

STRATEGIC

GROWTH

REACHING NEW HORIZONS

SHUI ON LAND LIMITED

ANNUAL REPORT 2007

Strategic Growth Reaching New Horizons

As we enter 2008, we are taking major steps forward in our vision of transforming some of China's leading cities, knowledge centres, and tourism and cultural hubs. That is why we have chosen "Strategic Growth" as the theme of this year's annual report. Our projects span over many years and this has provided us a good base to work on a nine-year profit plan.



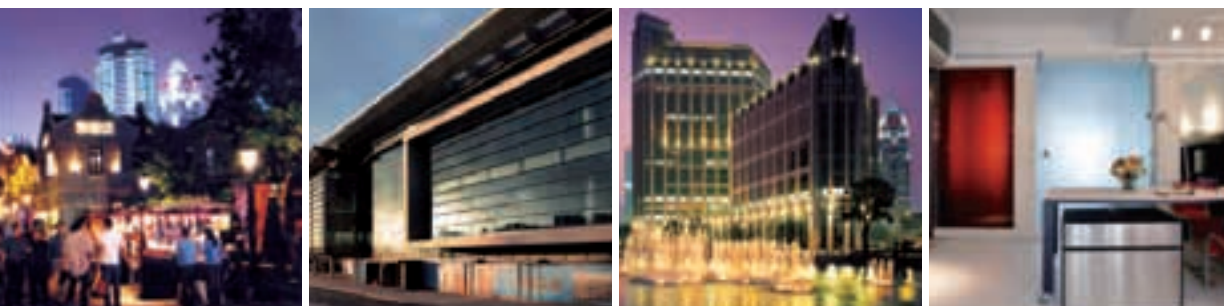
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INNOVATIVE DEVELOPER FOR CHINA

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 13.1 million sq.m. of gross floor area (GFA), including public facilities, and currently has eight projects in various stages of development in the city centres of Shanghai, Hangzhou, Chongqing, Wuhan, Dalian and Foshan. 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.

As one of China's most visionary and innovative property developers, Shui On Land applies its hallmark approach of master planning to all of its projects to ensure that our developments are fully consistent with government objectives in economic development and urban planning while simultaneously incorporating local historical and cultural characteristics into our designs and usages.



Vision

To be the premier,
innovative property
developer in China

Brand Promise

Innovation • Quality • Excellence

Shui On Spirit

Integrity • Dedication •
Innovation • Excellence



We sustain our vision by integrating quality into all our operations and aspiring to world-class standards of excellence in management, planning, execution and corporate governance.

OUR COMMITMENT TO

Investors

We are committed to providing attractive and sustainable returns for our investors based on a well-planned, long-term growth trajectory and strategic direction.

Customers

The expectations of our customers are always at the forefront of our thinking and planning, enabling us to provide high quality and add value to all our projects.

Community

We continually look for innovative ways to build and contribute to the community.

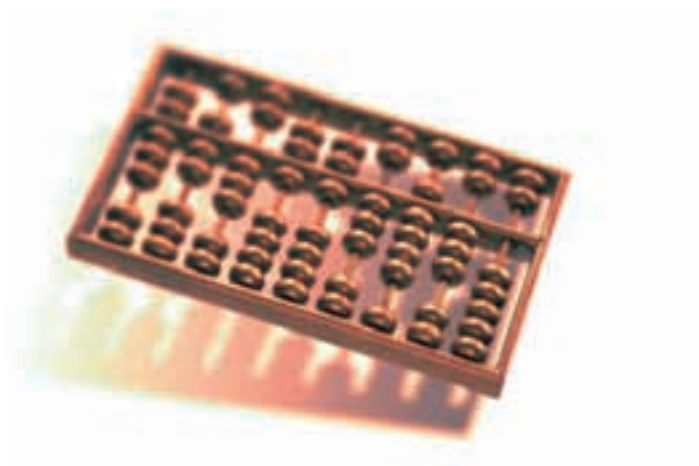
Environment

As an experienced and socially responsible property developer, Shui On Land considers respect for the environment as a key ingredient to the long-term development of the communities in which we are involved.

Employees

Shui On Land believes that care for our employees and for the development of their talents is crucial to the long-term success of the Company.

FINANCIAL HIGHLIGHTS



Operating Results For the year ended 31 December

	2007	2006	2007	2006
	HK\$'million	HK\$'million	RMB'million	RMB'million
Turnover	4,689	4,615	4,570	4,729
Represented by:				
Property development	4,191	4,180	4,085	4,283
Property investment	487	419	474	429
Others	11	16	11	17
Gross profit	2,755	3,065	2,685	3,140*
Profit attributable to shareholders	2,526	1,118	2,462	1,146
Underlying profit attributable to shareholders**	2,114	1,499	2,060	1,536
Basic earnings per share	HK61 cents	HK47 cents	RMB59 cents	RMB48 cents
Dividend per share				
Interim paid	HK5 cents	–	HK5 cents	–
Proposed final	HK10 cents	HK6 cents	HK10 cents	HK6 cents
Full year	HK15 cents	HK6 cents	HK15 cents	HK6 cents

Note:

Except for dividend per share which is originally denominated in HK dollar, all of the HK dollar figures presented herein are shown for reference only and have been arrived at based on the exchange rate of RMB1 to HK\$1.026 for 2007 and RMB1 to HK\$0.976 for 2006, being the average exchange rates that prevailed during the respective years, in accordance with the International Accounting Standard 21 "Effects of Charges in Foreign Exchange Rates".

Financial Position As of 31 December

	2007	2006
	RMB'million	RMB'million
Cash and bank balances	3,697	5,654
Total assets	29,879	26,035
Shareholders' equity	15,878	13,952

Financial Ratio As of 31 December

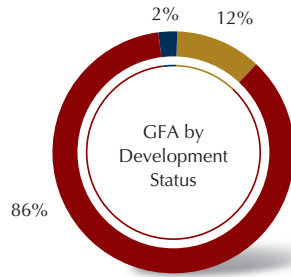
	2007	2006
Current ratio (times)	1.6	3.5
Net gearing ratio***	20%	5%

* Certain comparative amounts have been restated to conform to current year's presentation. Specifically, Land Appreciation Tax has been reclassified from cost of sales to taxation in the consolidated income statement.

** Derived after excluding the effect of revaluation of investment properties and fair value adjustment on derivative financial instruments.

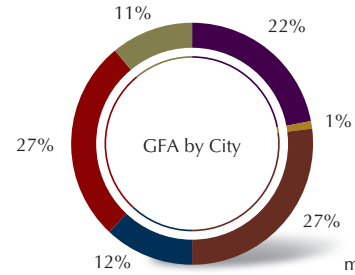
*** Calculated on the basis of dividing the excess of the sum of bank loans and notes payable over the sum of bank balances and cash by total equity. Convertible redeemable preference shares were treated as equity in 2005.

Landbank As of 31 December 2007



million sq.m.

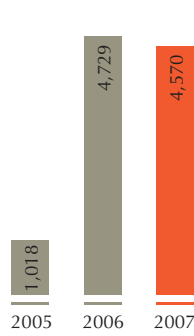
Completed properties held for investment, operation and sale	0.28
Properties under development	1.58
Properties for future development	11.26
Total GFA	13.12
Attributable GFA to the Group	10.01



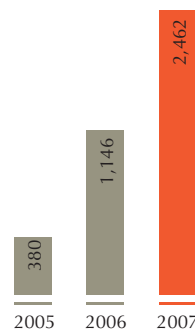
million sq.m.

Shanghai	2.88
Hangzhou	0.08
Chongqing	3.60
Wuhan	1.52
Dalian	3.54
Foshan	1.50
Total GFA	13.12
Attributable GFA to the Group	10.01

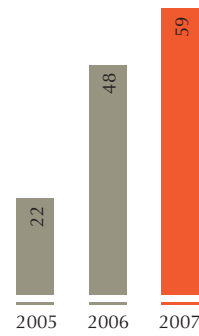
Turnover
(RMB'million)



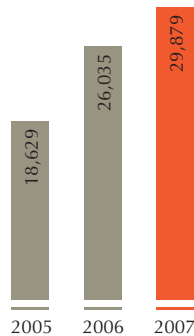
Profit Attributable to Shareholders
(RMB'million)



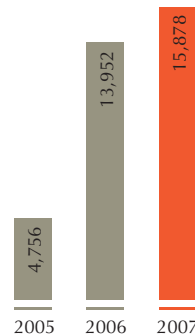
Basic Earnings per Share
(RMB cents)



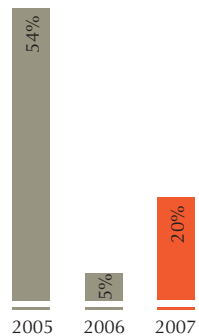
Total Assets
(RMB'million)



Shareholders' Equity
(RMB'million)

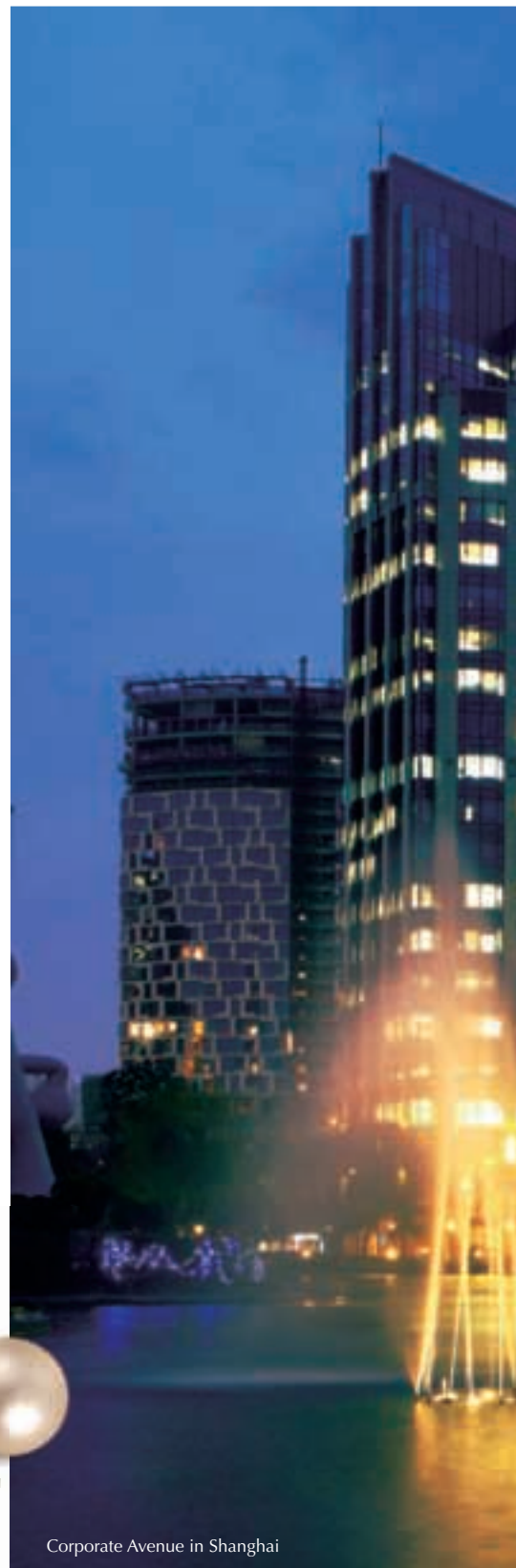


Net Gearing Ratio***
(%)



Core Developments in Key Cities

Eight of our projects, in various stages of development, are situated in locations chosen for their geographical and functional ability to provide unique value for the city's development and its sustainable growth. The locations chosen are in Shanghai, Hangzhou, Chongqing, Wuhan, Dalian and Foshan.



Corporate Avenue in Shanghai





Transforming Communities with Sensible Design

Shui On Land's extensive and scalable projects are created in partnership with local authorities to align with the cities' development plans. In the process we transform whole communities into vibrant, sustainable and integrated living and working spaces that embrace both the old and the new.







Riviera in Chongqing



Thoughtful Planning Brings People Together

At Shui On Land, we value our customers, the people who live, work, play and learn in our developments and we offer them outstanding services and facilities to create a bright and lively community.



Creating Synergies Through Strategic Partnerships

Through strategic partnerships we are able to share development risks, speed up the development programmes and investment returns, release capital and resources for more projects, and leverage the complementary expertise of our partners.

KIC Plaza in Shanghai




Bridging East & West Old & New

As one of China's most visionary and innovative property developers, Shui On Land applies its hallmark approach of master planning to ensure that our developments create a unique environment that harmoniously integrates historical elements, local culture with modern facilities.



Xintiandi in Shanghai





**“ I remain confident of the
Company’s potential for
robust long-term growth.”**

CHAIRMAN'S STATEMENT



Strategic Growth

2007 was the second year since Shui On Land became a public company. It was a year in which we consolidated our position as one of the Chinese Mainland's most innovative and visionary property developers while strengthening our platform for further strategic growth.

Now in our second year of listing on the Stock Exchange of Hong Kong, our business performance was strong and I remain confident of the Company's potential for robust long-term growth.

I am pleased to report that for the year ended 31 December 2007, we achieved a turnover of RMB4,570 million or HK\$4,689 million, profit attributable to shareholders of RMB2,462 million or HK\$2,526 million and underlying profit attributable to shareholders, excluding the revaluation of investment properties and fair value adjustment on derivative financial instruments, of RMB2,060 million or HK\$2,114 million, and basic earnings per share were RMB59 cents or HK61 cents. Our Board of Directors has proposed a final dividend of HK10 cents per share for the year 2007. This, together with the interim dividend of HK5 cents, takes the total to HK15 cents per share for the year.*

Land Purchases and Strategic Partnerships

In line with our long-term planning and vision, all our developments in the Chinese Mainland continued to perform well. In Shanghai, the sales of residential units at the Lakeville Regency in Taipingqiao and Knowledge and Innovation Community (KIC) were well received by the market. Wuhan Tiandi made remarkable progress with all the residential units of its first phase sold out in just over six hours.

We forged strategic partnerships to bring in expertise and experience, in addition to financial resources, and started to see their benefits in helping to move forward our large-scale projects on both international and local levels. We intend shortly to bring in strategic partners to develop some of our residential parcels in order that we can release our internal resources for new projects which we believe will create more value for our shareholders.

* Except for dividend per share which is originally denominated in HK dollar, all of the HK dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1 to HK\$1.026 for 2007 and RMB1 to HK\$0.976 for 2006, being the average exchange rates that prevailed during the respective years in accordance with the International Accounting Standard 21 "Effects of Changes in Foreign Exchange Rates".

“ We forged strategic partnerships to bring in expertise and experience, in addition to financial resources. ”

In November, Shui On Land has acquired by auction the development and land use rights of the land in Zumiao Donghua Lane in Foshan City, Guangdong, with a buildable gross floor area of 1.5 million sq.m. The Company will capitalise on the huge potential and rapid growth of Foshan to develop a quality city-core integrated project, aiming to facilitate the transformation of the city into a major economic and cultural hub in Southern China.

In total, we have acquired a landbank or approximately 13.1 million sq.m. of buildable gross floor area (10 million sq.m. attributable to the Group) in six of China's most promising and fast-developing cities, which will be a strong foundation to build the Company's future growth performance.

A Long-term Vision Grounded in Reality

Our ability to play a significant role in transforming cities with our projects in the Chinese Mainland is based on our partnerships with the government and a firm grasp of market trend and conditions. We are further expanding our unique business model from comprehensive city-core integrated projects to include knowledge communities and tourism facilitated developments as we see huge growth potential in China's IT technology and tourism sectors.

As we enter 2008, we are taking major steps forward in our vision of transforming some of China's leading cities, knowledge centres, and tourism and cultural hubs. That is why we have chosen "Strategic Growth" as the theme of this year's annual report. Our projects span over many years and this has provided us a good base to work on a nine-year profit plan. We have set high targets for the Company to achieve and the on-going nature of our mega projects made our long range planning more feasible and practicable.

A Property Market with Huge Potential

Despite the volatility of the global economy, China's economy continues to grow strongly and the property market is part of its onward momentum.

In 2007, China achieved a GDP growth rate of 11.9%, the fifth successive year of double-digit growth.

As a supporter of a healthy and stable market, we have welcomed the Chinese Government's macro-economic controls and measures to prevent overheating. We also believe that market forces have an ultimately stabilising effect over the long term, and that the Chinese Government will continue to support this trend. Above all, we are confident of the long-term growth and strength of the market, despite predictions of volatility and speculation about its near-term direction.

To grow with the cities is Shui On Land's philosophy in social responsibility. We will continue to work closely with governments at all levels to enhance the quality of life and speed up the pace of social and economic development in the cities where we have presence, as we believe that all stakeholders will benefit from our contribution to the overall prosperity of the community.

Our Vision for Sustainable Development

We are proud of the achievements we have made in corporate social responsibilities and in corporate governance. We believe in sustainable growth and in providing a trusted, transparent and credible framework for the reporting and management of such growth. Last December, we were honoured to receive the Hong Kong Corporate Governance Excellence Award 2007 presented by the Chamber of Hong Kong Listed Companies in recognition of our corporate governance efforts.

We will continue to ensure that the growth we are experiencing is sustainable. Attaining sustainability certification for every project we build and plan is a declared policy of the Company.

Our Directors and Staff

Shui On Land would not have reached its position as a leading property developer in the Chinese Mainland without the energy and dedication of our management and staff. We have always regarded our people as the key to our success and our most important asset. We are proud of our people policies and our achievements in caring for our staff and their future development.

Last year, as we moved forward with our strategies and plans, we have implemented the project-based organisation with project directors overseeing different projects rather than centrally managed. Day-to-day management of the Company will continue to be led by the Executive Committee comprising three Managing Directors: Mr. William T. ADDISON (Finance), Mr. Louis H.W. WONG (Project Management), and Mr. Aloysius T.S. LEE (Commercial). As part of our strategic framework and within a reasonable time frame, the roles of Chairman and Chief Executive Officer will be divided and a successor to the Chief Executive Officer position will be sought within the Company, allowing me to take a step back from execution to focus on the macro trend and to lead in the formulation of growth strategy for the Company.

Following our listing in October 2006, share options were made available to all our staff ranging from amahs to Managing Directors. This has had an appreciable effect on our staff's sense of investment in our growth and success, and is part of our nurturing of a culture of employee ownership.

As we look towards the future, I am confident that the strength of the Shui On Land team will enable us to further build on our goal of becoming a leader in the world's largest property market. I have no doubt that this market will continue to strengthen over time, and that with our outstanding team of Shui On People, we will rise to the challenge and achieve further growth for our shareholders.



Vincent H. S. LO

Chairman & Chief Executive Officer

Hong Kong, 17 April 2008

MANAGEMENT CHAT ROOM



For **Mr. Vincent H.S. LO**
Chairman & Chief Executive Officer

Q: How will strategic partnerships help your business to grow?

A: We forge strategic partnerships to bring in experience and know-how in addition to financial resources. This demonstrates the flexibility of our business model. 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 the complementary expertise of our partners. These relationships with architects, developers, contractors, consultants and other investors can be replicated in our other projects in the same city or elsewhere, if and when such relationships prove to be beneficial and are working well, thereby enhancing our operational efficiency.

Our partners can also be local and provincial governments, with whom we make detailed analyses of the cities we invest in and we create a master plan for our development to help unleash the cities' ultimate value. For example, the Company works closely with the Yangpu District Government to develop a city-core project Knowledge and Innovation Community (KIC). We aim to transform Yangpu from an industrial and manufacturing district to a leading knowledge and innovation hub fostering technological innovation and entrepreneurship. KIC will be a multi-function community for people to "live-work-play" based on our unique design concept. We are now partnering with the municipal governments of Yunnan to complement their concerted efforts to promote and upgrade the tourism sector in four cities, namely Kunming, Lijiang, Dali and Shangri-La, by developing upscale tourism and lifestyle community resorts.



Mr. Vincent H.S. LO



Mr. William T. ADDISON



Mr. Louis H.W. WONG



Mr. Aloysius T.S. LEE

For **Mr. William T. ADDISON**
Managing Director &
Chief Financial Officer

Q: In addition to achieving financial targets, what other business objectives does Shui On Land have?

A: Strengthening our corporate governance framework. We believe that corporate governance will protect and drive forward our sustainable growth. Shui On Land's highly experienced management team operates in accordance with international industry best practices and strong corporate governance standards. In 2004, we established an Audit Committee and a Remuneration Committee to assist the Board in its work and to ensure these functions are the subject of rigorous, independent review. Since our listing in October 2006, Shui On Land's commitment to corporate governance has been demonstrated by including a majority of independent non-executive directors (INEDs) on the Board, and having more INEDs than the number required by Hong Kong Listing Rules. In 2007, the Hong Kong Chamber of Listed Companies awarded Shui On Land the Hong Kong Corporate Governance Excellence Award 2007.

