision of the guarantee and will continue to provide the guarantee at no charge.

The annual amount of the financial assistance by the Company to Shanghai Jing Fu Property Co., Ltd. will not exceed 70% of the loan and interest amount secured under the guarantee, that is HK$ 370,000,000.

No payment has been or is proposed to be made by the Company under its guarantee of the loan to Shanghai Jing Fu Property Co., Ltd. in respect of the year under review.

(5) Shareholder loans provided by the Company for loan facility granted to Profitstock Holdings Limited and Globe State Properties Limited

The Company has provided a shareholder loan to Profitstock Holdings Limited, its 70%-owned subsidiary, in the principal amount of RMB 282,520,273 as evidenced by a deed dated 5 January 2006. This shareholder loan was entered into in the ordinary course of business for the purpose of the payment of land premium, relocation costs and construction costs, each in respect of Lot 114 of the Shanghai Taipingqiao project. The Company has also provided a shareholder loan to Globe State Properties Limited, our 70%-owned subsidiary, in the principal amount of RMB 129,817,268 as evidenced by a deed dated 5 January 2006. This shareholder loan was entered into in the ordinary course of business for the purpose of the payment of land premium, relocation costs and construction costs, each in respect of Lot 117 of the Shanghai Taipingqiao project.

Both the shareholder loans to Profitstock Holdings Limited and Globe State Properties Limited were granted by the Company in its capacity as a shareholder of, and in the proportion of its beneficial shareholding in, each of these two companies. The other shareholders of Profitstock Holdings Limited and Globe State Properties Limited have also provided corresponding shareholder loans in proportion to their aggregate beneficial shareholding. It is normal commercial practice for a company within a group to provide loans to other members of the same group and it is also normal commercial practice for shareholders of a company to provide shareholder loans in proportion to their respective shareholdings in such company in the PRC.

Both shareholder loans are unsecured, interest free and repayable on demand. For the three years ending 31 December 2008, the annual amount of the financial assistance provided by the Company to Profitstock Holdings Limited and Globe State Properties Limited will not exceed the aggregate of the loan amounts, that is RMB 412,337,541.

The aggregate amount of the financial assistance by the Company to Profitstock Holdings Limited and Globe State Properties Limited was RMB 412,337,541 for the year under review.

(6) Provision of shareholder loans by the Company to Shanghai Yangpu Centre Development Co. Ltd.

Pursuant to a shareholder loan agreement effective as of 23 August 2004 and extended by a supplemental agreement effective as of 19 August 2005, the Company granted a shareholder loan in the principal amount of HK$ 185,000,000 to Shanghai Yangpu Centre Development Co. Ltd, its 70%-owned subsidiary in connection with the Shanghai Knowledge and Innovation Community project. The shareholder loan was granted by the Company in proportion to its shareholding in Shanghai Yangpu Centre Development Co. Ltd. A corresponding shareholder loan was granted by the other shareholder in Shanghai Yangpu Centre Development Co. Ltd in proportion to its shareholding. This shareholder loan was granted for the purpose of paying part of the land grant fee for the Shanghai Knowledge and Innovation Community project and is repayable on 22 August 2007, subject to renewal.

The Company has granted a further shareholder loan in the principal amount of US$25,000,000 to Shanghai Yangpu Centre Development Co. Ltd pursuant to a loan agreement signed on 26 October 2005. This second loan was granted for the purpose of paying part of the land grant fee and for construction costs in relation to the Shanghai Knowledge and Innovation Community project and is repayable on 25 October 2007, subject to renewal.

Both shareholder loans bear interest at a rate of 5% per annum and are unsecured. The shareholder loans constitute financial assistance from the Company to a connected person. The annual capped exposure under the loans granted by the Company to Shanghai Yangpu Centre Development Co. Ltd. for the three years ending 31 December 2008 will not exceed HK$ 194,250,000 and US$ 26,250,000, representing the principal and interest payable under the two loans.

The total amounts of the financial assistance provided by the Company to Shanghai Yangpu Centre Development Co. Ltd. were HK$ 194,250,000 and US$ 26,250,000 for the year under review.

(7) Provision of financial assistance by the Company to Shanghai Yangpu Centre Development Co. Ltd.