Q: How will you protect and build your corporate governance framework and strategies in future?

A: Enhancing corporate governance is not simply a matter of applying and complying with the Code on Corporate Governance practices of the Hong Kong Stock Exchange but about promoting and developing an ethical and healthy corporate culture among our stakeholders. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments.

For **Mr. Louis H.W. WONG**
Managing Director –
Project Management

Q: What are the challenges of building property projects that address environmental and preservation concerns?

A: We have eight projects situated in locations we have chosen for their geographical and functional ability to provide unique value for the city's development and sustainable growth. Several of these projects have special environmental and historical characteristics that have been built into the master plan. We thereby ensure that our developments create a unique environment that is harmoniously integrating historical elements and a new culture and ambience which is derived from the old one. We also make sure that the property projects are built on sustainable and environmental protection principles.

Q: How have these concepts been implemented in recent projects?

A: Foshan possesses a rich history of over 1,300 years. The centrepiece of Foshan's cultural heritage is Zumiao, an immaculately preserved 900 years old Buddhist temple, which serves as the heart of the city. The master plan for our city-core development at Foshan Lingnan Tiandi includes office, retail, hotel, cultural facilities and residential complexes in an integrated community, as well as the Zumiao temple.

In a similar case, the proposed master plan for our Kunming development includes Dagan Park, a site with great historical significance, and incorporates sustainable development concepts and sensitivity to the surrounding environment.

For **Mr. Aloysius T.S. LEE**
Managing Director – Commercial

Q: What is your strategy to sustain high growth in commercial property development?

A: Strategically, we ride on the premium brand name and property management expertise of Shui On Land and our business partners to attract renowned retail brands and global corporations to rent our shopping malls and office buildings, respectively. We are confident that the demand for commercial properties will continue to grow rapidly.

Q: What new commercial projects will be launched in 2008?

A: Commercial properties form an integral part of our new projects. Shui On Land jointly develops Dalian Tiandi • Software Hub with Shui On Construction and Materials Limited and Yida Group. The project will cater for the international software and business process outsourcing industries. Shui On Land has also been awarded the development and land use rights of Zumiao Donghua Lane in Foshan City, Guangdong. In Yunnan, we have signed a framework agreement with the provincial government and will work closely with the municipal governments of Kunming, Lijiang, Shangri-La and Dali to develop further tourism oriented projects.

ACHIEVEMENT HIGHLIGHTS

April

Ministry of Commerce presented Rui Hong Xin Cheng the title of National Model Community of Commercial Demonstration



May

Signed an agreement to jointly develop Dalian Tiandi • Software Hub with Shui On Construction and Materials Limited and Yida Group

August

Rui Hong Xin Cheng (Phase 2) received the Excellent Community Planning and Design Award (a category award under 2007 Zhan Tian You Grand Awards) organised by the Working Guidance Committee of Residential Construction of China Civil Engineering Society, and the Committee of Residential Technology Development Project Fund for Zhan Tian You Civil Engineering

Forged strategic partnership with China Telecom to build a digital community that integrates technology into daily life



2006 Annual Report received Gold Award for design in the category of Overall Annual Report - Property at the international ARC Awards



Shui On Group and Yunnan Provincial Government signed a framework agreement on concerted efforts to develop the tourism industry with full amenities including property in Yunnan. The first stage of the project will include development plans in Kunming, Lijiang, Dali and Shangri-La



June

Sold 25% and 49% interests in Wuhan Tiandi and Shanghai Luwan District Taipingqiao Lot 116 respectively to strategic investors to potentially accelerate the development schedules and allow the Group to undertake more new projects

September

Inauguration of the large-scale, mixed-use Dalian Tiandi • Software Hub





Hong Kong Corporate Governance Excellence Award 2007

October

Ranked among the top 5 brands in the Responsible Property Developer in China selection organised by Shanghai Securities News



Successfully bid for the development and land use rights of the land in Zumiao Donghua Lane, Foshan City, Guangdong Province for integrated development projects to tap into Foshan's huge potential and rapid growth, and to build an economic and cultural hub in Southern China



88 Xintiandi was named the "Best Boutique Hotel" in the World Traveller Media's Top 10 Awards



November

Signed a non-binding Memorandum of Understanding with Dali Municipal Government for joint development in North Area, Hai Dong New District, Dali, Yunnan Province



December

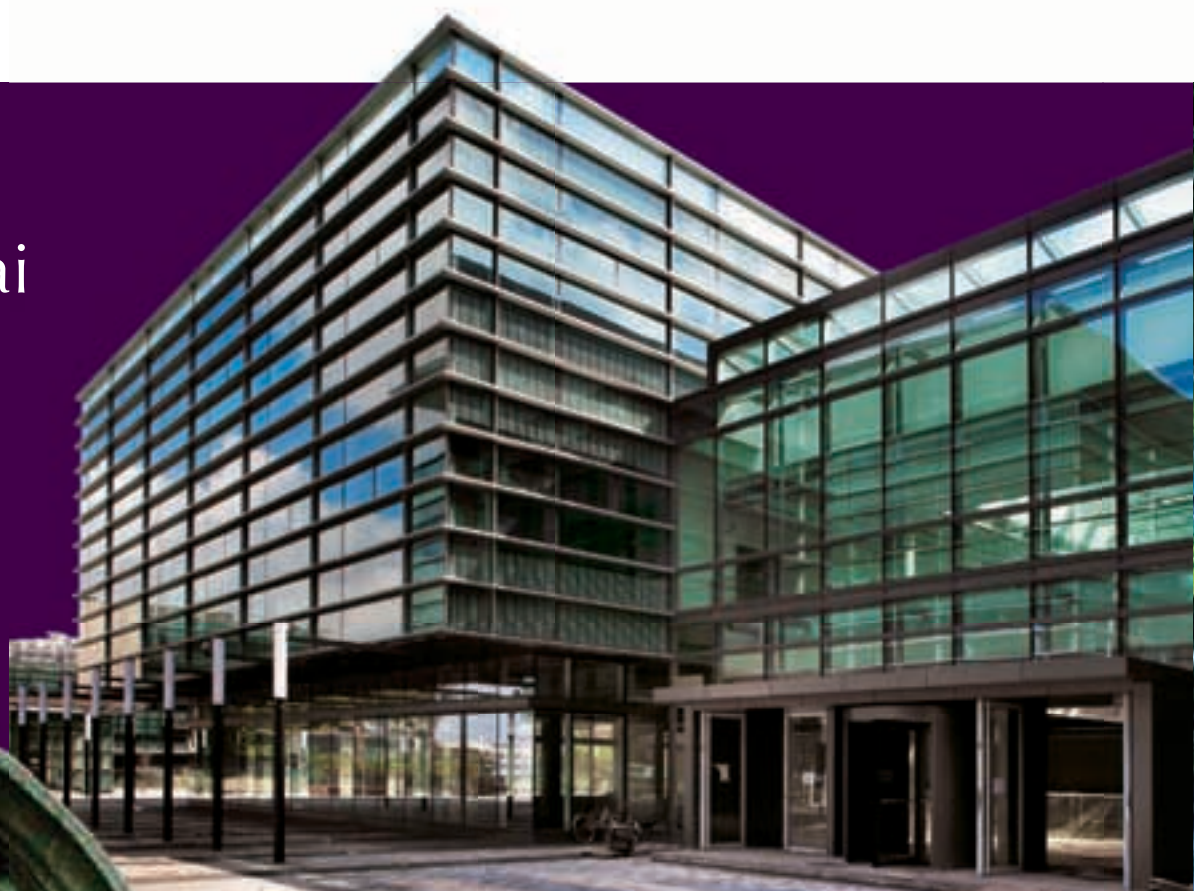
Received the Citi Award for Corporate Governance Excellence at Hong Kong Corporate Governance Excellence Award 2007 organised by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University



Knowledge and Innovation Community Village (Phase II) passed the national AAA pre-evaluation of residential buildings' performance, becoming one of the first Shanghai projects passing the pre-evaluation of the "Technical Standard for Performance Assessment of Residential Buildings" implemented nationwide in 2006

Shanghai

China's premier
commercial and
financial centre





Hangzhou

A major tourism destination in China known as "Paradise on Earth"



Chongqing

The core of the economic belt of the upper Yangtze River



Dalian

An important trade and software hub
in north-eastern China



Wuhan

A leading commercial and
manufacturing centre in
central China

Yunnan

A province of world's magnificent landscape, ecology and cultural diversity



Foshan

A thriving manufacturing base in the Pearl River Delta



MANAGEMENT DISCUSSION AND ANALYSIS

During the year, Shui On Land continued its strategy of master planning and developing large-scale, mixed-use city-core projects and integrated residential developments situated in locations chosen for their geographical and functional ability to provide unique value for the city's development and its sustainable growth.

At the same time, we further expanded our unique business model to include knowledge communities and tourism oriented developments, since we see huge growth potential in China's IT technology and tourism sectors.

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Shanghai



Shanghai Taipingqiao Lake & Park

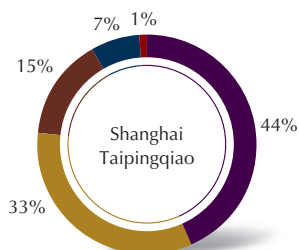


Shanghai Taipingqiao

The Shanghai Taipingqiao project is a large-scale city-core redevelopment project with an emphasis on the preservation and restoration of historic buildings and the establishment of an integrated community. The project is situated just next to Huai Hai Zhong Road, one of Shanghai's main commercial streets.

The following shows the mix of residential, office, retail and other properties based on the master plan of the Shanghai Taipingqiao project upon completion:

GFA by Usage



	sq.m.
Residential	511,000 ¹
Office	391,000
Retail	179,000
Hotel/Service Apartment/School	79,000
Clubhouse	15,000
Total	1,175,000¹

(1) Of which 175,000 sq.m. of GFA have been sold as of the end of the financial year
 (2) All GFA quoted above includes leasable and saleable areas only

Shanghai

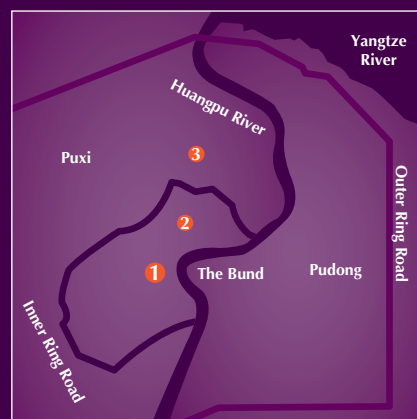
Shanghai, with its strategic location at the dragonhead of the Yangtze River Delta region, is China's leading commercial and financial centre. It has the largest economy among China's cities and is rapidly moving towards its long-term goal of becoming an international financial, economic, trading and shipping centre by 2020.

By the end of 2007, Shanghai had 604 financial institutions, 184 multinational companies had made their regional headquarters there and 244 research and development centres of overseas companies had been established in the city.

Luwan District, Shanghai

Luwan District is part of the CBD of Shanghai. It covers 8.1 sq.km. and is well-served by good transportation links. There are more than 100 historical sites and buildings within the Luwan District, e.g. the first Congress Hall of the Communist Party of China, the former home of Zhou Enlai, and the former home of Dr. Sun Yatsen.

The Luwan District is developing rapidly into a major service hub for Shanghai, with the service industry accounting for over 85% of the GDP of the district.



- 1 TAIPINGQIAO
- 2 RUI HONG XIN CHENG
- 3 KNOWLEDGE AND INNOVATION COMMUNITY (KIC)



Shanghai Xintiandi



Corporate Avenue

The Shanghai Taipingqiao project consists of 19 plots of land and four main zones:



Shanghai Xintiandi

The historical preservation and restoration zone is a retail, F&B and entertainment area with about 57,000 sq.m. and was opened in mid-2001. Xintiandi, which means “New Heaven and Earth” in Chinese, has become a landmark in Shanghai due to its unique blend of Shikumen and modern architectures.



Residential Zone

The residential zone is located south of the Taipingqiao Lake adjacent to Shanghai Xintiandi. Phase 1 of the residential zone, which is known as The Lakeville, was completed and all units were sold in 2003. Phase 2, which is known as Lakeville Regency, was launched in 2006 and almost all units were sold in 2007. Construction of the Phase 3 of the residential zone with approximately 82,000 sq.m of GFA is in progress and is planned to be launched in stages in 2008.



Corporate Avenue

The corporate headquarters zone with a total planned GFA of approximately 416,000 sq.m. consists of Grade A office buildings along the Taipingqiao Lake. Phase 1 of the Corporate Avenue (Lot 110) was completed in March 2004 with a GFA of about 83,000 sq.m. The relocation of Phase 2 of the Corporate Avenue zone is in progress.

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 GFA of approximately 49,000 sq.m., which consists of a Broadway-style theatre complex, and retail, F&B and entertainment outlets.



Lakeville Regency



88 Xintiandi



Rui Hong Xin Cheng (Phase 2)

瑞虹新城
市中心国际新镇





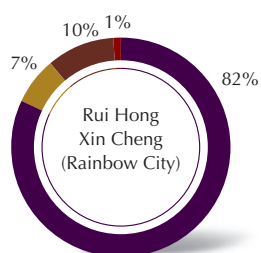
Rui Hong Xin Cheng (Rainbow City)

Rui Hong Xin Cheng is an integrated residential development catering to the emerging upper middle class in Shanghai. Since its launch, Rui Hong Xin Cheng has revitalised the existing neighbourhoods into an upper-middle class community, complete with modern amenities and services. It is located in a strategic location in Hongkou District and is well served by a metro station directly under the development.

Since its launch, about 186,000 sq.m. of GFA in Rui Hong Xin Cheng have been sold. Construction of the residential Lot 8 with approximately 44,000 sq.m. of GFA is in progress.

The following shows the mix of residential, office, retail and other properties based on the master plan of the Rui Hong Xin Cheng project upon completion:

GFA by Usage



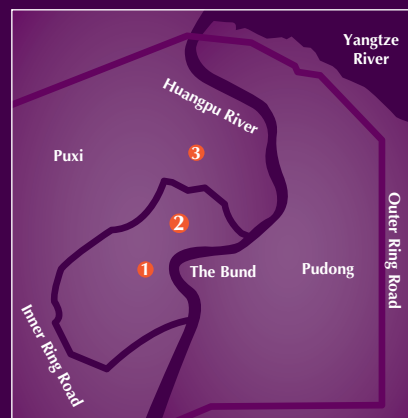
	sq.m.
Residential	1,046,000 ¹
Office	85,000
Retail	132,000
Clubhouse	7,000
Total	1,270,000 ¹

(1) Of which 186,000 sq.m. of GFA have been sold as of the end of the financial year
 (2) All GFA quoted above includes leasable and saleable areas only

Hongkou District, Shanghai

Hongkou District is situated in the north-eastern part of downtown Shanghai with a registered population of about 789,000. It covers an area of 23.4 sq.km.

North Sichuan Road in Hongkou District is a well-known traditional commercial street in Shanghai, and is being transformed into a bustling modern retail and entertainment area. The North Bund, which is earmarked as a major development hub for shipping and logistics services in Shanghai, is host to more than 2,000 shipping and logistics companies. Hongkou District has a deep-rooted cultural heritage and is famous for housing the former residences of many famous modern Chinese intellectuals.



- 1 TAIPINGQIAO
- 2 RUI HONG XIN CHENG
- 3 KNOWLEDGE AND INNOVATION COMMUNITY (KIC)



KIC Plaza

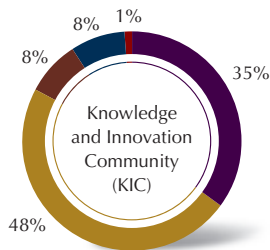


Knowledge and Innovation Community (KIC)

Knowledge and Innovation Community, or KIC in short, is a city-core multi-function community project with an emphasis on the knowledge industry. This project, adjacent to one of the four city sub-centres Wujiaochang designated by the Shanghai Municipal Government, is planned to transform Yangpu District from an industrial and manufacturing district in the 19th century to a knowledge and innovation hub.

The following shows the mix of residential, office, retail and other properties based on the master plan of the Knowledge and Innovation Community project upon completion:

GFA by Usage



	sq.m.
Residential	183,000 ¹
Office	249,000 ¹
Retail	41,000
Hotel/Service Apartment/School	44,000
Clubhouse	3,000
Total	520,000 ¹

(1) Of which 37,000 sq.m. of GFA in residential and 21,000 sq.m. of GFA in office have been sold as of the end of the financial year

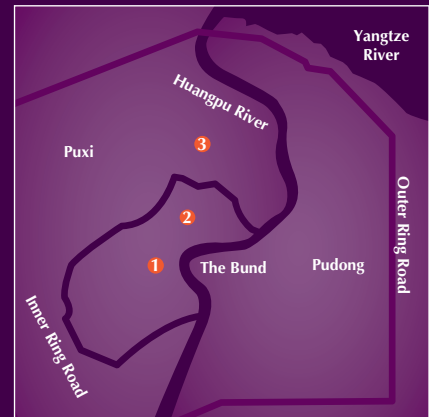
(2) All GFA quoted above includes leasable and saleable areas only

Yangpu District, Shanghai

Yangpu District is located in the north-eastern part of downtown Shanghai and covers an area of 60.7 sq.km., including some 15.5 km. of waterfront along the Huangpu River.

Wujiaochang or Five Corners in Yangpu District is being transformed into a knowledge industry and support services hub to complement Shanghai's overall development plan of becoming the service centre of China. It has a development area of 2.2 sq.km.

Yangpu District is home to 14 universities and colleges, 22 key state laboratories and 15 scientific research institutes. This has given it an unparalleled competitive advantage in its quest to become the intellectual hub of Shanghai.



- 1 TAIPINGQIAO
- 2 RUI HONG XIN CHENG
- 3 KNOWLEDGE AND INNOVATION COMMUNITY (KIC)



KIC Plaza



KIC Village



KIC Village



Jiangwan Sports Centre

The master plan consists of four major zones with a GFA approximately 520,000 sq.m. They are:

KIC Plaza

The commercial hub and nerve centre of KIC comprise office buildings, learning centres, exhibition halls, conference and convention facilities, retail and F&B outlets. The first phase of KIC Plaza with about 52,000 sq.m. of GFA is an open piazza encircled by four smart office buildings humming with a vibrant cultural ambience. It was completed in 2006. Phase 2 of KIC Plaza with approximately 48,000 sq.m. of GFA, is under construction.

KIC Village (Live and Work Area)

A mixed-use area comprising low-rise buildings with offices facing the street front and courtyard residential units at the back. The office units are designed with the needs of the start-up entrepreneurs in mind and the residential units are targeted at professionals working in the knowledge industry and faculty members in the universities in the surrounding area. The first phase, R1, with a total GFA of about 86,000 sq.m., was completed in 2006 and most of the units were sold.

Jiangwan Sports Centre

A multi-functional, all weather community sports complex which comprises a sports stadium, gymnasium and swimming pool. A wide spectrum of exercise and training programmes such as football, tennis, and basketball, brings sports and entertainment into the everyday life of the residents and tenants in the community.

KIC Tech Park

In the north of KIC Plaza, KIC Tech Park aims to be the blueprint for the development of a digital community in China. Hi-tech companies will be invited to locate their R&D facility here.

Hangzhou



Xihu Tiandi

Xihu Tiandi

Xihu Tiandi is located strategically by the southern edge of the scenic and fabled West Lake (Xihu) in Hangzhou. The project is a mixed-use retail, F&B and entertainment development consisting of approximately 46,000 sq.m. of GFA. It is designed with a blend of traditional and modern architectures, and offers an unique experience for visitors, whether they are tourists or local residents of Hangzhou.

Phase 1 of Xihu Tiandi was completed in April 2003. It consisted of selected restaurants, cafes, retail shops and entertainment outlets in a park environment. It has about 6,000 sq.m. of GFA.

Xihu Tiandi obtained the Pre-certification of the Leadership in Energy and Environmental Design Core and Shell (LEED-CS) Platinum level by the US Green Building Council in 2005.



Hangzhou

Hangzhou, known as “Paradise on Earth” in ancient China, is a major tourism destination in China. It is the provincial capital of Zhejiang Province, and is about 250 km from Shanghai. The scenic West Lake is one of the most popular tourism spots for Chinese and international tourists. Driven by tourism and other related services, Hangzhou GDP has been growing in double digits and in 2007 it increased by 14.6%.



1 XIHU TIANDI

Chongqing



The Riviera



雍江苑
THE RIVIERA



Chongqing Tiandi

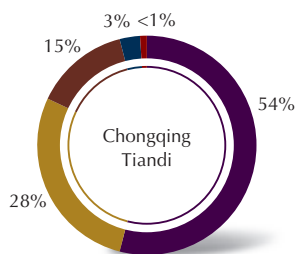
The Chongqing Tiandi project is a city-core redevelopment project comprising, on completion, an estimated GFA of approximately 2.8 million sq.m. The project is situated on the south bank of the Jialing River, just upstream of the confluence of the Yangtze and Jialing Rivers. It is located in Yuzhong District, adjacent to Chongqing's CBD.

The Chongqing Tiandi project is developed with the goal of establishing a hub to support Chongqing's extensive industrial and agricultural sectors. In Chongqing, there are an estimated 15,000 industrial enterprises and 2.1 million hectares of arable land.

The master plan of the Chongqing Tiandi project includes a man-made lake with pavilions and walkways along the shore, a commercial core comprising Grade A office buildings, exhibition and conference facilities, luxury hotels, retail and entertainment outlets. Residential clusters on the hillside were designed to replicate Chongqing's traditional hill-town characteristics and offer scenic views of the lake and the river. Phase 1 of the residential development with approximately 107,000 sq.m. of GFA was launched in early 2008.

The following shows the mix of residential, office, retail and other properties based on the master plan of the Chongqing Tiandi project upon completion:

GFA by Usage



	sq.m.
Residential	1,526,000
Office	799,000
Retail	423,000
Hotel/Service Apartment	91,000
Clubhouse	9,000
Total	2,848,000

(1) All GFA quoted above includes leasable and saleable areas only

Chongqing

Chongqing is located to the east of Sichuan Province and is at the core of the economic belt of the upper Yangtze River. Chongqing has seen unprecedented growth in recent years due to the construction of the Three Gorges Dam Project and China's "Go West" policy with Chongqing as the focal point.

Chongqing has 31.4 million residents and aims to achieve development stage whereby major economic and social indicators can reach the comparable average levels of East China by 2020.



1 CHONGQING TIANDI

Wuhan



Wuhan Tiandi



The Riverview

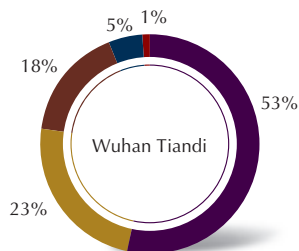


Wuhan Tiandi

Wuhan Tiandi is a city-core redevelopment 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 and Wuchang.

The master plan of Wuhan Tiandi includes Grade A office building, hotel, residential, retail, F&B and entertainment outlets. The first phase of the residential area in Site A was launched in 2007 and the entire lot of about 29,000 sq.m. of GFA was sold out within half a day. Phase 1 of the retail, F&B and entertainment area resembling Shanghai Xintiandi with about 12,200 sq.m. of GFA was launched in 2007, and the leasing activity will continue in 2008. Lot A7, a residential phase in Site A with approximately 39,300 sq.m. of GFA, is scheduled to launch in 2008.

GFA by Usage



	sq.m.
Residential	748,000 ¹
Office	329,000
Retail	248,000
Hotel/Service Apartment	67,000
Clubhouse	7,000
Total	1,399,000 ¹

(1) Of which 29,000 sq.m. of GFA have been sold as of the end of the financial year
 (2) All GFA quoted above includes leasable and saleable areas only

Wuhan

Wuhan is located at the junction of Yangtze and Han Rivers, and is in the middle of Hubei Province, for which it serves as the provincial capital. With its strategic location, Wuhan has developed into a major commercial and manufacturing centre in central China, especially for automobiles, iron and steel and in recent years, hi-tech industries.

Wuhan has a population of 8.58 million and consists of three parts, namely Hankou, Hanyang and Wuchang. Its GDP has been growing in double digits in recent years.



1 WUHAN TIANDI

Dalian



Dalian Tiandi • Software Hub



大连天地
软件园
DALIAN TIANDI software hub

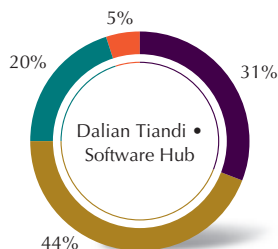
Dalian Tiandi • Software Hub

Dalian Tiandi • Software Hub (previously known as Dalian Software Park) is a large-scale mixed-use development, located adjacent to Dalian Software Park Phase 1, west of Dalian city. The project covers a total land area of approximately 6.33 million sq.m. comprising six sites: Hekou Bay, Valley Site, Huangnichuan Road North, Huangnichuan Road South, Nanhaitou and Resort Hotel Site.

The total planned GFA is approximately 3.5 million sq.m. consisting of software park office, residential, commercial, education facilities, hotels and an area for a Xintiandi type development etc. It is the second phase of Dalian Software Park, and is designed to serve the city's fast-growing information technology outsourcing ("ITO") and business process outsourcing ("BPO") industries.

The project is a joint venture of Shui On Construction and Materials Limited, Yida Group, a Dalian-based property company behind the Dalian Software Park Phase One, and Shui On Land.

GFA by Usage



	sq.m.
Residential	1,110,000
Office (software)	1,542,000
Commercial/Hotel	704,000
Education/Research	185,000
Total	3,541,000

(1) All GFA quoted above includes leasable and saleable areas only

Dalian

Dalian is located in north-eastern China at the southern tip of Liaodong peninsula in Liaoning Province. It has a population of 6.1 million.

Dalian was traditionally an important trade centre in north-eastern China but in recent years it has transformed itself into a go-to spot in China for the exporting and outsourcing of software. Since 1998, when the drive to develop the software industry in Dalian began, sales of software have increased 70-fold and exports have increased 44-fold over the same period.



- 1 HEKOU BAY
- 2 VALLEY SITE
- 3 HUANGNICHUAN NORTH ROAD
- 4 HUANGNICHUAN SOUTH ROAD
- 5 NANHAIYOU
- 6 RESORT HOTEL SITE

Foshan



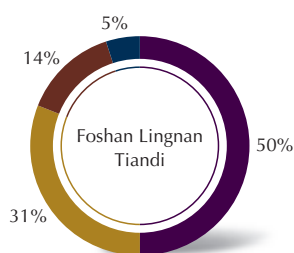
Foshan Lingnan Tiandi

Foshan Lingnan Tiandi is a large-scale city-core redevelopment project that covers about 517,000 sq.m. of land and approximately 1.5 million sq.m. of GFA. The project master plan includes office, retail, hotel, cultural facilities and residential complexes in an integrated community, similar to that of Shanghai Taipingqiao.

Two of the most well-known historical sites in Foshan, namely Zumiao and Donghuali, are located within the master plan.

Shui On Land won the tender for the land in November 2007. Construction of Phase 1 of the retail, F&B and entertainment area is planned to commence in 2008.

GFA by Usage



	sq.m.
Residential	727,000
Office	450,000
Retail	201,000
Hotel/Service Apartment	80,000
Total	1,458,000

(1) All GFA quoted above includes leasable and saleable areas only

Foshan

Foshan is a thriving city within the Pearl River Delta located about 45 minutes driving distance from Guangzhou. It has a population of 5.8 million and is the third largest economy in the Pearl River Delta, after Guangzhou and Shenzhen.

Foshan has a very strong manufacturing base, which accounts for 62.9% of its GDP. It also possesses a rich history. The centrepiece of Foshan's cultural heritage is Zumiao, an immaculately preserved 900 years old Buddhist temple, which serves as the heart of Foshan.



1 FOSHAN LINGNAN TIANDI

New Projects in Yunnan

Yunnan province possesses a unique combination of breathtaking landscape, ecology and cultural diversity as well as a mild climate that makes it a very attractive tourism destination for both local and foreign visitors. At present, about 70% of Yunnan's tourism revenue derives from sightseeing but the province has only limited offers for the upscale sector.

Yunnan provincial government aims to promote leisure resorts tourism with a higher percentage of revenue from F&B and entertainment, longer stay and a higher average spend per head of every visitor. Yunnan's 11th Five-Year Plan aims for total tourism spending to reach RMB63 billion in 2010 and to continue its rapid expansion to RMB150 billion in 2020. To stimulate the growth of the tourism sector, the provincial government has allocated resources to improve infrastructure, with new expressways, upgraded railways and the planned renovation of Kunming International Airport to become the fourth national gateway airport, after Beijing, Shanghai and Guangzhou.

The Company is planning to work closely with the provincial and city governments to help achieve their strategic goal of promoting and upgrading the tourism sector in four cities in Yunnan, namely Kunming, Lijiang, Dali and Shangri-La. Towards this end, the Company has signed a non-binding Memorandum of Understanding with Yunnan provincial government. We will also collaborate with the governments of these four cities to develop upscale tourism and lifestyle community resorts in their respective cities. The Company is still in discussion with the respective city governments on the master plans and GFA of the four projects. The final master plan and GFA will be subject to approval from the governments after land tender.



1 Kunming

Kunming is popularly known as the Eternal Spring City in China for its all-year round mild climate. Our proposed project is located at the northern shore of the scenic Dianchi Lake in upper Caohai. The project concept is to develop a master-plan development of public recreation, tourism, knowledge and innovation industry, art and culture facilities and an integrated residential community. The project is within 15 minutes driving distance from downtown Kunming.

The proposed project is sited on an approximately 4 sq.km. plot of land with approximately 2.5 million sq.m. of GFA. Within the proposed master plan is the Daguan Park, a site with historical significance to Kunming. The Company plans to develop the site based on sustainable development concepts and sensitivity to the ecology of the surrounding



environment. Within the master plan, a waterfront promenade along the Dianchi Lake is planned and a retail, F&B and entertainment area resembling Shanghai Xintiandi is also planned adjacent to the historical Dagan Park.

2 Lijiang

Lijiang is a popular holiday destination in China due to its breathtaking natural scenery and rich and diverse cultures, especially the unique Naxi culture. Our proposed site comprises multiple plots of land around the Lashihai Lake, famous for its bird habitat with over 200,000 migratory birds visiting annually. It is about 8 km. west of Lijiang Old Town, a UNESCO certified cultural heritage village.

The proposed project plans to develop world-class tourism facilities and create an economic cluster based on tourism with approximately 1.2 million sq.m. in GFA. Existing villages within the master plan would be maintained and the unique Naxi culture and lifestyle would be preserved.

3 Dali

Dali has a rich and colourful culture as well as unparalleled diversity in natural scenery. Our proposed project, planned on three parcels of land, is located on the eastern shore of Erhai Lake, with about an area of 15 million sq.m.

The proposed project has three components, namely Jinsuo Island, Harbour District and Upper Plateau at the north end of the project. These three components will have their own unique functions and attractions and would be connected by a water taxi circuit.

4 Shangri-La

Shangri-La is a mystical town made popular by a novel of the same name. Our proposed project is about approximately 50 minutes driving distance from Shangri-La's old town and 40 minutes from the airport. It has approximately 17.7 million sq.m. of land area with approximately 760,000 sq.m. of GFA.

The proposed site consists of three open meadows, which are enclosed by mountainous terrains. One of the meadows is planned to be developed as a ski resort. This "heaven on earth" would be developed based on sustainable development concepts and protection of the ecology, habitat and local cultures.

Business Review

Bringing in strategic partners allows the Group to accelerate returns from its projects, releases the capital that can be invested in other projects, helps the Group to diversify its risks, enhances the Group's cashflow and allows the Group access to certain expertise and know how that the partners possess and are beneficial to the future development of the Group's projects.

For the year ended 31 December 2007, the Group achieved a turnover of RMB4,570 million, 3% below the RMB4,729 million of 2006. The principal reason for the decline was because Shanghai Taipingqiao, Lot 113 (Lakeville 3) will now be launched in planned phases over 2008 and 2009, thereby building on our continued success in Shanghai Taipingqiao. Similar to 2006, property sales accounted for approximately 89% of the turnover, with rental income and other related activities accounting for the remaining 11%.

The Group's profit attributable to shareholders of the Company for the year amounted to RMB2,462 million, an increase of 115% over 2006 (2006: RMB1,146 million).

Excluding the effect of revaluation of investment properties and fair value adjustment on derivative financial instruments, the Group's underlying profit attributable to shareholders of the Company was RMB2,060 million, an increase of 34% when compared to 2006 (2006: RMB1,536 million).



Accelerating Growth through Strategic Partnerships

During the year, it remained the Group's strategy to accelerate growth by forging strategic partnerships with developers, contractors, consultants and other investors and to replicate those relationships in our other projects in the same city or elsewhere, to the extent commercially feasible, when such relationships are proving to be beneficial and working well, thereby also enhancing our operational efficiency.



Bringing in strategic partners to co-develop the Group's projects, either at a project level and/or at a phase level, is a stated strategy that the Group has been following. This strategy allows the Group to accelerate returns from its projects, releases the capital that can be invested in other projects, helps the Group to diversify its risks, enhances the Group's cashflow and allows the Group access to certain expertise and know how that the partners possess and are beneficial to the future development of the Group's projects.

In July 2007, Trophy Property Development, L.P., a collective investment scheme (the "Trophy Fund") managed by Winnington Capital Limited, was brought in as a strategic partner through the transfer of a 25% interest in Wuhan Tiandi and a 49% interest in Lot116 of the Shanghai Taipingqiao project to the Trophy Fund for a total consideration of approximately RMB1,609 million, giving rise to a total gain of approximately RMB845 million recognized as income by the Group in 2007.

Following the tremendous success of the development and sales of Lakeville Regency that generated total sales in excess of RMB6 billion over 2006 and 2007, the Group offered to buy out the strategic partners' 30% equity interest in the company holding Lakeville Regency for a cash consideration of USD116 million, which was determined as a result of arm's length negotiations. The acquisition was completed in October 2007 after having sold the vast majority of the units at Lakeville Regency. The subsequent sales of the remaining units at Lakeville Regency, however, actually commanded higher prices than those assumed in the acquisition. Such higher prices gave rise to a gain of

RMB80 million beyond those assumed in the consideration of USD116 million. The gain has credited to the income statement by the Group in 2007. The buyout further allows the Group the flexibility of using the same vehicle to carry on the further development of other phases of the Shanghai Taipingqiao project, and the flexibility of retaining the RMB proceeds from sales of Lakeville Regency to be reinvested in the Group's other projects in the PRC.

Landbank

The Group continues with its high growth trajectory through acquisition of sites located in prime strategic locations.

During the year, the Group has acquired the following two new projects:

(i) Dalian Tiandi • Software Hub

In May 2007, the Group has entered into an agreement with Shui On Construction and Materials Limited and Yida Group Company Limited ("Yida Group"), an experienced developer in Northern China, to form a joint venture (the "joint venture") for the development of Dalian Tiandi • Software Hub, a large-scale multi-faceted project focusing on the global software industry. This hub will bring together businesses, information technology and software development centres, commercial and residential properties, as well as educational and research facilities, outdoor recreational and other public amenities. The entire project, comprising 23 plots of land with an expected GFA of over 3.5 million sq.m., is planned for development in phases over a period of 8 to 10 years up to 2018. Two plots of land at Huangnichuan Road North (known as W1-A and W2-A)

have been transferred from Yida Group into the joint venture and land titles have been obtained in January 2008. In March 2008, the joint venture has won the bid for three more plots of land at Huangnichuan Road North with a total GFA of approximately 394,000 sq.m. Accordingly, the joint venture has successfully acquired all the land development rights at Huangnichuan Road North as planned in the control specific master plan, totaling approximately 1.77 million sq.m.

The Hekou Bay site comprising approximately 1.19 million sq.m. of GFA is expected to be the subject of public bidding within 2008. It is the intention of the joint venture to bid for the Hekou Bay site as well as the other 16 plots of land with a total GFA of 588,000 sq.m. Acquisition of these lands will be by way of competitive bidding and there is no assurance that the joint venture will be successful in acquiring them. The Group has a 48% interest in the joint venture.

(ii) Foshan Lingnan Tiandi

The Group won a competitive bid in November 2007 for a site with a total GFA of approximately 1.5 million sq.m. in Foshan that is located within 20 km. of Guangzhou in the Guangdong Province. The Foshan government has already commenced the relocation process and is targeting to hand

over cleared land to the Group in phases over the next two and a half years. The Group's objective is to develop Foshan Lingnan Tiandi into a landmark project in Southern China over 8 to 10 years, restoring and emphasising traditional Lingnan culture.

The above acquisitions have increased the Group's total landbank to 13.1 million sq.m. (10.0 million sq.m. attributable to the Group) as of 31 December 2007, a 56% increase from 2006. Currently, the Group's landbank comprises 8 development projects, spanning over 6 cities, namely Shanghai, Hangzhou, Chongqing, Wuhan, Dalian and Foshan.

The proposed acquisition of the development rights to a piece of land with a GFA of approximately 137,400 sq.m. in Yangpu District, Shanghai (also known as Plot A of Lot 24) that is adjacent to the Group's existing Shanghai Knowledge and Innovation Community development project continued to make progress. Agreement has been reached, subject to government approvals, to acquire the company that currently owns the development rights of the land. The land title of the lot has been released in early April 2008 for public bidding and the acquisition process is expected to be completed before the end of 2008.

In addition, memoranda of understanding ("MOUs") have been signed during the year with the respective municipal governments in three other cities in Yunnan Province, namely Dali, Diqing (Shangri-La) and Lijiang for the proposed development of regional tourism resort property projects. The location of the proposed development in these cities and the proposed size of each project are as follows:

- Dali: North Area, Hai Dong New District, Dali (大理市海東新區北片區), has a proposed GFA of approximately 2,500,000 sq.m.;
- Diqing (Shangri-La): Ming Jun Area, Xiao Zhong Dian Town, Shangri-La County, Diqing (迪慶州香格里拉縣小中甸明峻地區), has a proposed GFA of approximately 760,000 sq.m.; and
- Lijiang: La Shi Hai Pian Area, Yulong County, Lijiang City (麗江市玉龍縣拉市海片區), has a proposed GFA of approximately 1,200,000 sq.m.

These, together with the MOU that the Group has signed in 2006 with the Kunming municipal government for the



88 Xintiandi in Shanghai

proposed redevelopment of the northern Caohai District adjacent to the famous Dianchi Lake in Kunming City (昆明市滇池縣草海北部片區) which has a proposed GFA of approximately 2,500,000 sq.m., will add a further approximately 6.96 million sq.m. of GFA to the Group's total landbank.

The above MOUs signed with the four municipal city governments of Yunnan Province are all legally non-binding in nature. The final project sizes are subject to further discussions.

Property Development

Shanghai Taipingqiao

Construction of the third phase of Lakeville (Lot 113) is progressing as scheduled with the superstructure of towers 1, 2, 9 and 10 having been topped out, internal and external finishing work is now in progress. Pre-sale of certain of these units is expected to commence in early May 2008.

Relocation at Lots 126 and 127, on which 136,700 sq.m. of office and retail spaces is expected to be built, is progressing slower than expected with approximately half of the households having been relocated at the end of 2007.

Shanghai Rui Hong Xin Cheng

Phase 3 of the development that comprises Lots 4, 6, and 8 is at the design stage. The site at Lot 8 has been relocated and piling work has been completed. Construction work is expected to commence shortly and is scheduled to complete in 2009. Approximately half the number of households on Lot 4 and one third on Lot 6 have been relocated at end of 2007. We expect to launch the pre-sale of the first batch of Phase 3 in 2009.

Shanghai Knowledge and Innovation Community

Development works at Lots 7-7, 7-9 and 8-2 (KIC Village, R2) and KIC Plaza Phase 2 are all progressing as planned. As such, construction of the basement and superstructure at Lots 7-9 and 8-2 have been completed. Finishing works are now in progress and expected to complete by mid-2008. In addition, piling work at Lot 7-7 is underway.

Hangzhou Xihu Tiandi

Relocation is in progress at Phase 2 of Xihu Tiandi and targeted to complete before the end of 2008. Construction will commence in the fourth quarter of 2008 and is targeted to complete by end of 2010.

Chongqing Tiandi

Construction of the first phase of the residential development, Lot B1-1/01 (The Riviera), is expected to be completed by the end of June 2008, providing 107,000 sq.m. or 784 units, all of which will then be available for pre-sale.

Demolition work has recently been completed at Lot B2-1/01 (the second phase of the residential development in this project) and construction work has commenced in April 2008. Development work at Lot B3/01 for commercial use is in progress and is expected to complete in early 2009.

Wuhan Tiandi

In 2007, construction of the first batch of residential units located at Lot A9 (The Riverview) with 29,000 sq.m. of GFA or 187 units has been completed and sold in the fourth quarter of 2007, 1,000 sq.m. of GFA is presently held as showflats.