On 8 December 2006, the Company and Shui On Development (Holding) Limited entered into a guarantee in favour of The Hongkong and Shanghai Banking Corporation Limited (Hong Kong office) ("HSBC") to secure 70% of the principal amount and interest payable under a loan of RMB 875,000,000 (the "Loan") granted to Shanghai Yangpu Centre Development Co., Ltd., its 70%-owned subsidiary in connection with the Shanghai Knowledge and Innovation Community project, under the Loan Agreement. The other shareholder of Shanghai Yangpu Centre Development Co., Ltd., Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd., also granted a guarantee in favour of HSBC to secure 30% of the principal amount and interest under the same Loan. On the same date, the Company also made a deposit of HK$ 622,500,000 (the "Deposit") with HSBC to secure its obligations under the Guarantee.

The Loan bears interest at the 6-month RMB Base Lending Rate stipulated by the People's Bank of China and is repayable on 30 March 2007. The Guarantee and the Deposit will last for a period equivalent to the term of the loan under the Loan agreement between HSBC and Shanghai Yangpu Centre Development Co., Ltd (the "Loan Agreement").

The provision of the Guarantee and Deposit by the Company is a connected transaction of the Company under Rule 14A.13(3) of the Listing Rules. Details of the transaction were included in the press announcement made by the Company on 21 December 2006 and the circular of the Company dated 12 January 2007. On 18 December 2006 Shui On Investment Company Limited, Shui On Properties Limited and New Rainbow Investments Limited, together holding approximately 53.77% of the issued share capital of the Company, passed a written resolution approving the provision of the Guarantee and the Deposit. On this basis, on 28 December 2006 the Stock Exchange granted a waiver under Listing Rule 14A.43 from the requirement to hold a general meeting of shareholders to approve the provision of the Guarantee and the Deposit.

Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-executive Directors of the Company have reviewed the above continuing connected transactions and are of the opinion that:

(a) the continuing connected transactions as stated in point no. 1 to 6 were the subject of an application by the Company to the Stock Exchange on 25 August 2006 for a waiver from strict compliance with the announcement and independent shareholders' approval requirements;

(b) the continuing connected transactions as stated in point no. 1 to 6 above have been:

  (i) carried out in the usual and ordinary course of business of the Group;

  (ii) conducted on normal commercial terms; and

  (iii) entered into in accordance with the terms of the respective agreements.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions as set out in point no.1 to 6 above to assist the Directors to evaluate whether the transactions:

(a) have been approved by the Board of Directors of the Company;

(b) were entered into in accordance with the terms of the relevant agreements governing the transactions; and

(c) the amount of each continuing connected transaction did not exceed the relevant limits allowed by the Stock Exchange in the previous waiver or the limit as set out in the relevant announcement or the Company's prospectus dated 20 September 2006.

The auditors have reported their factual findings on these procedures to the Board of Directors.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in note 44 to the financial statements, no contract to which the Company, its ultimate holding company or any of the subsidiaries of the Company or its ultimate holding company was a party, and in which a Director of the Company had, at any time during the year, whether directly or indirectly, an interest, (being, in either case, in the opinion of the Directors, a contract of significance in relation to the Company's business and in which the Director's interest is or was material), subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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 described in the section headed "Relationship with the Shui On Group" of the Company's prospectus dated 20 September 2006. The Company is party to a non-competition agreement with Shui On Company Limited and Mr. Vincent H. S. Lo pursuant to which Shui On Company Limited and Mr. Vincent H. S. Lo have severally undertaken not to compete with the business of the Company, subject to the exceptions set out therein.

Prior to the first Board of Directors meeting after the IPO, the INEDS have engaged an independent financial advisor to provide advice as to whether it is in the best interests of the Company and its shareholders to exercise the options in respect of Shui On Plaza and The Centrepoint. Details of the options are contained in the Company's prospectus dated 20 September 2006. The INEDs concluded, after taking into account the advice provided by the independent financial advisor, that it would not be in the best interests of the Company and its shareholders to exercise the option to acquire Shui On Plaza interest and The Centrepoint interest at that time. Further details of the decision have been published in the press announcement of the Company dated 21 November 2006.

The Company has received an offer notice from Shui On Company Limited referring to the Company the opportunity to participate in the Dalian Software Park Phase II Project. The Company is currently evaluating the opportunity.