The superstructure of the second batch of residential units located at Lot A7 (The Riverview) with 39,000 sq.m. of GFA or 265 units has been completed with internal and external finishing work now in progress. Pre-sale of these units is expected to commence in the second quarter of 2008.

Piling work at Lots A6, A8 and A10 residential development all commenced in October 2007 and construction of the superstructure on these residential sites is expected to commence in the second quarter of 2008.

Lot A4-1 is completed and being leased out. Construction works at Lots A4-2 and A4-3 are in progress.

Dalian Tiandi • Software Hub

Three sites at Huangnichuan Road North (known as W2-B, W3-A, and W3-B) have been acquired in March 2008. Together with the two sites (known as at W1-A and W2-A) that were acquired in June 2007, these sites would provide a planned GFA of approximately 1,765,000 sq.m. that comprises office, hotel, commercial and residential development, supported by school facilities. The specific control master plan has been approved by the planning bureau and consultants have started on conceptual design work.

Foshan Lingnan Tiandi

The site at Foshan Lingnan Tiandi, comprising approximately 1.5 million sq.m. of GFA, has been successfully acquired in November 2007 and relocation is

Management Discussion and Analysis

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processing well. Demolition work is expected to commence soon. Lot D-1, being a vacated stadium is scheduled to be delivered to us in the second quarter of 2008. On this site, a hotel of approximately 25,000 sq.m. of GFA sitting on a commercial podium of 30,000 sq.m of GFA is currently being designed. In addition, a life style destination similar

in concept to Shanghai Xintiandi of about 75,000 sq.m. of GFA comprising retail, culture, entertainment and historic restoration is also currently being designed and construction is expected to commence in the fourth quarter of 2008. This site is adjacent to a nationally renowned temple, a major tourist spot, known as "Zumiao".

During 2007, construction progressed according to plan. The amounts of saleable GFA completed in 2007 and that can be expected to be completed during each of the next three years are set out as follows:

Property development held for sale	Saleable GFA (sq.m.)				Group's interest
	2007	2008	2009	2010	
Shanghai Taipingqiao, Lot 113 (Lakeville 3)	–	55,000	25,000	–	99.0%
Shanghai Rui Hong Xin Cheng, Lots 4, 6, 8 (Phase 3)	–	–	94,000	126,000	99.0%
Shanghai Knowledge and Innovation Community, Lots 7-7, 7-9, 8-2 (KIC Village, R2)	–	43,000	31,000	–	86.8%*
Shanghai Knowledge and Innovation Community, Lots 6-2, 6-3, 7-5, 7-6 (KIC Village, R3)	–	–	76,000	–	86.8%*
Shanghai Knowledge and Innovation Community, Lots 5-5, 5-7, 5-8	–	–	–	44,000	86.8%*
Chongqing Tiandi, Lots B1-1/01, B2-1/01 (The Riviera)	–	107,000	111,000	92,000	79.4%
Wuhan Tiandi, Lot A9 (The Riverview)	30,000	–	–	–	75.0%
Wuhan Tiandi, Lots A6, A7, A8, A10, A11, A12, B2, B5	–	39,000	86,000	163,000	75.0%
Dalian Tiandi • Software Hub	–	–	–	100,000	48.0%
Total saleable GFA (sq.m.)	30,000	244,000	423,000	525,000	

* Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

The amounts of leasable GFA completed in 2007 and that can be expected to be completed in each of the next three years are set out as follows:

Property development held for investment	Leasable GFA (sq.m.)				Group's interest
	2007	2008	2009	2010	
Shanghai Taipingqiao, Lot 113 (Lakeville 3)	–	–	29,000	–	99.0%
Shanghai Rui Hong Xin Cheng, Lots 4, 6, 8 (Phase 3)	–	–	2,000	13,000	99.0%
Shanghai Knowledge and Innovation Community, Lots 7-7, 7-9, 8-2 (KIC Village, R2)	–	4,000	1,000	–	86.8%*
Shanghai Knowledge and Innovation Community, Lots 5-5, 5-7, 5-8	–	–	–	5,000	86.8%*
Shanghai Knowledge and Innovation Community Plaza Phase 2	–	–	60,000	–	86.8%*
Hangzhou Xihu Tiandi, Phase 2	–	–	–	30,000	100.0%
Chongqing Tiandi, Lots B1-1/01, B3/01, B2-1/01	–	5,000	55,000	6,000	79.4%
Wuhan Tiandi, Lots A4, A5	12,000	11,000	20,000	68,000	75.0%
Dalian Tiandi • Software Hub	–	–	–	250,000	48.0%
Foshan Lingnan Tiandi	–	–	–	90,000	100.0%
Total leasable GFA (sq.m.)	12,000	20,000	167,000	462,000	
Analysed by usage:					
Office	–	–	41,000	184,000	
Retail	12,000	20,000	109,000	169,000	
Others**	–	–	17,000	109,000	
	12,000	20,000	167,000	462,000	

* Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

** Others represent hotels, service apartments and clubhouses

It should be noted that actual completion of construction in the future depends on our construction progress that may be affected by many factors including but without limitation, planning, relocation, construction, operational, managerial and financial resources, approval and regulatory changes and other factors within or beyond the control of the Group.

Property Sales

During the year, the Group had sold a total of approximately 138,000 sq.m. of residential GFA that generated sales, after business tax, of RMB4,085 million, (2006: 123,000 sq.m. and RMB4,283 million).

The property markets across the Chinese Mainland was strong in 2007, particularly during the first half year, fueled by a number of macroeconomic factors, including the growth of the PRC economy, particularly the growth in the size and purchasing power of the upper and middle income earners, the appreciation of the Reminbi, and the PRC political, economic and regulatory environment.

Lot 114 (Lakeville Regency) of our Shanghai Taipingqiao project in Luwan District and Shanghai Knowledge and Innovation Community in Yangpu District sold very well in 2007. In that regard, 10,500 sq.m. or 62 units of Tower 12 and 11,300 sq.m or 61 units of Tower 9 of Lakeville

Regency were launched for sale in April and July 2007, respectively. In both cases, almost all the units were sold within a few days. The average selling price of Lakeville Regency in 2007 was 9% higher than that achieved in 2006. A similar experience occurred at Shanghai Knowledge and Innovation Community where 9,850 sq.m. or 106 units of Lot 8-3, KIC Village R1 were sold over a weekend in June 2007. A further 44,000 sq.m. or 379 units of KIC Village R1 were sold in the second half 2007. The average selling price of such sales amounted to RMB18,700 per sq.m., approximately 17% higher than that achieved in 2006. Only approximately 12,000 sq.m. or 17% of the total saleable GFA launched for sale remained available at 31 December 2007.

The first phase of the residential development at Wuhan Tiandi, Lot A9 (The Riverview), comprising 30,000 sq.m. or 190 units were launched for sale in October 2007. All the GFA launched were sold out within hours on the first date of sale, commanding an average selling price of RMB13,500 per sq.m., thereby setting a new benchmark for high-end residential housing in Wuhan.

The inventory carried over from 2006 of 3,000 sq.m. in Shanghai Rui Hong Xin Cheng Phase 2 was all sold in the first half of 2007.

An analysis of the GFA sold and our average selling prices in 2007 is set out below:

Project	Total GFA sold (sq.m.)	Average selling price (RMB/sq.m.)	Group's interest
Shanghai Taipingqiao, Lot 114 (Lakeville Regency)	52,000	54,500	99.0%
Shanghai Knowledge and Innovation Community (KIC Village, R1)	54,000	18,700	86.8%*
Wuhan Tiandi, Lot A9 (The Riverview)	29,000	13,500	75.0%
Shanghai Rui Hong Xin Cheng, Lot 149 (Phase 2)	3,000	16,600	99.0%
Total GFA (sq.m.)	138,000		

* Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

As of 31 December 2007, the Group's inventory of properties held for sale with construction completed was 13,000 sq.m. of GFA and consisted substantially of residential units at KIC Village, R1 of Shanghai Knowledge and Innovation Community.

The Group expects to launch the following residential properties for sale and pre-sale during 2008:

(i) Shanghai Taipingqiao, Lot 113 (Lakeville 3) comprising 71,000 sq.m. or 434 units;

(ii) Chongqing Tiandi, Lot B1-1/01 (The Riviera) comprising 107,000 sq.m. or 784 units; and
(iii) Wuhan Tiandi, Lot A7 (The Riverview) comprising 39,000 sq.m. or 265 units

The sale and pre-sale of units will be subject to compliance with applicable laws and regulations, and will be dependent on obtaining the requisite approvals, licenses, permits and consents. Recognition of these sales will depend, amongst others, on the timing of completion of construction, issue of occupation permit, and actual completed sales.

Property Investments

The Group's rental income in 2007 was RMB401 million, representing an increase of approximately 12% over that of 2006 (2006: RMB358 million).

As of 31 December 2007, the Group's investment properties consisted of 253,000 sq.m. of GFA, an increase of 5% over 2006 (2006: 241,000 sq.m.), of which approximately half was for office use and the other half for retail use, and comprised:

Project	Leasable GFA (sq.m.)				Group's interest
	Office	Retail	Others*	Total	
Shanghai Xintiandi	5,000	46,000	6,000	57,000	97.0%
Shanghai Corporate Avenue	76,000	7,000	–	83,000	99.0%
Shanghai Rui Hong Xin Cheng, Phase 2 Commercial Complex	–	28,000	–	28,000	99.0%
Shanghai Knowledge and Innovation Community R1	8,000	7,000	–	15,000	86.8%**
Shanghai Knowledge and Innovation Community Plaza Phase 1	29,000	23,000	–	52,000	86.8%**
Hangzhou Xihu Tiandi, Phase 1	–	5,000	1,000	6,000	100.0%
Wuhan Tiandi, Commercial	–	12,000	–	12,000	75.0%
Total leasable GFA, 31 December 2007	118,000	128,000	7,000	253,000	
Total leasable GFA, 31 December 2006	118,000	116,000	7,000	241,000	

* Others represent service apartments and clubhouses.

** Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

On the basis that development progress is in accordance with that described in the Property Development section above, the Group's portfolio of investment properties is expected to grow to 273,000 sq.m. of GFA by the end of 2008, 440,000 sq.m. by the end of 2009, and 902,000 sq.m. by the end of 2010. In that event, the size of our investment property portfolio will be 1.1 times, 1.7 times and 3.6 times that of the size as of 31 December 2007 by the end of 2008, 2009 and 2010, respectively.

Shanghai Xintiandi and Shanghai Corporate Avenue continued to be near fully let with average rental rates increasing 14% and 3% over 2006, respectively.

With the repositioning of tenant mix and introduction of anchor tenants and fast food chain stores that enhance the traffic flow and shopping ambience, the commercial complex at Phase 2 of Shanghai Rui Hong Xin Cheng, which was opened in 2004, fetched a 21% increase in rental income in 2007 over 2006 and its occupancy rate increased to 99% at the end of 2007 (31 December 2006: 86%).

In February 2008, the Group completed the acquisition of the retail podium together with other leasable areas aggregating 13,000 sq.m. of GFA at Rui Hong Xin Cheng Phase 1 from Shui On Group for a cash consideration of RMB107 million, which has been negotiated at arm's length based on the appraised value of the property by an independent valuer as of 31 December 2007. Following completion of the acquisition, the Group now controls the entire Rui Hong Xin Cheng development which should further enhance the overall branding and value of this project.

The office space in KIC Village R1 and KIC Plaza Phase 1 of Shanghai Knowledge and Innovation Community, which construction was completed in the second half of 2006, are being filled with tenants, with KIC Village R1 over 30% occupied and KIC Plaza Phase 1 over 80% occupied.

Hangzhou Xihu Tiandi Phase 1 continued to be fully let.

The first phase of the retail space, with a leasable GFA of 12,000 sq.m., in Wuhan Tiandi commenced leasing in April 2007. Approximately 57% of that GFA has been leased and all leased 17 units have begun their business activities in early 2008.

Construction of the retail and service apartment at Lots B1-1/01 and B3/01 of Chongqing Tiandi, with an aggregate GFA of 56,000 sq.m., commenced in July 2007 and has been progressing according to plan. These areas can be expected to be completed towards the end of 2008 for handing over to tenants in 2009.

The occupancy rates of the Group's investment properties as of 31 December 2007 were as follows:

Investment property	Occupancy rate	
	2007	2006
Shanghai Xintiandi	97%	94%
Shanghai Corporate Avenue	94%	98%
Shanghai Rui Hong Xin Cheng, Phase 2 Commercial Complex	99%	86%
Shanghai Knowledge and Innovation Community, R1 office	33%	9%
Shanghai Knowledge and Innovation Community Plaza Phase 1	81%	18%
Hangzhou Xihu Tiandi, Phase 1	100%	98%
Wuhan Tiandi, Commercial	57%	N/A

The slightly reduced occupancy rate as of 31 December 2007 at Shanghai Corporate Avenue was related to normal void period upon lease expiration when provision was required for reinstatement of premises and fitting

out for new tenants. New leases have been signed with replacement tenants and the premises are currently near full occupancy.



Financial Review

Profit attributable to shareholders of the Company for 2007 was RMB2,462 million, an increase of 115% over 2006 (2006: RMB1,146 million)

Turnover decreased by 3% to RMB4,570 million (2006: RMB4,729 million) primarily due to management's decision to sell Shanghai Taipingqiao, Lot 113 (Lakeville 3) in planned phases over 2008 and 2009, thereby building on our continued success in Shanghai Taipingqiao.

Property sales for the year amounted to RMB4,085 million (2006: RMB4,283 million) and was generated from the sales of residential GFA aggregating approximately 138,000 sq.m. (2006: 123,000 sq.m.). Shanghai Taipingqiao, Lot 114 (Lakeville Regency) continued to be the key contributor to both turnover and gross profit for 2007.

Rental income increased by 12% to RMB401 million (2006: RMB358 million) as a result of increases in the average rental rates in Shanghai Xintiandi and Shanghai Corporate Avenue and increased occupancy rates for investment properties that were completed in 2006 and 2007, namely at Shanghai Knowledge and Innovation Community (KIC Plaza Phase 1 and KIC Village, R1) and at Wuhan Tiandi.

Gross profit was RMB2,685 million (2006: RMB3,140 million) and the gross margin was 59% (2006: 66%).

The decrease in the gross margin occurred mainly on property sales and was due to lower sales in 2007 than in 2006 from Shanghai Taipingqiao, Lot 114 (Lakeville Regency) which generated higher gross profit margins. The lower margin from the sales of residential units in Wuhan and in Shanghai Knowledge and





Innovation Community (KIC Village, R1) also accounted for the reduced overall gross margin in 2007.

Other income increased by 51% to RMB269 million (2006: RMB178 million) primarily due to higher interest income from deposits of subscription monies received from the Company's initial public offering in October 2006 coupled with the generally higher interest rates in 2007 than in 2006.

Selling and marketing expenses decreased by 24% to RMB114 million (2006: RMB150 million) due mainly to higher expenses incurred in 2006 in promoting the sales and leasing KIC Plaza Phase 1 and KIC Village R1 of our Shanghai Knowledge and Innovation Community and Phase 2 of our Shanghai Rui Hong Xin Cheng development projects than those incurred in 2007. The decline was however partially offset by expenses incurred in the promotion of the maiden launch of our Wuhan Tiandi development project, Lot A9 (The Riverview) in 2007.

In 2007, the *general and administrative expenses* increased by 62% to RMB543 million (2006: RMB335 million) on account of higher employee benefits expenses and higher level of professional and consulting fees. The increase in employee benefits expenses included share compensation costs of RMB36 million (2006: nil) in respect of share options granted to staff in 2007, the effect of an increase in the number of average headcount to 1,031 in 2007 (2006: 929) and general salary increments in 2007 over 2006.

The higher level of professional and consulting fees was incidental to our Group's business expansion in 2007.

Other expenses decreased to RMB13 million (2006: RMB658 million) due mainly to reduced losses on change in fair value of derivative financial instruments. In 2006, we incurred losses on changes in the fair value of our warrants and on the conversion options of our preference shares amounting to RMB500 million. All warrants exercisable for shares of the Company were exercised and all preference shares were also mandatorily converted into shares of the Company at the same time upon the Company's successful initial public offering in October 2006. In addition, non-recurring professional fees totaling RMB152 million were incurred in 2006 for obtaining our listing on the Hong Kong Stock Exchange.

Operating profit increased by 5% to RMB2,284 million (2006: RMB2,175 million). The increase was due mainly to the various items referred to above.

Increase in fair value of investment properties has given rise to a gain of RMB577 million in 2007 (2006: RMB145 million).

Gains on partial disposal of equity interests in subsidiaries and gain on acquisition of additional equity interest in a subsidiary are all contained in the paragraph headed "Accelerating Growth through Strategic Partnerships" in the Business Review Section referred to above.

Finance costs amounted to RMB125 million (2006: RMB118 million) and comprised mainly interest costs of RMB458 million less amount capitalised to properties under development of RMB358 million (2006: RMB854 million less capitalisation to properties under development of RMB643 million). The lower level of total finance costs was due mainly to the conversion of all the preference shares into shares of the Company at the time of the initial public offering in October 2006. Prior to that preference share dividends had been treated as interest costs.

Profit before taxation increased by 32% to RMB3,687 million (2006: RMB2,785 million). The increase was due mainly to the various items referred to above.

Taxation was RMB820 million (effective tax rate: 22%) in 2007 as compared to RMB1,145 million (effective tax

rate: 41%) in 2006. The significant reduction in effective tax rate was largely attributable to a non-recurring deferred tax credit adjustment of RMB343 million booked in 2007. As a result of the enactment in March 2007 of the new Corporate Income Tax Law of the PRC, enterprises are subjected to a uniform income tax rate of 25% with effect from 1 January 2008. To reflect this anticipated change in the tax rate from 33% to 25%, the carrying value of deferred tax liabilities was written down by RMB343 million and credited to the income statement in 2007. Excluding the effect of this non-recurring deferred tax credit adjustment, the effective tax rate in 2007 was 32%, which is a decrease when compared to 2006 partly due to certain non-recurring expenses not being deductible for tax purposes such as certain of the professional fees for obtaining our listing on the Hong Kong Stock Exchange incurred in 2006 but not in 2007.

Profit attributable to shareholders of the Company for 2007 was RMB2,462 million, an increase of 115% over 2006 (2006: RMB1,146 million). The effects on profit attributable to shareholders of the change in fair value of the Group's investment properties, net of related tax effect, and fair value change of derivative financial instruments are as follows:

	2007 RMB' million	2006 RMB' million	% Change
Profit attributable to shareholders of the Company after			
(i) revaluation of investment properties; and			
(ii) fair value adjustment on derivative financial instruments	2,462	1,146	+115%
Revaluation increase on investment properties (net of deferred tax effect and share of minority interest)	(419)	(87)	
Loss on change in fair value of derivative financial instruments	–	500	
Fair value loss/(gain) on early redemption rights on notes	17	(23)	
Profit attributable to shareholders of the Company before			
(i) revaluation of investment properties; and			
(ii) fair value adjustment on derivative financial instruments	2,060	1,536	+34%

Earnings per share were RMB59 cents or HK61 cents calculated based on a weighted average of approximately 4,185 million shares in issue during the year (2006: RMB48 cents or HK47 cents based on 2,405 million shares in issue).

Capital Structure, Gearing Ratio and Funding

As of 31 December 2007, the Group's utilised project loans, mortgage loans and senior notes amounted to approximately

RMB7,072 million (31 December 2006: RMB6,477 million) and our total equity was RMB16,706 million (31 December 2006: RMB15,165 million).

The structure of our borrowings as of 31 December 2007 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 year but not exceeding five years RMB' million	Due more than five year RMB' million
Bank Loans	RMB	1,235	742	103	234	156
	HKD	3,170	772	483	1,915	–
Notes	USD	2,667	2,667	–	–	–
Total		7,072	4,181	586	2,149	156

Our cash and bank deposits amounted to RMB3,697 million as of 31 December 2007 (31 December 2006: RMB5,654 million), which included RMB854 million (31 December 2006: RMB1,202 million) of deposits pledged to banks. The decrease in our cash balance was due mainly to payments of land costs for Dalian Tiandi • Software Hub and Foshan Tiandi projects, partially offset by proceeds from property sales and from transfers of equity interests to strategic partners.

The Group's net gearing ratio was approximately 20% as of 31 December 2007 (31 December 2006: 5%), 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.

The Group's rental income for 2007 expressed as a percentage of the Group's total interest costs before capitalization to property under development was approximately 88% (2006: approximately 42%).

Total undrawn banking facilities available to the Group were approximately RMB1,718 million as of 31 December 2007 (31 December 2006: RMB2,560 million). Subsequent to 31 December 2007, additional banking facilities of approximately RMB2,616 million have been arranged. We will continue to adopt a prudent financial policy so as to sustain an optimal level of borrowings to meet our funding requirements.

Pledged Assets

As of 31 December 2007, the Group had pledged land use rights, completed properties for investment and sale, properties under development and bank and cash balances totaling approximately RMB11,663 million to secure our borrowings of RMB3,843 million, or 54% of our total borrowings.

Capital and Other Development Related Commitments

As of 31 December 2007, the Group had contracted commitments for capital expenditure in the amount of RMB5,065 million.

The Group has also committed to building 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 the area. As of 31 December 2007, the Group had not entered into any construction contracts relating to such education facilities.

In addition, the Group entered into a Confirmation Agreement with the Land Exchange Centre confirming the Group's successful bid for a plot of land in Foshan. Under this Confirmation Agreement, a total consideration for acquiring the land use rights of the land is RMB7,510 million, against which a deposit of RMB1,200 million has been paid to the Land Exchange Centre as of 31 December 2007 and a further installment of RMB1,053 million has been paid in January 2008; the remaining balance of RMB5,257 million will be paid in stages in line with the relocation progress of the land that is expected to be completed by or around 2010.

Future Plans for Material Investments and Sources of Funding

We intend to continue growing organically by pursuing more property development projects through competitive bids or auctioning to diversify the geographical span of our projects to selected regions in new cities.

We actively screen cities in different regions of the Chinese Mainland to identify suitable locations for our projects and are continually exploring new opportunities.

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.

While our primary focus is on city-core development projects and integrated residential development projects, we will, in appropriate cases, consider other opportunities to participate in projects of various scale where we can leverage our competitive strengths. Our track record, good relationships with business partners and well established reputation may give rise to such other opportunities.

Material investments will be funded, in the main, by using a combination of project construction loans, mortgage and other loans, and cash provided by operating activities, including from the rental, sales and pre-sales of properties, and proceeds from sale of equity interests in our projects to strategic partners, as appropriate.

Cashflow Management and Liquidity Risk

Cashflow of all subsidiaries is managed on a centralised basis so as to enhance cost-efficient funding.

Our objective is to maintain a balance between continuity of funding and flexibility through a combination of internal resources, and bank and other borrowings, where appropriate. We will continue to maintain a reasonable liquidity buffer to ensure sufficient funds are available to meet liquidity requirements at all times. The repayment profile of liabilities is closely monitored and sources of payment are planned in advance.

Interest Rate and Exchange Rate Risks

The Group's exposure to cash flow interest rate risk resulted from fluctuation in interest rates. All of the bank borrowings of the Group consist of variable rate debt obligations with original maturities ranging from two to four years for the project construction loans; and five to ten years for the mortgage loans. Increase in interest rates would increase interest expenses relating to the outstanding variable rate

borrowings and increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the debt obligations. The Group has been following a policy of developing long term banking facilities to match our long-term investment plans. This will enable us to avoid high borrowing costs from short term financing for long-term investment. Our policy on interest rate risk management also involves close monitoring of interest rate movements and to replace and enter into new banking facilities when good pricing opportunities arise. Interest rate swaps to hedge exposure to floating rates are used where appropriate.

All of the turnover of the Group is denominated in Renminbi. A portion of the turnover in Renminbi, however, is converted into other currencies to meet the foreign currency denominated debt obligations, such as the bank loans denominated in Hong Kong dollars and the senior

note denominated in US dollars. As a result, the Group is exposed to fluctuations in foreign exchange rates.

Considering (i) a relatively stable currency regime with regard to the Renminbi is maintained by the PRC government which only allows the exchange rate to fluctuate within a narrow range; and (ii) it is the Group's view that it is more probable that the value of the Renminbi will appreciate than depreciate relative to the Hong Kong dollar/US dollar in the foreseeable future, the Group expects that any adverse effect of fluctuation of the exchange rate between Renminbi, Hong Kong dollar and US dollar is insignificant. The Group is monitoring the situation closely and will implement an effective hedging arrangement whenever it considers there is any sign that the currently benign environment will change in the future.



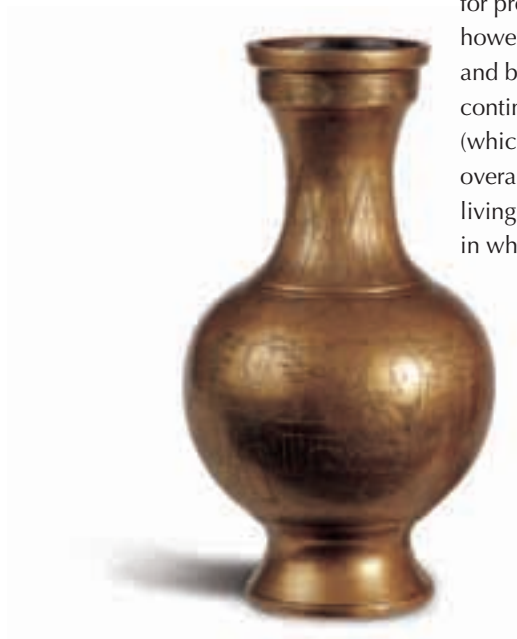
88 Xintiandi in Shanghai

Market Outlook

We are one of the leading property developers with the experience required for managing large-scale, complex, long-term projects in China. We are further expanding our unique business model from comprehensive city-core integrated projects to include knowledge communities and tourism facilitated developments as we see huge growth potential in China's information technology and tourism sectors.

Market Factors

The subprime mortgage crisis in the United States and Europe, and its severe impact on the financial markets, have received a lot of attention. The Chinese Government has also implemented a number of measures that have stemmed the rapid increases in residential property prices but, we believe, such measures have promoted the healthy development of the property market in the Chinese Mainland. This creates some uncertainties as to property market conditions in the Chinese Mainland in 2008, which could impact on demand for properties and attendant prices. We remain optimistic, however, about the Chinese Mainland's property market, and believe that China's economic growth momentum will continue in 2008. We believe that demand for our properties (which are all very well located) is driven in large part by the overall economic development and increasing standards of living in China, particularly in Shanghai and the other cities in which we operate.





Shanghai Corporate Avenue

The Road Ahead

China's plan for continuing strong economic growth and improving living standards of the fast-growing urban community should generate significant economic value for China and for well capitalized and proven property companies such as Shui On Land. We believe in pursuing our strategy of enhancing our existing portfolio in Shanghai, Hangzhou, Chongqing, Wuhan, Dalian and Foshan and expanding strategically in other fast growing cities in the Chinese Mainland, management and financial resources permitting. We believe, with increasing urbanization and an affluent population aspiring to pursue a higher quality of life, demand for high quality housing and commercial properties such as ours will remain strong. To this end, we will continue our discussions with the governments of a number of cities with a view to working with them in the master planning of transformation of their urban centres. Ultimately, the control of supply in the Chinese Mainland will continue to stimulate demand since relocation of populations can only proceed at a very measured space. Development of the residential sector will therefore benefit the market in general and promote stability, which in turn will support the Group's sustainable growth plan.

A Vision Based on Experience

We are one of the leading property developers with the requisite experience in managing large-scale, complex, long-term projects in China. We are further expanding our unique business model from comprehensive city-core integrated projects to include knowledge communities and tourism facilitated developments as we see huge growth potential in China's information technology and tourism sectors. We are also one of the few leading property companies that holds a quality portfolio of properties that we have developed as strategic, long-term investments. We have consolidated our position as one of the Chinese Mainland's most innovative and visionary property developers while strengthening our platform for further strategic growth. We believe that the prospects and future success of the projects undertaken by Shui On Land are all excellent. We will continue to apply our successful business models and leverage our premium branding to take advantage of new opportunities that arise from the increasing affluence and urbanization in the Chinese Mainland. We will continue to pursue our aspiration to be the premium innovative property developer in the Chinese Mainland, the most exciting property market in the world.

Landbank at a Glance

The Group's total landbank position as of 31 December 2007, together with that of its associates, can be summarised as follows:

Project	Approximate/Estimated leasable and saleable area (sq.m.)				Total GFA (sq.m.)	Group's interest	Attributable GFA (sq.m.)
	Leasable GFA	Saleable GFA	Hotel/service apartment/clubhouse	Carpark and other public facilities (sq.m.)			
Completed properties held for investment:							
See section headed "Property Investments" above for details	246,000	–	7,000	–	253,000	various	238,000
Completed properties held for operation:							
Shanghai Rui Hong Xin Cheng, Phase 2 clubhouse	–	–	5,000	–	5,000	99.0%	5,000
Shanghai Taipingqiao, Lots 114 and 117 clubhouses	–	–	10,000	–	10,000	various	9,000
Wuhan Tiandi, Lot A9 clubhouse	–	–	1,000	–	1,000	75.0%	1,000
Completed properties held for sale:							
Shanghai Knowledge and Innovation Community, R1	–	12,000	–	–	12,000	86.8%**	11,000
Others	–	1,000	–	–	1,000	various	1,000
Subtotal	246,000	13,000	23,000	–	282,000		265,000
Properties under development:							
Shanghai Taipingqiao	166,000	80,000	3,000	106,000	355,000	99.0%*	352,000
Shanghai Rui Hong Xin Cheng, Phase 3	22,000	220,000	2,000	53,000	297,000	99.0%	294,000
Shanghai Knowledge and Innovation Community	49,000	74,000	3,000	99,000	225,000	86.8%**	195,000
Hangzhou Xihu Tiandi	46,000	–	–	27,000	73,000	100.0%	73,000
Chongqing Tiandi	46,000	309,000	26,000	115,000	496,000	79.4%	394,000
Wuhan Tiandi	27,000	39,000	7,000	62,000	135,000	75.0%	101,000
Subtotal	356,000	722,000	41,000	462,000	1,581,000		1,409,000

Project	Approximate/Estimated leasable and saleable area (sq.m.)		Hotel/service apartment/clubhouse	Carpark and other public facilities (sq.m.)	Total GFA (sq.m.)	Group's interest	Attributable GFA (sq.m.)
	Leasable GFA	Saleable GFA					
Properties held for future development:							
Shanghai Taipingqiao	345,000	256,000	–	57,000	658,000	99.0%*	608,000
Shanghai Rui Hong Xin Cheng	168,000	639,000	–	13,000	820,000	99.0%	812,000
Shanghai Knowledge and Innovation Community	142,000	115,000	–	5,000	262,000	86.8%**	227,000
Chongqing Tiandi	1,251,000	1,216,000	–	633,000	3,100,000	79.4%	2,461,000
Wuhan Tiandi	598,000	686,000	–	87,000	1,371,000	75.0%	1,028,000
Dalian Tiandi • Software Hub	2,246,000	1,110,000	–	185,000	3,541,000	48.0%***	1,700,000
Foshan Lingnan Tiandi	731,000	727,000	–	42,000	1,500,000	100.0%	1,500,000
Subtotal	5,481,000	4,749,000	–	1,022,000	11,252,000		8,336,000
Total Landbank GFA (sq.m.)	6,083,000	5,484,000	64,000	1,484,000	13,115,000		10,010,000

* The Group has a 99% interest in the remaining lots within Shanghai Taipingqiao project, except for Lot 116, in which we have a 50% interest after the sale of a 48% interest to a strategic partner in July 2007.

** Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

*** Dalian Tiandi • Software Hub comprises 23 plots of land with an expected GFA totalling approximately 3,541,000 sq.m. planned for development in phases over a period of 8 to 10 years. It is the intention of the joint venture companies to acquire all 23 plots of the land. As of 31 March 2008, 5 plots of land of approximately 1,765,000 sq.m. of GFA have been acquired with legally binding contracts signed. Acquisition of the remaining 18 plots of land of approximately 1,776,000 sq.m. of GFA will be by way of competitive bidding and there is no assurance that the joint venture companies will be successful in acquiring these lands.



Shanghai Corporate Avenue

We believe it is our duty to the communities in which we invest and sound business sense to integrate good corporate social responsibilities and corporate governance principles into our business management philosophy to ensure long-term sustainable growth.

Managing for Sustainable Growth



West Lake in Hangzhou



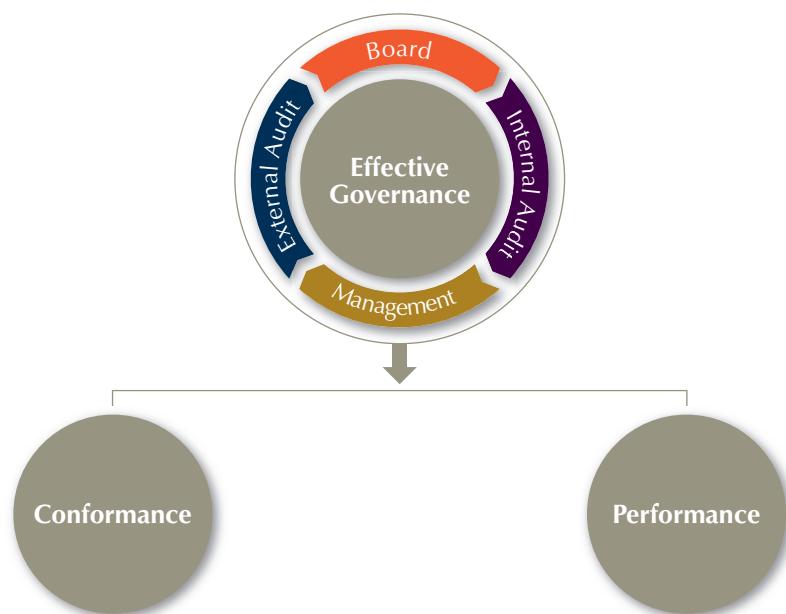


CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of the Company is pleased to present the Corporate Governance Report for the year ended 31 December 2007.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, integrity, accountability, sustainable development and independence. The Board believes that good corporate governance is essential to the success of the Company, the enhancement of shareholders’ value, and stakeholders’ confidence in the Company. In reflection of this, Shui On Land was proud to receive the Citi Award for Corporate Governance Excellence at Hong Kong Corporate Governance Excellence Award 2007 organised by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University.

Shui On Land Corporate Governance Framework



“The Company pursues a right balance between conformance and performance in its corporate governance.”

Corporate Governance Practices of the Company

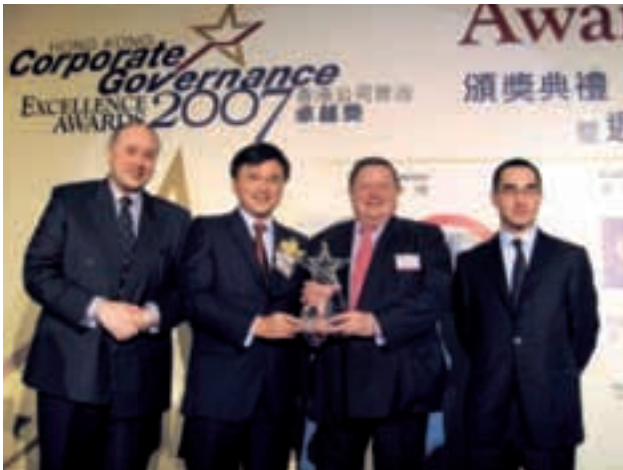
The Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation, which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate 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”) during the year ended 31 December 2007, except for certain deviations as specified with considered reasons as explained below.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and

growth of its business and to reviewing 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 concerning 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 formalised and



Mr. William T. ADDISON (second right), Managing Director and Chief Financial Officer, receiving the Hong Kong Corporate Governance Excellence Award 2007 on behalf of the Company

set out in writing in a document that 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 has been 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 in discharging its responsibilities.

Board Composition

During the year ended 31 December 2007, the majority of the members of the Board of Directors of the Company were Independent Non-executive Directors (INEDs). The Board is currently made up of nine members in total, with two Executive Directors, one Non-executive Director and six INEDs.

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 current 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. William T. ADDISON
(Managing Director and Chief Financial Officer)

Non-executive Director:

The Honourable LEUNG Chun Ying

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 "Biographies of Directors and Senior Management" section on pages 86 to 91.

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 the Non-executive Director 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 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 three years and shall be subject to retirement by rotation once every three 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 annual 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.

According to Article 97(3) of the Articles of Association of the Company then in effect before 8 June 2007, any Director appointed to fill a casual vacancy should hold office only until the next following annual general meeting and would then be eligible for re-election. To fully comply with the code provision A.4.2, a relevant amendment to the Articles of Association of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 8 June 2007.

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, as well as business and market changes, to facilitate the discharge of their responsibilities.

Board and Board Committees Meetings

Number of Meetings and Directors' Attendance

The Company held four full board meetings in the year 2007 and has already set a schedule for its regular board meetings and committee meetings in the year 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)	4/4
Mr. Wilfred Y. W. WONG [Resigned with effect 1 May 2007]	1/2
Mr. William T. ADDISON	4/4
Sir John R. H. BOND	2/4
The Honourable LEUNG Chun Ying	2/4
Dr. Edgar W. K. CHENG	4/4
Dr. William K. L. FUNG	4/4
Professor Gary C. BIDDLE	4/4
Dr. Roger L. McCARTHY	4/4
Mr. David J. SHAW	4/4

Practice 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 three 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 attends 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 for taking and keeping 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 that 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

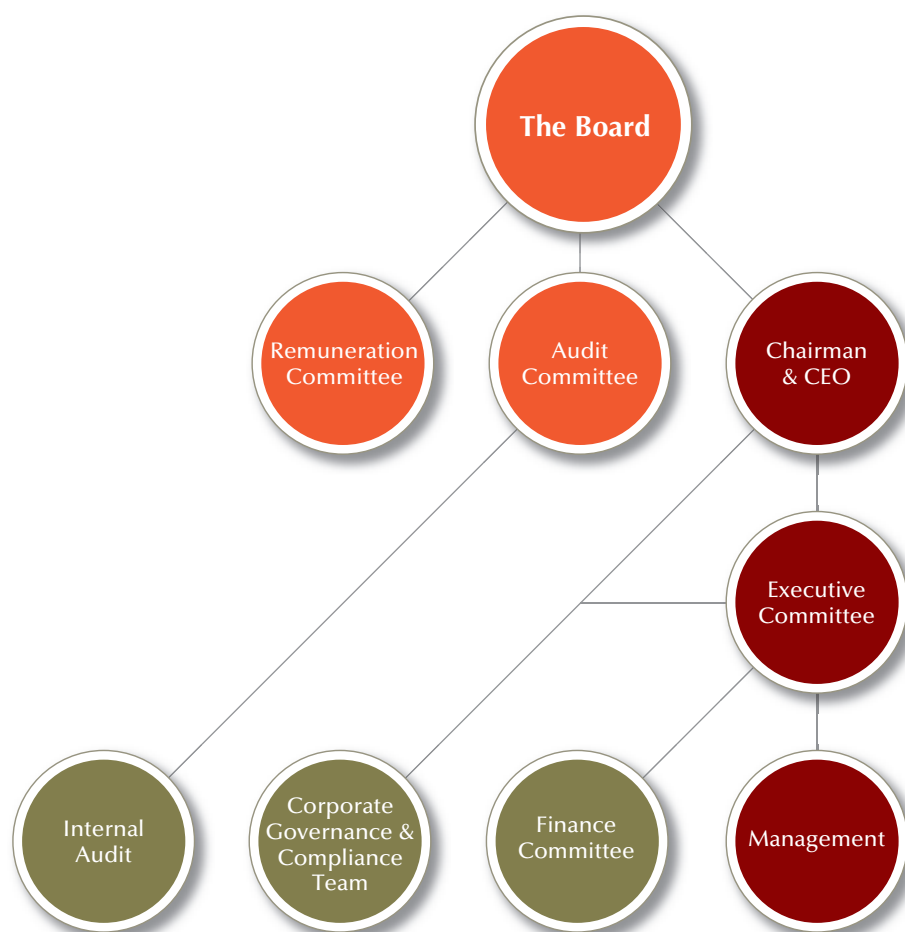
Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual.

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 efforts of the Company. This vesting provides strong and consistent market leadership and is critical for efficient business planning and decisions of the Company in its current stage of development. 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 CEO, are necessary in the future.

Shui On Land Corporate Governance Organisation



Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as the code regarding securities transactions by the Directors and relevant employees.

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 2007.

To comply with the code provision A.5.4 of the CG Code, the Company 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 these written guidelines by the relevant employees was noted by the Company.

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 INEDs and the list of the chairman and members of each board committee is set out under "Corporate Information" on page 175.

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

Remuneration Committee

The Remuneration Committee consists of three members, namely Dr. William K. L. FUNG, Mr. Vincent H.S. LO and Professor Gary C. BIDDLE. Dr. William K.L. FUNG and Professor Gary C. BIDDLE are INEDs. The chairman of the Remuneration Committee is Dr. William K.L. FUNG.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of the Directors and senior management, and to evaluate and make recommendations on employee benefit arrangements.