Save as aforesaid, as at the date of this report, none of the Directors of the Company has an interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

The Company has on 28 November 2006 entered into a guarantee (the "Guarantee") to guarantee the performance of its subsidiary, Chongqing Shui On Tiandi Property Development Co., Ltd. ("Chongqing Shui On"), under a 3-year loan facility of up to RMB 300,000,000. The Guarantee requires that Mr. Vincent H. S. Lo, the Chairman and Chief Executive Officer, has to remain as a controlling shareholder of the Company and that the Company has to maintain its indirect and beneficial ownership of not less than 70% of Chongqing Shui On. Breach of such obligations will cause a default in respect of the loan.

REMUNERATION POLICY

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

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

PROVIDENT AND RETIREMENT FUND SCHEMES

Details of the Group's provident and retirement fund schemes are shown in note 39 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Listing Rules during the period from 4 October 2006, the date of its listing on the Stock Exchange, to 31 December 2006.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB 5,945,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group sales were attributable to the top five customers of the Group.

For the year ended 31 December 2006, payments to our single largest construction contractor accounted for approximately 37% (2005: 29%) of our total payments under our construction contracts. Our five largest construction contractors accounted for approximately 61% (2005: 76%) of our total payments under our construction contracts. None of our Directors, their associates or any shareholders holding more than 5% of the share capital of the Company has any interest in our five largest construction contractors.

POST BALANCE SHEET EVENTS

There are no significant events occurring after the balance sheet date up to the date of this report.

AUDITORS

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

On behalf of the Board

Vincent H. S. Lo
Chairman

20 April 2007

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF SHUI ON LAND LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 84 to 150, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
20 April 2007

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 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

Consolidated Balance Sheet

As 31 December 2006

	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

The consolidated financial statements on pages 84 to 150 were approved and authorised for issue by the Board of Directors on 20 April 2007 and are signed on its behalf by:

Vincent H. S. Lo
DIRECTOR

William T. Addison
DIRECTOR

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)
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)

	2006 RMB'000	2005 RMB'000
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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (continued)

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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.

5. FINANCIAL INSTRUMENTS *(continued)*

a. *Financial risk management objectives and policies* (continued)

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.

5. FINANCIAL INSTRUMENTS *(continued)*

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 **RMB'000**	2005 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

6. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segment *(continued)*

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)

6. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segment (continued)

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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Retirement benefit costs RMB'000	2006 Total RMB'000	2005 Total 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 RMB'000	2005 RMB'000
Salaries, performance related incentive payments and allowances	**6,665**	7,278
Retirement benefits cost	**145**	174
	6,810	7,452

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

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

	2006 Number of employees	2005 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 RMB'000	2005 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 RMB'000	2005 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

14. EARNINGS PER SHARE *(continued)*

Number of shares

	2006 '000	2005 '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 RMB'000	2005 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 RMB'000	Plant and machinery RMB'000	Furniture, fixtures, equipment and motor vehicles RMB'000	Total 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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
上海淞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 RMB'000	2005 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)
	—	—

20. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY *(continued)*

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 RMB'000	2005 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 RMB'000	2005 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

21. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS *(continued)*

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 RMB'000	2005 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%

28. NOTES AND WARRANTS *(continued)*

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.

28. NOTES AND WARRANTS *(continued)*

	Notes RMB'000	Warrants RMB'000	Early redemption rights RMB'000	Total 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 RMB'000	2005 RMB'000
Accounts payable aged analysis:		
Trade payable		
Not yet due	**721,649**	399,064
Within 30 days	**14,366**	24,419
31 - 60 days	**—**	308
	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 RMB'000	2005 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

30. BANK BORROWINGS *(continued)*

Notes:

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

	2006 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	Revaluation of properties RMB'000	Tax losses RMB'000	Recognition of sales and related cost of sales RMB'000	Others RMB'000	Total 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 RMB'000	2005 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 RMB'000	2005 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	Senior preference shares	Total	Junior preference shares of US$0.01 each US$'000	Senior preference shares of US$0.01 each US$'000	Total 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	Senior preference shares	Total	Junior preference shares of US$0.01 each RMB'000	Senior preference shares of US$0.01 each RMB'000	Total 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).

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

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	**—**	**—**	**—**	**—**

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

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.

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

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).