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 CEO of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee normally meets 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 year ended as of 31 December 2007 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	0/1
Professor Gary C. BIDDLE	1/1

The Committee reviewed the share options scheme for staff, Directors and advisers as well as the 2006 bonus to Executive Directors, senior management and staff. It also reviewed the remuneration policy and resolved to revise the mid point of the salary ranges to align with that of market.

Details of the remuneration of the Directors for the year ended 31 December 2007 are set out in note 11 to the financial statements.

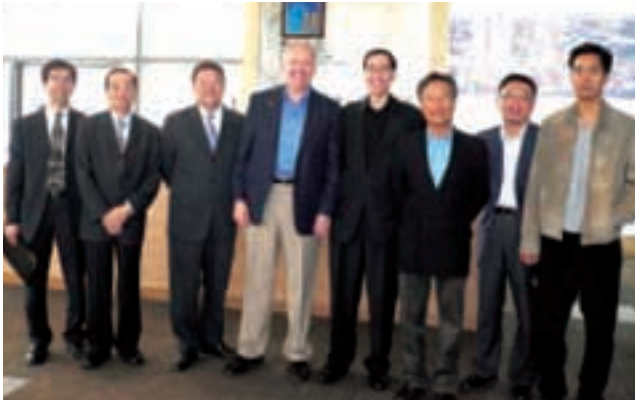
Audit Committee

The Audit Committee consists of three members, namely Professor Gary C. BIDDLE, Dr. Edgar W. K. CHENG and Dr. Roger L. McCARTHY. All of them are INEDs. The chairman of the Audit Committee is Professor Gary C. BIDDLE.

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.

The Audit Committee has reviewed the Group's interim and annual results for the year ended 31 December 2007, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors.



Audit Committee members paying site visits to better understand the plans, risks and progress of the Company's projects

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.

Three meetings were held by the Audit Committee during the year ended 31 December 2007, and were attended by all the three members. The Audit Committee reviewed the risk assessment conducted by the internal auditors on the Audit Committee Meeting held on 14 September 2007 and made a summary report to the Board. In early November, the Audit Committee paid a visit to the Company's projects in Shanghai, Wuhan, and Chongqing to have a better understanding of the projects' plans, risks and progress, before reporting back to the Board. The Committee reviewed and commented on all draft announcements and circulars required under the Stock Exchange's rules before their formal issuance.

Internal Audit

The Internal Audit Department was set up on 1 March 2007 and is headed by the Chief Internal Auditor. The Chief Internal Auditor reports to the Chairman and CEO, and has full and free access to the Audit Committee. The Internal Audit Charter was approved by the Chairman and CEO and the Audit Committee on 11 April 2007. The charter allows the internal auditors to have unrestricted access to all functions, records, property and personnel while maintaining appropriate confidentiality in performing their work.

The aims of the Internal Audit Department are to provide independent, objective assurance and advisory services designed to add value and improve the Company's business processes. The department helps the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Internal Audit Department operates in a partnership relationship with management, preparing semi-annual audit plans based on a risk assessment methodology and upon agreement with the Company's Executive Committee (the "EXCOM") and the Audit Committee.

Internal Control and Risk Assessment/Management

Internal audit and management conduct reviews of the effectiveness of the Company's system of internal controls, including those of its subsidiaries and major associates. The Audit Committee reviews the summary report of the internal auditors on the effectiveness of the Company's system of internal controls and reports to the Board on such summary results.

Since March 2007, the Internal Audit Department issued reports to CEO and relevant management covering various operational and financial processes and projects of the Company.

A risk assessment was conducted by the Internal Audit Department and presented to the Company's EXCOM and the Audit Committee for review in September 2007. A proposal for moving towards a continuous and integrated enterprise risk assessment and management framework was proposed to EXCOM and the Audit Committee, with agreement being reached to roll out the plan in 2008.

The Audit Committee has required management to present a report on risk assessment/management at every Audit Committee meeting.

Code of Conduct and Business Ethics

The Company's Code of Conduct and Business Ethics (the "Code") was formulated on 19 December 2007. It stipulated how Directors and staff should deal with conflicts of interest situations, business activities and relationships, and financial dealings. The Code will also constitute a standard agreement term with the Company's agents, representatives, consultants, contractors, sub-contractors, business partners, resellers, sales and marketing agents, and suppliers. The Company received comments from the ICAC of Hong Kong during the drafting stage of the Code.

An Ethics Committee comprising senior executives was established by charter on 15 November 2007 to monitor, review and enforce the compliance of the Code. The Code was rolled out to all staff in January 2008.

Anti-fraud Measures

An Irregularities Reporting System (a whistle-blowing system) was installed in May 2007 for reporting on violations of the Code of Conduct and Business Ethics and complaints on integrity related matters from staff, vendors, customer, and business partners. Telephone hotlines and special e-mail and mail boxes were set up to enable any complaints to reach the Chairman of the Audit Committee or the Secretary of the Ethics Committee.

An Incident Reporting Procedure was formulated in November 2007 to enable the systematic, timely and uniform reporting of incidents such as potential fraud to the Chief Financial Officer by personnel involved in internal control activities related to financial and/or automated information systems.

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 2007.

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 "Independent Auditor's Report" on pages 104 and 105.

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 2007 is set out as follows:

Services rendered for the Company	Fee paid/payable
Audit services:	HK\$6 million
Non-audit services:	HK\$7 million
Total:	HK\$13 million

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 most informed investment decisions.

The Investor Relations team was set up on 1 June 2007. It seeks to create a pro-active platform to access feedback and provide adequate and fair disclosure amongst the financial and investment community. In this regard, various activities such as roadshows, conferences and regular email updates are used as a means to provide the latest development on the Company. This is in line with our policy of disclosing relevant information to shareholders in a timely manner.

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 on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. The Company takes the initiative to announce any important Memorandum of Understanding undertaken on a voluntarily and timely basis to increase transparency to shareholders. Upon the request of shareholders, future annual general meetings will be conducted in Cantonese with instantaneous English translation, instead of in English only.

To further ensure that all disclosures made by the Company to its shareholders are made in an accurate, complete and timely manner, the Company will establish a Disclosure Committee together with its relevant processes in 2008 for oversight of the disclosures made by the Company.

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 Director.

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 made by way of an announcement which is published in accordance with the Listing Rules as soon as possible.

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

Award on Corporate Governance

The Company was awarded the Citi Award for Corporate Governance Excellence at the Hong Kong Corporate Governance Excellence Award 2007 co-organised by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University.

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.



CORPORATE SOCIAL RESPONSIBILITIES

Shui On Land aspires to become a world-class developer of top-tier projects that are both commercially viable and that can benefit the communities where we operate. It is our philosophy to integrate good corporate social responsibilities (CSR) and corporate governance principles into our business management. At the same time, these same principles should drive our core business activities to achieve sustainable business success and company growth. Through cooperation with our stakeholders, we have developed a strong CSR commitment based on our core values of Integrity, Dedication, Innovation and Excellence.





Staff demonstrating team spirits at the sports day

Community Development

At Shui On Land, social responsibilities and care for the communities in which we are involved is paramount. Under the principle of “repaying society for the benefits it has provided”, we seek to grow with the cities we are developing and believe that if the city prospers we also benefit. Local communities are important building blocks of our society and we are convinced that with the right help, great communities can be built across China. Our initiatives go beyond purely monetary donation to the design and implementation of programmes that focus on enhancing local communities, nurturing future local leaders and promoting local culture.

Empowering the new generation

Some sectors of society have yet to share the fruits of economic growth. We are keen to see local communities prosper in tandem with the Company. Through our

associate Dalian Tiandi • Software Hub project, a total of RMB30 million was donated in September 2007 for the establishment of the Huangnichuan Village New Village Development Fund. This fund aims to help residents transform their career path and encourage compatible development between city and village economies.

Talent shortage is often the bottleneck of a community development, stifling rapid economic growth. Shui On Land therefore designs programmes to nurture future leaders. Through our associate Dalian Tiandi • Software Hub project we donated RMB25 million to create the IT Talents Foundation.

We also continued an on-going phased initiative to donate a total of RMB4.5 million to Fudan University to establish an education fund for financing outstanding students to study overseas.



Shui On Land sponsored Wai Yin Associations's Commemorative Book launch. They jointly made a donation to Shanghai Municipal Women's Federation



The closing ceremony of the 2007 Special Olympic Games took place at Jiangwan Stadium, KIC

Allowing others to appreciate benefits of economic growth

Shui On Land realises that there are many emerging needs across China. The Company aims to provide philanthropic aid when a particular need is identified. In February 2007, we sponsored the Shanghai Charity Foundation's preparations for a fund to cultivate talents interested in charitable activities. In October, we contributed to an initiative by the magazine for Chinese People's Political Consultative Committee members to help the needy in impoverished regions in Central and Western China. In November, we sponsored the charitable Wai Yin Association in its 25th anniversary commemorative programme, including a donation to the Shanghai Municipal Women's Federation for better health and medical treatment for Shanghai women.

Promoting cultural exchange

Rapid industrialisation and economic development can lead to under-appreciation of unique and traditional local cultures. We therefore sponsored a number of projects in this area. In January, we provided a RMB5 million sponsorship for a cultural education fund to foster exchanges between post-graduates in the Chinese Mainland and Taiwan. In Wuhan Tiandi, we adopted local artists' and fine art students' designs for our property showrooms and a museum is dedicated to the works of Chinese and foreign artists. In March, we sponsored the 2007 Shui On Cup for ballroom dance and the final of the 4th IDSF world championship of ballroom dance in Shanghai organised by Luwan District sports bureau. In July, we promoted Chinese etiquette by sponsoring the "2007 Shui On Cup" for Civilised Etiquette Contest of Shanghai Services Industry (2007瑞安杯上海窗口单位职场礼仪大赛) organised by Shanghai's civil affairs bureau (上海市文明办) to prepare for the 2010 Shanghai Expo.



A museum at Wuhan Tiandi houses works by Chinese and overseas artists



Shui On Seagull Club members spend Golden Week holidays to teach children in impoverished areas in China



Our staff visiting the elderly in need in Wuhan



瑞安海鸥社
SHUI ON SEAGULL CLUB

Employee volunteerism

Shui On Land encourages employees to contribute to community work in order to enhance their self-development. Established in Hong Kong in 1982, Shui On Seagull Club is voluntarily managed by staff. The motto of the club is "Action to make

a difference" – working together and helping each other in order to contribute to social and economic development. Since the club was established in Shanghai in 2005, our staff have been actively participating in the club's activities, which serve three purposes: rural area education, city education, and environmental protection.

The club's dedicated team of volunteers spent their Golden Week holidays teaching in the remote and impoverished regions of the Chinese Mainland. In late 2007, they completed a two-year education programme for children in a primary school in Yushan County, Jiangxi Province. During the programme, the staff organised knowledge sharing activities targeting primary and secondary schools and universities, which was aimed at enhancing their integrity, creativity and leadership. In August, it launched a "Casual Wear Day" to promote energy-saving and environmental protection concepts. It also co-organised "Charity Walk 2007" with World Vision to raise funds to provide a full year of education for 160 children in remote areas in Yunnan.

Sustainable Development

As an experienced and responsible property developer, Shui On Land considers sustainability as the key to its long-term development. We were one of the first Chinese developers to embrace environmental protection. In 2006, a Sustainable Development Policy was issued to all our staff, stating our commitment to improving the social, economical and environmental well-being of the communities. In 2007, action plans on Sustainable Development were gathered from all departments and projects and were reviewed by the Sustainable Development Committee.

Shui On Land has joined the Hong Kong Green Council, which aims to encourage the industrial and commercial sectors to include environmental protection in their production and management processes. The Council took a leading role in establishing a "Hong Kong Green Purchasing Charter" in October 2007 of which Shui On Land was one of the 11 founding members. The Charter seeks to bring together business and government leaders who are committing to implementing more environmentally responsible policies and practices within their organisations.

At a corporate level, a Green Procurement Policy for the selection of suppliers and vendors to supply green labelled materials has been incorporated into our General Specification for Materials and Workmanship. We now only engage materials suppliers who have obtained the "environmental label" accredited by the National Environmental Protection Bureau and use materials certified to be environmental friendly. Synergis, our property management partner, undertakes environmental education and implements energy-saving, waste reduction and heat reduction measures. Paperless communications are promoted among our departments and offices.

At a project level, our respect for the environment is reflected in our determination to seek the highest level certification of the US Leadership in Energy and Environmental Design (LEED) of the US Green Building Council wherever feasible and/or equivalent China based ratings when they are more appropriate for the nature of the project. Since 2006, sustainable development concepts and requirements are taken into consideration in every phase of our developments from master planning, design, materials procurement, construction management to property management. We now aim to apply LEED or equivalent standards to all our projects. In February 2008, the 26th floor of our Corporate Headquarters was LEED - Commercial Interiors (CI) Silver certified for office environment, energy, water and electricity saving controls, selection of materials and innovative design.



The winning design of the Sustainability Logo Design Competition organised by the Company, aiming to nurture our staff's awareness of sustainable development



Shanghai KIC Plaza

Sustainable Development Initiatives:

Corporate	Achieve/Target-Green Building Certification	Features
1. Shui On Land Ltd Headquarters – 26/F, Shui On Plaza	Achieved LEED-Commercial Interiors (CI) Silver Level	Improved indoor air quality with CO ₂ sensor; daylight sensor; addition of task light; and water saving sanitary fittings
2. Shui On Land Ltd Headquarters – 25/F, Shui On Plaza	To achieve LEED-CI Silver Level	

Projects – Master Planning Stage	Achieve/Target-Green Building Certification	Features
1. Wuhan	Registered as LEED-Neighborhood Development (ND) pilot project; targeting to achieve LEED-ND Gold rating	Savings to energy, water and waste at the inception level. This includes mixing land uses, connecting to public transit systems, building appropriate densities, orienting development to the solar and wind access, and installing district wide infrastructure, including centralised heating and cooling, water source heat pumps, rainwater collection and recycling, and comprehensive green roof systems
2. Chongqing	Registered as LEED-ND pilot project; targeting to achieve LEED-ND Gold rating	
3. Dalian	Target to achieve the highest feasible LEED-ND rating	Accommodates water recycling systems, potential ocean thermal heat pump systems; by studying natural drainage systems and view sheds, the character of the site will be preserved and enhanced, while creating environments and pathways for people and wildlife. A no-build buffer zone surrounds the water reservoir, creating a wildlife setting
4. Foshan	Target to achieve the highest feasible LEED-ND rating	City core site selection with small pedestrian friendly blocks; preservation and adaptive reuse of 22 heritage architecture sites and numerous historic buildings; and integrating bus and subway interchanges

Projects – Development Stage	Achieve/Target-Green Building Certification	Features
1. Xihu Tiandi, Hangzhou	Pre-certified of LEED-Core & Shell (CS) Platinum Level	Natural ventilation; earth cooling; radiant cooling/heating; rain water collection and recycling; and photo voltaic for indoor public and sign lighting system
2. Wuhan Tiandi, Wuhan	Target to achieve LEED-CS certification Gold Level	Outdoor radiant cooling/heating; outdoor spot cooling; rain water collection and recycling; and green roof
3. Chongqing Tiandi, Chongqing	Target to achieve LEED-CS certification Gold Level	Outdoor radiant cooling; water source heat pump; and rain water collection and recycling
4. Taipingqiao 126/127, Shanghai	Target to achieve LEED-CS certification Gold Level	High efficiency HVAC system; improved indoor air quality with CO ₂ sensor; low-flow plumbing fixtures and water saving sanitary fittings; and high performance curtain wall with shading devices
5. Rainbow City Lot 6, Shanghai	Target to achieve Chinese Green Building 2 Star Certification	To be decided
6. KIC Plaza, Phase II, Shanghai	Target to achieve LEED-CS certification Silver Level	Double low e-coated glazing; low contaminant emitting materials; improved indoor air quality with CO ₂ sensor; low-flow plumbing fixtures; and water saving sanitary fittings



Shui On Land helps create a fund to nurture IT talents through its associate Dalian Tiandi • Software Hub



We actively support the promotion of arts and culture

Sustainability Begins with Master Planning

Shui On Land has long been proactive in achieving sustainable development goals in the master planning stage. This was evident in the mixed land use for Wuhan and Chongqing Tiandi, which optimise building density through finely balanced design.

• **Self-sustaining communities**

With a minimum of GFA of 1 million sq.m. as a pre-requisite, our large-scale projects provide comprehensive facilities to cater to people’s needs. Wuhan, Chongqing and Foshan Lingnan Tiandi are all designed for residential, commercial, office and entertainment uses. In 2007, KIC Village (Phase 2) passed the national Grade AAA pre-certification of the performance of residential buildings, one of the first Shanghai projects to pass this test. Chongqing Tiandi was presented a Grade 2A certificate in recognition of the performance of its residential buildings by Chongqing Municipal Construction Committee.

• **Assimilation with natural environment**

Shui On Land finds ways to better preserve the cultural and historical heritage of an area and to minimise impacts on the surrounding natural environment. In most of our projects, we integrate existing old architectures to create a platform for the reinvention of a local cultural identity

and we preserve mature trees as well as relocating existing trees. At Wuhan and Xihu Tiandi, we imposed sediment and erosion control by covering the cleared site with turf before construction.

• **Resources management**

Another of our environmental targets is the efficient utilisation of resources. We achieved energy saving at inception level for Wuhan and Chongqing Tiandi by connecting the projects to transit systems and accessing solar and wind energy, as well as implementing waste reduction measures. In Dalian, we took advantage of the seaside location to accommodate ocean thermal heat pump systems into the project.

• **Economic viability**

Our projects are made more commercially viable through designs that aim to reduce, re-use and recycle scarce resources. For example, the KIC Plaza, our Corporate Headquarters and the Shanghai Taipingqiao project were all fitted with water saving sanitary devices. Rain water is collected and recycled at Wuhan, Xihu and Chongqing Tiandi.



Shui On Land staff attending a training session on interdepartmental communications and management of conflicts

- **Improvement of quality of life**

All these measures contribute to an enhanced quality of life for our customers. The KIC Plaza, our Corporate Headquarters and the Shanghai Taipingqiao project have all installed carbon dioxide sensors to improve air quality. The green roof at Wuhan Tiandi is set to insulate heat and improve air quality. Meanwhile, a high-efficiency ventilation system and curtain walls have been installed at the Shanghai Taipingqiao project.

People and Talent Development

Shui On Land considers our staff as our most valuable asset. We believe that the Company can move forward continuously by giving our staff the opportunities necessary to realise their potential. We provide a wide range of internal and external training programmes for our employees, including language, management skills and technical know-how, accounting and finance, project management and sales training. Overseas management and executive programmes at internationally renowned business schools are also arranged for high-potential staff.

Management Cadet Programme

This is a fast track development programme for employees to take up core management positions in an accelerated time frame. The programme is open to all internal staff with at least two years of working experience and have potential for development. A rigorous, fair and transparent process is

used to select the best candidates. Senior management and an external consultant are the principal assessors.

Selected cadets are posted to challenging job assignments and/or corporate service departments to enhance breadth and depth of understanding of our operations and business. They are mentored by top management including the Chairman, Managing Directors and Executive Directors, and are given exposure and learning opportunities through special assignments, high level meetings and contacts, knowledge and experience sharing sessions, internal and external workshops, as well as overseas programmes and visits. As of 31 December 2007, we had 13 management cadets.

Management Trainee Programme

The programme is being run for recent graduates as a preparation for management positions and as a cadet course for employees with general management potential. In order to help promising graduates become the backbone of our management team, we have designed a three-year management trainee programme that includes personal development, management skills training and job rotation. Each trainee is assigned a senior manager as a mentor, who will provide guidance and counsel on his or her career development. Trainees who have successfully completed the programme will be assigned to a junior management position. As of 31 December 2007, we had 48 management trainees in the programme. Currently, 22 of them have successfully completed the programme and are assuming managerial positions.

Graduate Trainee Programme

This programme was established specifically for assisting fresh graduates to acquire technical/professional knowledge and management techniques through a well-structured and systematic on-the-job development programme, thereby preparing them for professional positions. The duration of the course varies for different professional streams. Throughout the programme, job rotation assignments are arranged for each graduate trainee and a 6 to 12-month secondment to external professional institutions/consultants is arranged where applicable. As of 31 December 2007, there were 13 graduate trainees.