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

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.

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

(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.

39. PROVIDENT AND RETIREMENT FUND SCHEMES *(continued)*

Hong Kong *(continued)*

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 RMB'000	2005 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 RMB'000	2005 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)

39. PROVIDENT AND RETIREMENT FUND SCHEMES *(continued)*

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

	2006 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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 RMB'000	2005 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

41. LEASE ARRANGEMENTS *(continued)*

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 RMB'000	2005 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 RMB'000	2005 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

42. COMMITMENTS AND CONTINGENCIES *(continued)*

(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.

44. RELATED PARTY TRANSACTIONS *(continued)*

(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.

44. RELATED PARTY TRANSACTIONS *(continued)*

(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.

44. RELATED PARTY TRANSACTIONS *(continued)*

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

(i) Nature of transaction

	2006 RMB'000	2005 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 RMB'000	2005 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
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

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

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
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
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

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

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
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
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

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

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
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
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

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

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 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
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

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

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
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
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 I(Holding) Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the year.

Financial Summary

	2003 RMB million	2004 RMB million	2005 RMB million	**2006 RMB million**
RESULTS				
Turnover	977.3	1,038.9	1,017.8	**4,729.3**
Cost of sales	(646.6)	(599.7)	(326.7)	**(1,745.4)**
Gross profit	330.7	439.2	691.1	**2,983.9**
Other income	11.1	17.0	101.8	**255.9**
Staff costs	(22.5)	(66.2)	(77.7)	**(145.8)**
Depreciation and release of prepaid lease rentals	(15.1)	(15.9)	(24.0)	**(27.4)**
Other expenses	(123.9)	(194.2)	(252.2)	**(512.5)**
Share of profit of associates	—	—	—	**0.7**
Net loss on change in fair value of derivative financial instruments	—	—	(1.2)	**(477.5)**
Increase in fair value of investment properties	62.7	1,687.2	606.6	**144.8**
Gain on disposal of equity interests in subsidiaries	—	—	—	**582.3**
Finance costs	(53.7)	(109.5)	(166.9)	**(218.8)**
Profit before taxation	189.3	1,757.6	877.5	**2,585.6**
Taxation	(104.6)	(647.9)	(331.8)	**(946.1)**
Profit for the year	84.7	1,109.7	545.7	**1,639.5**
Attributable to:				
Equity holders of the Company	29.0	786.0	380.0	**1,145.8**
Minority interests	55.7	323.7	165.7	**493.7**
	84.7	1,109.7	545.7	**1,639.5**
ASSETS AND LIABILITIES				
Current assets	3,498.6	4,956.0	8,657.2	**13,644.9**
Non-current assets	4,666.0	7,294.8	9,971.8	**12,390.3**
Current liabilities	(4,854.6)	(3,039.4)	(5,145.6)	**(3,851.6)**
Non-current liabilities	(2,388.1)	(4,100.3)	(8,421.5)	**(7,018.9)**
	921.9	5,111.1	5,061.9	**15,164.7**
Equity attributable to:				
Equity holders of the Company	752.7	4,518.8	4,755.8	**13,951.9**
Minority interests	169.2	592.3	306.1	**1,212.8**
	921.9	5,111.1	5,061.9	**15,164.7**

Note: The Company was incorporated and registered as an exempted company in the Cayman Islands on 12 February 2004 and became the holding company of the Group as a result of certain business combinations transactions between companies under common control on 18 February 2004 and 31 December 2004. The financial summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Vincent H. S. Lo
(Chairman & Chief Executive Officer)
Mr. Wilfred Y. W. Wong
(Vice Chairman & Chief Operating Officer)
Mr. William T. Addison
(Managing Director & Chief Financial Officer)

Non-executive Director
The Honourable Chun Ying Leung

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

AUDIT COMMITTEE

Professor Gary C. Biddle *(Chairman)*
Dr. Edgar W. K. Cheng
Dr. Roger L. McCarthy

REMUNERATION COMMITTEE

Dr. William K. L. Fung *(Chairman)*
Mr. Vincent H. S. Lo
Professor Gary C. Biddle

COMPANY SECRETARY

Mr. Kim Lun Uy

QUALIFIED ACCOUNTANT

Mr. Derek W. Y. Feng

AUDITORS

Deloitte Touche Tohmatsu

JOINT COMPLIANCE ADVISERS

Deutsche Bank AG, Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited
J.P. Morgan Securities (Asia Pacific) Limited

LEGAL ADVISERS

Freshfields Bruckhaus Deringer

REGISTERED OFFICE

Walker House, 87 Mary Street
George Town
Grand Cayman KY1-9001
Cayman Islands

CORPORATE HEADQUARTERS

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333 Huai Hai Zhong Road
Shanghai 200021, PRC

PLACE OF BUSINESS IN HONG KONG

34/F, Shui On Centre
6-8 Harbour Road
Wan Chai, Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank Limited
The Bank of East Asia Limited

STOCK CODE

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WEBSITE

www.shuionland.com

Shui On Milestones

1971
- Shui On Group is founded by Mr. Vincent H. S. Lo

1985
- Enters into China's property market

1996
- Acquires development rights for Rui Hong Xin Cheng in Shanghai
- Acquires development rights for Shanghai Taipingqiao project

2001
- Shanghai Xintiandi North Block and Taipingqiao Lake is completed

2002
- Shanghai Xintiandi officially opens

2003
- Acquires development rights for Chongqing Tiandi in Chongqing
- Xihu Tiandi Phase 1 officially opens in Hangzhou
- Shanghai Xintiandi North Block wins Urban Land Institute Award for Excellence from the American Urban Land Institute, the first in the Chinese Mainland
- The Lakeville (Up-market Residential Zone Phase 1) launches in Shanghai

2004
- Shui On Land is established
- Corporate Avenue launches in Shanghai
- Introduction of global financial investors through share placement of US$400 million
- Acquires development rights for Knowledge and Innovation Community (KIC) in Shanghai

2005
- Acquires development rights for Wuhan Tiandi in Wuhan
- Rui Hong Xin Cheng Phase 2 launches in Shanghai
- Xihu Tiandi is awarded Platinum Precertification Certificate of the Leadership in Energy and Environmental Design Core and Shell (LEED-CS) by the US Green Building Council
- Raises US$375 million through a bond placement with warrants
- The Lakeville Regency (Up-market Residential Zone Phase 2) launches in Shanghai

2006
- Shui On Land lists on the Stock Exchange of Hong Kong, raising HK$6.8 billion
- HSBC becomes strategic partner with US$100 million investment
- Sells 19.8% indirect interest of Chongqing Tiandi to two independent strategic partners
- Shui On Land is awarded Best Client of Business Week / Architectural Record China Awards 2006
- Shanghai KIC is given the Urban Design Citation Award by AIA San Francisco, a chapter of the American Institute of Architects
- KIC Plaza (KIC Hub Area 1) and KIC Village Phase 1 launch in Shanghai



2006 Awards and Accolades

April

- **Shui On Land**
  Business Week / Architectural Record China Awards 2006 – Best Client
  Business Week, Architectural Record, McGraw-Hill Construction

- **Kunming Caohai North Shore Conceptual Master Plan**
  Business Week / Architectural Record China Awards 2006 – Planning Project
  Business Week, Architectural Record, McGraw-Hill Construction

- **Shanghai Knowledge and Innovation Community Plaza**
  Urban Design Citation Award
  American Institute of Architect San Francisco Chapter

May

- **Shanghai Xintiandi**
  2006 International Architecture Award for the Best New Global Design
  The Chicago Athenaeum Museum of Architecture and Design

July

- **Chongqing Tiandi (Lot B1-1/01 residential project)**
  Housing Quality "AA" Precertification Award
  Chongqing Municipal Construction Commission

- **Shanghai Rui Hong Xin Cheng Phase 2**
  Gold Medal of Shanghai's 2006 Most Popular Property Competition
  Shanghai Newspaper Office and Shanghai Real Estate Association

December

- **Wuhan Tiandi**
  2006 Value Enhancement of City - Special Contribution Award
  Hubei Daily and CIHAF Mainstream Media Union

- **Shanghai Rui Hong Xin Cheng Phase 2**
  Top 10 Fully Furnished Buildings in Shanghai
  Shanghai Real Estate Association

- **The Lakeville Regency**
  Magnolia Award for Towers 1, 2, 7 and 8
  Shanghai Construction Trade Association

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SHUI ON LAND