In addition to our formal training programme, Shui On Land also organises social events and team building activities for our employees.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Executive Directors

Mr. Vincent H. S. LO, GBS, JP

aged 60, has served as our Chairman and Chief Executive Officer since the inception of our Company in February 2004. He is Chairman of the Shui On Group, which he founded in 1971, Chairman of Shui On Construction and Materials Limited (“SOCAM”) and Non-executive Chairman of China Central Properties Limited, respectively. He is a member of The Eleventh 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, an Economic Adviser of the Chongqing Municipal Government, a Vice Chairman of the Chamber of International Commerce

Shanghai, an Honorary Court Member of Hong Kong University of Science and Technology, a Director of Great Eagle Holdings Limited, a Non-executive Director of Hang Seng Bank Limited, and an Independent Non-executive Director of China Telecom Corporation Limited.

He was awarded the Gold Bauhinia Star in 1998 and appointed Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region. He was made an Honorary Citizen of Shanghai in 1999. He was named Businessman of the Year by the Hong Kong Business Awards in 2001 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. Vincent H.S. LO



Mr. William T. ADDISON



The Honourable LEUNG Chun Ying

Mr. William T. ADDISON

aged 55, has served as our Director since April 2005. He is our Managing Director and Chief Financial Officer. Mr. ADDISON is also a member of the Executive Committee; Chairman of the Finance Committee; and Chairman of the Ethics Committee of the Company. He is 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 and the IT functions of the Company. Mr. ADDISON is responsible for undertaking our strategic partnerships as well as for undertaking our mergers and acquisitions, in both cases from a financial perspective. 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 LEUNG Chun Ying, GBS, JP

aged 53, 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 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 Coalition of Professional Services and Chairman of One Country Two Systems Research Institute Limited. He is also a Non-executive Director of Sing Tao News 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.



Sir John R.H. BOND



Dr. Edgar W. K. CHENG



Dr. William K. L. FUNG

Independent Non-executive Directors

Sir John R. H. BOND

aged 66, has served as an 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 Chairman of Vodafone Group Plc and a Non-executive Director of Ford Motor Company and A. P. Moller Maersk. He is also a member 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 64, 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 36 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 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 Hang Seng Bank Limited, Vice President of the International Federation of Stock Exchange, Founding Chairman of the Hong Kong Securities Institute, a member of the board of directors of the Hong Kong Futures Exchange Limited, a member of the Conference Board's Global Advisory Council and an Independent Director of Goldman Sachs Guo Hua Securities Co. Limited and an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) 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 CNOOC Limited and an Independent Non-executive 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 was also a member of the Commission on Strategic Development and a member of the Greater Pearl River Delta Business Council. He is currently Chairman of

the Council for Sustainable Development 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 Adviser (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 Eleventh National Committee of the Chinese People's Political Consultative Conference.

Dr. William K. L. FUNG, JP

aged 59, 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



Professor Gary C. BIDDLE

in 1999. Dr. FUNG is a Non-executive Director of HSBC Holdings plc and an Independent Non-executive Director of 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 56, has served as an Independent Non-executive Director of our Company since May 2006. Professor BIDDLE is Dean of the Faculty of Business and Economics and also PCCW Chair Professor of The University of Hong Kong. He was previously Associate Dean of the School of Business and Management at Hong Kong University of Science and Technology. Professor BIDDLE obtained his MBA and Ph.D. degrees from the University of Chicago. He served as a professor at the University of Chicago and the University of Washington before coming to Hong Kong 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 an



Dr. Roger L. McCARTHY

Independent Non-executive Director of Kingdee International Software Group Company Limited.

Dr. Roger L. McCARTHY

aged 59, has served as an Independent Non-executive Director of our Company since May 2006. Dr. McCARTHY is Chairman Emeritus 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. In 1992, Dr. McCARTHY was appointed by the first President Bush to the President's Commission on the National Medal of Science. Dr. McCARTHY is one



Mr. David J. SHAW

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, and he delivered the 2008 commencement address for the University of Michigan's College of Engineering.

Mr. David J. SHAW

aged 61, 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 that 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 a Non-executive Director of certain companies within the HSBC Group, including HSBC Private Banking Holdings (Suisse) SA and The Bank of Bermuda Limited. He is also an Independent Non-executive Director of Kowloon Development Company Limited.

Senior Management

Mr. Louis H. W. WONG

aged 57, 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 an 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, the 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 59, 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 26 years experience in the commercial field and has extensive working experience in the USA and Singapore. Mr. LEE 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. HUI Shing Sun

aged 52, 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 25 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. Clement C. C. LAU

aged 58, 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 52, 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 is also Director – Dalian and is responsible for all aspects of our project in Dalian. He joined the Shui On Group in January

2004. Prior to joining our Company, Mr. CHAN 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 48, 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. Freddy C. K. LEE

aged 46, is Director – Wuhan & Foshan and is responsible for all aspects of our projects in Wuhan and Foshan. He joined the Shui On Group in 1986 and has over 16 years of working experience in construction management and 6 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 50, 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 held a senior management position with a leading property development and investment company headquartered in Hong Kong with a significant presence in China. He has over 22 years of progressive experience in accounting, auditing, taxation, financial control, and general management. He has 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, UK and an MBA from The Chinese University of Hong Kong.

Mr. UY Kim Lun

aged 44, is Director of Legal Affairs and Company Secretary of our Company. He joined our Company in 2005 and is responsible for the legal, company secretarial and compliance issues of our Company. Mr. UY holds a Bachelor's degree, with honours, in Laws and a Postgraduate Certificate in Laws 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 16 years of post-qualification experience and has worked in the legal departments of several blue-chip companies in Hong Kong before joining our Company.

Mr. TANG Ka Wah

aged 48, is Director – Chongqing and is responsible for all aspects of our project in Chongqing. He joined the Shui On Group in 1985 and has over 21 years of working experience in the construction industry. He is a member of the Institution of Structural Engineers and a member of the Hong Kong Institution of Engineers. Mr. TANG is a chartered engineer. He holds a Bachelor's degree in Engineering from The University of Hong Kong and a Master's degree in Business Administration – E-Commerce from the West Coast Institute of Management & Technology, West Australia.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

Principal Activities

The Company acts as an investment holding company. The activities of its subsidiaries, associates and jointly controlled entity are set out in notes 48, 18 and 19 respectively to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 106.

An interim dividend of HK5 cents per share was paid to shareholders on 30 October 2007.

The Directors now recommend the payment of a final dividend of HK10 cents (2006: HK6 cents) per share to shareholders on the register of members on 5 June 2008, amounting to approximately RMB373 million.

Investment Properties

Details of the movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2007 are set out in note 30 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as of 31 December 2007 were RMB8,901 million (2006: RMB9,694 million).

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 (resigned on 1 May 2007)

Mr. William T. ADDISON

Non-executive Director:

The Honourable LEUNG Chun Ying

(re-designated on 12 January 2007)

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

In accordance with Article 102 of the Company's Articles of Association, Mr. William T. ADDISON, Dr. William K. L. FUNG and Professor Gary C. BIDDLE will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Interests in Shares

As of 31 December 2007, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which 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 (the "Listing Rules"):

(a) The Company

(i) Long position in the shares of the Company

Name of Directors	Nature of interests	Total number of ordinary shares	Interests in underlying shares (Note 2)	Approximate percentage of interests in the Company
Mr. Vincent H. S. LO	Other	2,257,993,225 (Note 1)	–	53.94%
Mr. William T. ADDISON	Personal	200,000	5,000,000	0.12%
Dr. William K. L. FUNG	Personal	3,700,000	–	0.08%
The Honourable LEUNG Chun Ying	Personal	–	500,000	0.01%
Sir John R. H. BOND	Personal	–	500,000	0.01%
Dr. Edgar W. K. CHENG	Personal	–	500,000	0.01%
Professor Gary C. BIDDLE	Personal	–	500,000	0.01%
Dr. Roger L. McCARTHY	Personal	–	500,000	0.01%
Mr. David J. SHAW	Personal	–	500,000	0.01%

Notes:

- (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.
- (2) These represent interests of share options granted to the Directors under the share option scheme to subscribe for shares, further details of which are set out in the section "Share Options".

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

(i) Long position in the shares of SOCAM

Name of Directors	Nature of interests	Total number of ordinary shares	Approximate percentage of interests in SOCAM
Mr. Vincent H. S. LO	Other	181,981,000 (Note 1)	56.70%
Dr. William K. L. FUNG	Personal	682,000	0.21%

Note:

- (1) Among 181,981,000 SOCAM shares beneficially owned by SOCL, 166,148,000 SOCAM shares and 15,833,000 SOCAM shares were held respectively by SOCL and Shui On Finance Company Limited, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. 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.

(ii) Short 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	1,600,000 (Note 1)	0.49%

Note:

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

Save as disclosed above, as of 31 December 2007, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Substantial Shareholders' Interest in Shares

As of 31 December 2007, 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 of shareholders	Capacity / Nature of interest	Total number of ordinary shares	Approximate percentage of shareholding
HSBC International Trustee Limited	Trustee	2,257,993,225 (Note 1)	53.94%
Bosrich Holdings Inc.	Trustee	2,257,993,225 (Note 1)	53.94%
SOCL	Interest of Controlled Corporation	2,257,993,225 (Note 1)	53.94%
SOCAM	Interest of Controlled Corporation	526,279,964 (Note 2)	12.57%

Notes:

- (1) The 2,257,993,225 shares are beneficially owned by SOCL through its subsidiaries comprising 940,000,000 shares, 791,713,261 shares and 526,279,964 shares held respectively by Shui On Properties Limited, Shui On Investment Company Limited 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 are beneficially owned by NRI, a wholly-owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such shares under the SFO.
- (3) All the interests stated above represent long positions.

Save as disclosed above, as of 31 December 2007, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Share Options

Particulars of the Company's share option scheme (the "Share Option Scheme") adopted by the Company on 8 June 2007 (the "Adoption Date") are set out in note 37 to the consolidated financial statements.

During the year ended 31 December 2007, options were granted on 20 June, 1 August and 2 October, 1 November and 3 December. The exercise price for the options on those dates are HK\$7.00, HK\$8.18, HK\$10.00, HK\$11.78 and HK\$9.88 and the closing share price at the date of grant are HK\$6.98, HK\$7.99, HK\$10.00, HK\$11.78 and HK\$9.88, respectively. The weighted average estimated fair values of the options granted on those dates are HK\$2.90, HK\$3.15, HK\$3.96, HK\$4.58 and HK\$3.73, respectively. These fair values were calculated using the Binominal model.

The following table discloses the movements in the Company's share options during the year.

Name or category of eligible participants	Date of grant	Exercise price per share	Number of share options					At 31 December 2007	Period during which options outstanding at 31 December 2007 are exercisable	Price of the Company's shares immediately before the exercise of share options
			At 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2007			
		HK\$						HK\$		
Directors										
Mr. William T. ADDISON	20 June 2007	7.00	–	5,000,000	–	–	5,000,000	20 June 2009 – 19 June 2016	–	
The Honourable LEUNG Chun Ying	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Sir John R. H. BOND	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Dr. Edgar W. K. CHENG	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Dr. William K. L. FUNG	20 June 2007	7.00	–	500,000	(500,000)	–	–	20 June 2007 – 19 June 2012	7.79	
Professor Gary C. BIDDLE	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Dr. Roger L. McCARTHY	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Mr. David J. SHAW	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Sub-total			–	8,500,000	(500,000)	–	8,000,000			
Consultants										
Mr. Richard K. N. HO	20 June 2007	7.00	–	1,000,000	–	–	1,000,000	20 June 2007 – 19 June 2016	–	
Dr. Thomas K. F. LEUNG	20 June 2007	7.00	–	500,000	–	–	500,000	20 June 2007 – 19 June 2012	–	
Sub-total			–	1,500,000	–	–	1,500,000			
Employees (in aggregate)										
	20 June 2007	7.00	–	136,888,190	–	(8,721,392)	128,166,798	20 June 2009 – 19 June 2016	–	
	1 August 2007	8.18	–	1,636,903	–	(201,710)	1,435,193	1 August 2009 – 31 July 2016	–	
	2 October 2007	10.00	–	5,222,500	–	(22,500)	5,200,000	2 October 2009 – 1 October 2016	–	
	1 November 2007	11.78	–	4,550,064	–	(44,566)	4,505,498	1 November 2009 – 31 October 2016	–	
	3 December 2007	9.88	–	1,601,700	–	–	1,601,700	3 December 2009 – 2 December 2016	–	
Sub-total			–	149,899,357	–	(8,990,168)	140,909,189			
Total			–	159,899,357	(500,000)	(8,990,168)	150,409,189			

Note:

The vesting period of the share options under the Share Option Scheme is from the date of grant until the commencement of the exercise period.

Summary of the Share Option Scheme are as follows:

(i) Purpose

The purpose of the Share Option Scheme is to provide a strategic driver to enhance shareholder value of the Company through achieving excellent business results and rapid growth; and to build a high performing organization with loyal staff and other key contributors who are committed to achieving the vision and goals of the Company.

(ii) Qualifying participants

The Board may offer to grant an option to any employee including employee who has been newly promoted or recruited by the Company and/or its subsidiaries and non-executive director, consultant or other contributor of the Company or its subsidiaries as recommended by the Chairman.

(iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Share Option Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme if this will result in such limit exceeded. As of 31 December 2007, the number of shares available for issue in respect thereof is 418,009,717 Shares.

(iv) Limit for each participant

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

(v) Option period

The period within which the shares must be taken up under an option for an employee shall be for such period as the Board may from time to time determine, and initially as at the Adoption Date, shall be a period ranging from 5 years for the first to the third tranch to 1 year for the seventh tranch of the option unless otherwise adjusted by the Board in its absolute discretion in certain circumstances set out in the Share Option Scheme. In the case of an option granted to a qualifying participant recommended by the Chairman, the option period shall be for such period as the Board may from time to time determine in accordance with the recommendations of the Chairman, which initially at the Adoption Date, shall not be more than 5 years from the date of the relevant grant. In all cases, the option period shall not exceed 10 years from the date of grant of the relevant option.

(vi) Acceptance and payment on acceptance

An offer shall remain open for acceptance by the qualifying participant concerned for a period of 30 days from the date of the offer (or such longer period as the Board may specify in writing). HK\$1.00 is payable by the grantee to the Company on acceptance of the offer of the option.

(vii) Subscription price

The subscription price in respect of any particular option shall be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(viii) Remaining life of the Share Option Scheme

The Board shall be entitled at any time within 10 years commencing on 8 June 2007 to make an offer for the grant of an option to any qualifying participants.

Arrangement to Purchase Shares or Debentures

Other than the share option holdings disclosed above, 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.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2007.

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 68 to 77.

Connected Transactions

Certain related party transactions as disclosed in note 43 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 persons (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. ("SYKIZ") to Shanghai Yangpu Centre Development Co., Ltd. ("KIC")

Pursuant to an agreement between the Group and SYKIZ which commenced on 26 August 2003, SYKIZ provides KIC, a 70%-owned subsidiary, with advisory services in respect of the Shanghai Knowledge and Innovation Community Project (the "Shanghai KIC project"), including assisting with obtaining the relevant regulatory and government approvals and permits as well as the marketing and administrative aspects of the Shanghai KIC Project.

SYKIZ owns 30% of KIC and is a substantial shareholder of KIC. Its associates are also our connected persons under the Listing Rules.

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 SYKIZ for the advisory services is fixed at 0.9% of the construction costs for the Shanghai KIC project incurred by KIC. 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 SYKIZ'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 KIC to SYKIZ for advisory services for each of the two years ending 31 December 2008 will not exceed RMB11 million.

An aggregate total amount of RMB3 million was paid or is payable by KIC to SYKIZ for advisory services during the year under review.

(2) Leases of property by the Group from subsidiaries of SOCL

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 SOCL. As SOCL is a controlling shareholder of the Company, SOCL and each of the subsidiaries of SOCL is a connected person of the Company.

In Shanghai, the Group has entered into property leasing agreements with Shanghai Jiu Hai Rimmer Properties Co. Ltd., which is 80% owned by SOCL, for various units in Shui On Plaza at market rent for a term ending on 31 December 2008, subject to renewal. These properties are used for offices and a showroom. The Group 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 SOCL, to lease a site office at Rui Hong Xin Cheng in Shanghai at market rent for a term ending on 31 December 2008, subject to renewal. In Hong Kong, the Group has entered into property leasing and licensing agreements with Shui On Centre Company Limited and Shui On Investment Company Limited, both of which are wholly-owned by SOCL, for various units in Shui On Centre at market rent for a term ended on 9 October 2006 and ending on 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 (the "Original Agreement") with SOCL expiring on 31 December 2008, subject to renewal, pursuant to which it may lease from SOCL 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.

As a result of the fast and steady growth in PRC, more office spaces are required for the continuing development of the Group. On 4 September 2007, the Company has entered into a Supplemental Agreement with Shui On Group to extend the term of the Original Agreement so that it shall end on 31 December 2009 instead of 31 December 2008. The maximum aggregate annual rent payable by the Group to the Shui On Group for the two years ending 31 December 2008 has been revised from RMB21 million and RMB25 million to RMB28 million and RMB38 million respectively. The Company also set the maximum aggregate annual rent payable by the Group to the Shui On Group for the year ending 31 December 2009 at RMB48 million.

The Company expects that the total amount payable by the Group to the Shui On Group for leasing of the premises in Hong Kong under the property leasing agreements and the framework lease agreement for the two years ending 31 December 2008 will remain unchanged and will not exceed HK\$3.8 million and HK\$4.4 million respectively.

An aggregate amount of RMB22 million for the properties in Shanghai and HK\$3 million for the properties in Hong Kong respectively was paid or is payable by the Group 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 Group

In the ordinary course of the Group's business, the Group 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 RMB1 million, 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 RMB1 million were entered into pursuant to and on the basis of bids tendered. For contracts of RMB1 million or less, the price was agreed with SOCAM Contractors with reference to prevailing market rates.

The Group 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 Group expects that the total annual payment for all construction services provided by Shanghai Shui On Construction Co., Ltd. to the Group for the two years ending 31 December 2008, will not exceed RMB535 million and RMB750 million, respectively.

An aggregate amount of RMB117 million was paid or is payable to Shanghai Shui On Construction Co., Ltd. for all construction services during the year under review.

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

The Group has provided a shareholder loan to Profitstock Holdings Limited, its then 70%-owned subsidiary, in the principal amount of RMB282 million 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 Group has also provided a shareholder loan to Globe State Properties Limited, our 70%-owned subsidiary, in the principal amount of RMB130 million 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 Group 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 two years ending 31 December 2008, the annual amount of the financial assistance provided by the Group to Profitstock Holdings Limited and Globe State Properties Limited will not exceed the aggregate of the loan amounts, that is RMB412 million.

The aggregate amount of the financial assistance by the Group to Profitstock Holdings Limited and Globe State Properties Limited was RMB412 million for the year under review.

Pursuant to the completion of further acquisition of 30% interest in Profitstock Holdings Limited on 31 October 2007, Profitstock Holdings Limited, Globe State Properties Limited together with their subsidiaries are no longer connected persons of the Company pursuant to note 2 to Rule 14A.11(4)(c) of the Listing Rules.

(5) 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 million provided by Bank of China Limited to Shanghai Jing Fu Property Co., Ltd., its then indirect 69.3%-owned subsidiary. This bridging loan replaced a previous loan facility in the aggregate amount of up to HK\$750 million 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 expired 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.

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 million. 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.

Pursuant to the completion of further acquisition of 30% interest in Profitstock Holdings Limited on 31 October 2007 as mentioned in (4) above, Shanghai Jing Fu Property Co., Ltd. (being a subsidiary of Profitstock Holdings Limited which holds 99% indirect interest) is no longer taken as a connected person of the Company pursuant to note 2 to Rule 14A.11(4)(c) of the Listing Rules.

Pursuant to Rule 14A.37 of the Listing Rules, the INEDs of the Company have reviewed the above continuing connected transactions and are of the opinion that the continuing connected transactions as stated in point no. 1 to 5 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 auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions as set out in point no.1 to 5 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 as set out in the relevant announcement or the Company's prospectus dated 20 September 2006.

The auditor has 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 43 to the consolidated 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

At 31 December 2007, the following Director or his associates is considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules as set out below:

Name of Director	Name of businesses which entity are considered to compete or likely to compete with the businesses of the Group	Description of the businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of Interest of the Director in the entity
Vincent H. S. LO	SOCL	Property investment in the PRC	Director and controlling shareholder
Vincent H. S. LO	SOCAM	Property investment in the PRC	Director and controlling shareholder

Save as aforesaid, as of 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 RMB300 million. 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 38 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 year ended 31 December 2007.

Charitable Donations

During the year, the Group made charitable donations amounting to RMB13 million (2006: RMB6 million).

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 2007, payments to our single largest construction contractor, Shanghai Shui On Construction Co., Ltd., accounted for approximately 12% of our total payments for construction services. Details of the transactions with Shanghai Shui On Construction Co., Ltd. are set out under the caption Connected Transactions point (3) "Provision of construction services by SOCAM to the Group" in pages 99 and 100. Our five largest construction contractors accounted for approximately 42% of our total payments for construction services. Except for the construction payments to Shanghai Shui On Construction Co., Ltd., 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.

Events after the Balance Sheet Date

Details of the Group's events after the balance sheet date up to the date of this report are set out in note 44 to the consolidated financial statements.

Auditor

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

On behalf of the Board

Vincent H. S. LO

Chairman

17 April 2008

Independent Auditor's Report



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 106 to 173, which comprise the consolidated balance sheet as at 31 December 2007, 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 2007 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
17 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'million	2006 RMB'million
Turnover	5	4,570	4,729
Cost of sales		(1,885)	(1,589)
Gross profit		2,685	3,140
Other income	6	269	178
Selling and marketing expenses		(114)	(150)
General and administrative expenses		(543)	(335)
Other expenses	7	(13)	(658)
Operating profit	8	2,284	2,175
Increase in fair value of investment properties	14	577	145
Gain on acquisition of additional equity interests in subsidiaries	35	80	–
Gains on disposal and partial disposals of equity interests in subsidiaries	36	845	582
Share of results of associates		26	1
Finance costs	9	(125)	(118)
Profit before taxation		3,687	2,785
Taxation	10	(820)	(1,145)
Profit for the year		2,867	1,640
Attributable to:			
Shareholders of the Company		2,462	1,146
Minority interests		405	494
		2,867	1,640
Dividends	12		
– Interim dividend, paid		203	–
– Final dividend, proposed		373	248
		576	248
Earnings per share	13		
– Basic		RMB0.59	RMB0.48
– Diluted		RMB0.59	RMB0.38

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'million	2006 RMB'million
Non-Current Assets			
Investment properties	14	7,994	6,205
Property, plant and equipment	15	260	188
Prepaid lease payments	16	4,325	3,710
Properties under development	17	1,734	1,760
Interests in associates	18	85	3
Loans to associates	18	981	–
Accounts receivable	20	312	147
Pledged bank deposits	21	237	368
Defined benefit assets	38	6	5
Deferred tax assets	33	89	4
		16,023	12,390
Current Assets			
Properties under development for sale	17	6,281	4,749
Properties held for sale	22	325	1,799
Accounts receivable, deposits and prepayments	20	3,477	1,447
Loan receivable	23	240	227
Amount due from an associate	18	12	2
Amounts due from related parties	24	44	100
Amount due from a minority shareholder of a subsidiary	25	6	6
Early redemption rights on notes	26	11	29
Pledged bank deposits	21	617	834
Bank balances and cash	21	2,843	4,452
		13,856	13,645
Current Liabilities			
Accounts payable, deposits received and accrued charges	27	1,768	1,554
Amounts due to related parties	24	39	73
Amounts due to minority shareholders of subsidiaries	25	876	267
Loan from a minority shareholder of a subsidiary	32	100	–
Tax liabilities		1,541	252
Notes – due within one year	26	2,667	–
Bank borrowings – due within one year	28	1,514	1,683
Derivative financial instruments designated as hedging instruments	29	323	–
		8,828	3,829
Net Current Assets		5,028	9,816
Total Assets Less Current Liabilities		21,051	22,206

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'million	2006 RMB'million
Capital and Reserves			
Share capital	30	84	84
Reserves		15,794	13,868
Equity attributable to shareholders of the Company		15,878	13,952
Minority interests		828	1,213
Total Equity		16,706	15,165
Non-Current Liabilities			
Loan from a minority shareholder of a subsidiary	32	93	183
Notes – due after one year	26	–	2,762
Bank borrowings – due after one year	28	2,891	2,032
Deferred tax liabilities	33	1,361	2,057
Derivative financial instrument designated as hedging instrument	29	–	7
		4,345	7,041
		21,051	22,206

The consolidated financial statements on pages 106 to 173 were approved and authorised for issue by the Board of Directors on 17 April 2008 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 2007

	Attributable to shareholders of the Company												Total RMB' million
	Share capital RMB' million	Share premium RMB' million	Merger reserve RMB' million (note 31(a))	Special reserve RMB' million (note 31(b))	Capital reserve RMB' million	Share option reserve RMB' million	Exchange reserve RMB' million	Hedge reserve RMB' million	Other reserves RMB' million (note 31(c))	Retained earnings RMB' million	Total RMB' million	Minority interests RMB' million	
At 1 January 2006	36	2,314	122	(424)	423	–	32	–	504	1,749	4,756	306	5,062
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	77	–	–	–	77	3	80
Deferred tax on intra-group balances	–	–	–	–	–	–	(40)	–	–	–	(40)	–	(40)
Fair value adjustments on the derivative financial instruments designed as cash flow hedge	–	–	–	–	–	–	–	(7)	–	–	(7)	–	(7)
Net income (expense) recognised directly in equity	–	–	–	–	–	–	37	(7)	–	–	30	3	33
Profit for the year	–	–	–	–	–	–	–	–	–	1,146	1,146	494	1,640
Fair value adjustments on cash flow hedge recognised in consolidated income statement	–	–	–	–	–	–	–	2	–	–	2	–	2
Total recognised income (expense) for the year	–	–	–	–	–	–	37	(5)	–	1,146	1,178	497	1,675
Issue of shares at premium	16	4,433	–	–	–	–	–	–	–	–	4,449	–	4,449
Issue of shares (note 43(a) and (b))	6	(6)	–	–	–	–	–	–	–	–	–	–	–
Issue of shares on conversion of convertible redeemable preference share (note 34)	24	3,507	–	–	(423)	–	–	–	–	–	3,108	–	3,108
Issue of shares on exercise of warrants (note 26)	2	581	–	–	–	–	–	–	–	–	583	–	583
Transaction costs attributable to issue of new shares	–	(145)	–	–	–	–	–	–	–	–	(145)	–	(145)
Disposal of equity interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	404	404
Capitalisation of retained profits by a subsidiary (note 31(c)(iii))	–	–	–	–	–	–	–	–	99	(99)	–	–	–
Capital injection	–	–	–	–	–	–	–	–	–	–	–	6	6
Release of special reserve (note 31(b))	–	–	–	23	–	–	–	–	–	–	23	–	23
At 31 December 2006	84	10,684	122	(401)	–	–	69	(5)	603	2,796	13,952	1,213	15,165
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	(30)	–	–	–	(30)	(9)	(39)
Fair value adjustments on the derivative financial instruments designed as cash flow hedge	–	–	–	–	–	–	–	(316)	–	–	(316)	–	(316)
Net expense recognised directly in equity	–	–	–	–	–	–	(30)	(316)	–	–	(346)	(9)	(355)
Profit for the year	–	–	–	–	–	–	–	–	–	2,462	2,462	405	2,867
Fair value adjustments on cash flow hedge recognised in consolidated income statement	–	–	–	–	–	–	–	237	–	–	237	–	237
Total recognised (expense) income for the year	–	–	–	–	–	–	(30)	(79)	–	2,462	2,353	396	2,749
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	36	–	–	–	–	36	–	36
Issue of shares on exercise of share options	–	5	–	–	–	(1)	–	–	–	–	4	–	4
Disposal of equity interests in subsidiaries	–	–	–	–	–	–	1	–	–	–	1	15	16
Capital injection	–	–	–	–	–	–	–	–	–	–	–	11	11
Acquisition of additional interests in subsidiaries	–	–	–	(22)	–	–	–	–	–	–	(22)	(807)	(829)
Release of special reserve (note 31(b))	–	–	–	12	–	–	–	–	–	–	12	–	12
Total dividends of HK\$0.11 paid, comprising 2006 final dividend of HK\$0.06 per share and 2007 interim dividend of HK\$0.05 per share	–	–	–	–	–	–	–	–	–	(458)	(458)	–	(458)
At 31 December 2007	84	10,689	122	(411)	–	35	40	(84)	603	4,800	15,878	828	16,706

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'million	2006 RMB'million
OPERATING ACTIVITIES		
Profit before taxation	3,687	2,785
Adjustments for:		
Allowance for bad and doubtful debts	7	1
Allowance for amount due from a jointly controlled entity	–	1
Depreciation of property, plant and equipment charged to consolidated income statement	28	27
Release of prepaid lease payments charged to consolidated income statement	1	1
Loss on change in fair value of derivative financial instruments	–	500
Net foreign exchange loss (gain)	55	(31)
Share of results of associates	(26)	(1)
Gains on disposal and partial disposals of equity interests in subsidiaries	(845)	(582)
Gain on acquisition of additional equity interests in subsidiaries	(80)	–
Finance costs	125	118
Loss on disposal of property, plant and equipment	1	3
Interest income	(208)	(96)
Increase in fair value of investment properties	(577)	(145)
Increase in defined benefit assets	(1)	(1)
Equity-settled share-based payment expenses	36	–
Release of special reserve	12	23
Operating cash flows before movements in working capital	2,215	2,603
Increase in accounts receivable, deposits and prepayments	(1,476)	(491)
Decrease in properties held for sale	1,765	1,553
Decrease in due from related companies	22	–
Increase (decrease) in accounts payable, deposits received and accrued charges	215	(186)
Cash generated from operations	2,741	3,479
Tax paid	(312)	(215)
NET CASH GENERATED FROM OPERATING ACTIVITIES	2,429	3,264

	Notes	2007 RMB'million	2006 RMB'million
INVESTING ACTIVITIES			
Interest received		187	90
Purchase of property, plant and equipment		(44)	(52)
Proceeds from disposal of property, plant and equipment		2	–
Additions to investment properties		(9)	(105)
Additions to prepaid lease payments		(1,100)	(1,195)
Additions to properties under development		(2,222)	(2,620)
Loans to associates		(1,037)	–
Advance to a jointly controlled entity		–	(1)
Advance to an associate		(10)	–
Acquisition of additional interests in subsidiaries	35	(870)	–
Proceeds from disposals of equity interests in subsidiaries	36	917	604
Decrease (increase) in pledged bank deposits		348	(794)
Increase in loan receivable		(13)	(227)
NET CASH USED IN INVESTING ACTIVITIES		(3,851)	(4,300)
FINANCING ACTIVITIES			
Net proceeds on issuance of shares		4	4,304
(Repayment to) advance from minority shareholders of subsidiaries		(16)	3
Net repayment to related parties		–	(1)
Capital injected from minority shareholders of subsidiaries		11	6
New bank loans raised		2,989	3,476
Repayment of bank loans		(2,183)	(3,611)
Interest and bank charges paid		(398)	(616)
Payment of dividend		(458)	–
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		(51)	3,561
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,473)	2,525
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,452	1,989
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(136)	(62)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2,843	4,452
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		2,843	4,452

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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 48. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new International Financial Reporting Standard ("IFRS"), International Accounting Standard ("IAS") and Interpretations ("IFRIC") (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board, which are effective for the Group's financial year beginning 1 January 2007.

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

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements ¹
IAS 23 (Revised)	Borrowing Costs ¹
IAS 27 (Revised)	Consolidated and Separate Financial Statements ²
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
IFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
IFRS 3 (Revised)	Business Combinations ²
IFRS 8	Operating Segments ¹
IFRIC 11	IFRS 2: Group and Treasury Share Transactions ³
IFRIC 12	Service Concession Arrangements ⁴
IFRIC 13	Customer Loyalty Programmes ⁵
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 March 2007

⁴ Effective for annual periods beginning on or after 1 January 2008

⁵ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Group except for the adoption of IFRS 3 (Revised) and IAS 27 (Revised). The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for common control combinations

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

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

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

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

Acquisition of additional interest in a subsidiary

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

At the date of acquisition, the Group reassesses the identification and measurement of the enterprise's identifiable assets, liabilities and contingent liabilities. If the Group's additional interest in the net fair value of those items exceeds the cost of the acquisition, any excess remaining after that reassessment, which represents the gain from acquisition, is recognised by the Group immediately in the consolidated income statement.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in consolidated income statement for the year 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 losses.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

Prepaid lease payments

Prepaid lease payments for leasehold land are charged to the consolidated income statement 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 or for investment potential, the leasehold land component is classified as a prepaid lease payment and amortised on 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 which are intended to be held for own use or their investment potential are carried at cost, less any identified impairment losses and are shown as non-current assets.

Properties under development which are intended to be held for sale are carried at lower of cost and net realisable value and 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 associates, 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 provided for and a liability is recognised 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 consolidated 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 entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised 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 consolidated 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.

Properties held for sale

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, loan receivable, loans to associates, amount due from an associate, amounts due from related parties, amount due from a minority shareholder of a subsidiary and bank balances and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date and are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of loans and receivables have been impacted.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss of loans and receivables is recognised in consolidated income statement 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.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of the amount due from a jointly controlled entity and trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When the amount due from a jointly controlled entity and trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

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

Convertible redeemable preference shares

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

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

Senior preference shares consist of 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 consolidated 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 consolidated 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 consolidated income statement immediately, respectively. Issue costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Notes and warrants

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

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in consolidated income statement 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 consolidated 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 consolidated income statement as part of other income or other expenses. Amounts deferred in equity are recycled in the consolidated income statement in the periods when the hedged item is recognised in the consolidated 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 consolidated 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 consolidated income statement.

Financial guarantee contracts

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

Derecognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Rentals payable under operating leases are charged to the consolidated 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 consolidated income statement in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax is charged or credited to the consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Equity-settled share-based payment transactions

Share options granted to employees and directors

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in consolidated income statement, with a corresponding adjustment to share option reserve.

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

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses immediately, unless the services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

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 awarded in recognition of the Group's past development and which have no future related costs are recognised as income when they become receivable.

Revenue recognition

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

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

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

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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 judgment 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 judgment 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 consolidated income statement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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 tax 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 income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. TURNOVER AND SEGMENTAL INFORMATION

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

	2007 RMB'million	2006 RMB'million
Property development:		
Property sales	4,085	4,283
Property investment:		
Rental income received from investment properties	401	358
Income from operations of serviced apartments	25	25
Property management fees	19	22
Rental related income	29	24
	474	429
Others	11	17
	4,570	4,729

Business segment

For management purposes, the Group's business activities are broadly categorised under two major business segments – property development and property investment. These segments are the bases 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, management and operations of serviced apartments

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segment (Continued)

For the year ended 31 December 2007

	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Turnover				
Segment sales	4,085	474	11	4,570
Results				
Segment results	2,151	915	9	3,075
Interest income				208
Finance costs				(125)
Gains on disposal and partial disposals of equity interests in subsidiaries				845
Gain on acquisition of additional equity interests in subsidiaries				80
Share of results of associates				26
Net unallocated expenses				(422)
Profit before taxation				3,687
Taxation				(820)
Profit for the year				2,867
Other information				
Allowance for bad and doubtful debts	–	7	–	7
Capital additions	3,625	93	15	3,733
Depreciation of property, plant and equipment charged to consolidated income statement	7	10	11	28
Release of prepaid lease payments charged to consolidated income statement	–	1	–	1
Loss on disposal of property, plant and equipment	–	1	–	1
Equity-settled share-based payment expenses	36	–	–	36
Balance sheet				
Assets				
Segment assets	15,394	8,246	78	23,718
Interests in associates				85
Loans to associates				981
Amount due from an associate				12
Unallocated corporate assets				5,083
Consolidated total assets				29,879
Liabilities				
Segment liabilities	(1,445)	(215)	(3)	(1,663)
Unallocated corporate liabilities				(11,510)
Consolidated total liabilities				(13,173)

5. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segment (Continued)

For the year ended 31 December 2006

	Property development RMB'million	Property investment RMB'million	Others RMB'million	Consolidated RMB'million
Turnover				
Segment sales	4,283	429	17	4,729
Results				
Segment results	2,616	431	(9)	3,038
Interest income				96
Finance costs				(118)
Gain on partial disposals of equity interests in subsidiaries				582
Share of results of associates				1
Loss on change in fair value of derivative financial instruments				(500)
Net unallocated expenses				(314)
Profit before taxation				2,785
Taxation				(1,145)
Profit for the year				1,640
Other information				
Allowance for amount due from a jointly controlled entity	–	–	1	1
Allowance for bad and doubtful debts	–	1	–	1
Capital additions	4,463	134	18	4,615
Depreciation of property, plant and equipment charged to consolidated income statement	2	14	11	27
Release of prepaid lease payments charged to consolidated income statement	–	1	–	1
Loss on disposal of property, plant and equipment	–	2	1	3
Balance sheet				
Assets				
Segment assets	13,306	6,440	62	19,808
Interests in associates				3
Amount due from an associate				2
Unallocated corporate assets				6,222
Consolidated total assets				26,035
Liabilities				
Segment liabilities	(1,302)	(173)	(3)	(1,478)
Unallocated corporate liabilities				(9,392)
Consolidated total liabilities				(10,870)

5. TURNOVER AND SEGMENTAL INFORMATION (Continued)**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.

6. OTHER INCOME

	2007 RMB'million	2006 RMB'million
Interest income	135	90
Imputed interest income on non-current accounts receivable from sales of properties	14	–
Interest income on consideration receivable on disposals of equity interests in subsidiaries	52	–
Imputed interest income on consideration receivable on disposals of equity interest in subsidiaries (notes 20 & 43(e))	7	6
Sundry income	11	14
Grant received from local government	50	68
	269	178

7. OTHER EXPENSES

	2007 RMB'million	2006 RMB'million
Loss on change in fair value of warrants (note 26)	–	357
Loss on change in fair value of conversion options of senior preference shares (note 34)	–	143
Loss on change in fair value of derivative financial instruments	–	500
Transaction costs attributable to initial public offering	–	152
Donations to charitable organisations	13	6
	13	658

8. OPERATING PROFIT

	2007 RMB'million	2006 RMB'million
Operating profit has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts	7	1
Allowance for amount due from a jointly controlled entity	-	1
Auditor's remuneration	6	6
Depreciation of property, plant and equipment	28	28
Less: Amount capitalised to properties under development	-	(1)
	28	27
Release of prepaid lease payments	100	118
Less: Amount capitalised to properties under development	(99)	(117)
	1	1
Loss on disposal of property, plant and equipment	1	3
Employee benefits expenses		
Directors' emoluments	20	29
Other staff costs		
Salaries, bonuses and allowances	266	166
Share-based payment expenses	36	-
Retirement benefits costs	22	15
Total employee benefits expenses	344	210
Less: Amount capitalised to properties under development	(82)	(64)
	262	146
Cost of properties sold recognised as an expense	1,790	1,552
Rental charges under operating leases	31	24

9. FINANCE COSTS

	2007 RMB'million	2006 RMB'million
Interest on bank loans and overdrafts wholly repayable within five years	211	213
Interest on amounts due to shareholders wholly repayable within five years (note 43(e))	-	1
Interest on amount due to a minority shareholder of a subsidiary wholly repayable within five years (notes 25 and 43(e))	4	4
Imputed interest on loan from a minority shareholder of a subsidiary wholly repayable within five years (notes 32 and 43(e))	10	9
Interest on consideration payable on acquisition of additional interests in subsidiaries (note 43(e))	-	32
Interest on convertible redeemable preference shares (note 34)	-	273
Interest on notes (note 26)	329	322
Less: Net interest income from cross currency interest rate swap	(96)	-
Total interest costs	458	854
Less: Amount capitalised to properties under development	(358)	(643)
	100	211
Loss (gain) on change in fair value of early redemption rights on notes (note 26)	17	(23)
Net exchange gain on financing activities	(9)	(78)
Other finance costs	17	8
	125	118

Borrowing cost capitalised during the year ended 31 December 2007 arose on the general borrowing pool of the Group were calculated by applying a capitalisation rate of approximately 4.7% (2006: 11.6%) to expenditure on the qualifying assets.

10. TAXATION

	2007 RMB'million	2006 RMB'million
PRC Enterprise Income Tax:		
Current taxation		
– Provision for the year	650	167
– Underprovision in prior year	–	17
	650	184
Deferred taxation (note 33)		
– Provision for the year	289	785
– Attributable to a change in tax rate of the PRC Enterprise Income Tax	(343)	–
	(54)	785
PRC Land Appreciation Tax	224	176
	820	1,145

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.

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.

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

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowings costs and the relevant property development expenditures.

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

	2007 RMB'million	2006 RMB'million
Profit before taxation	3,687	2,785
PRC Enterprise Income Tax at 33%	1,217	919
PRC Land Appreciation Tax	224	176
Tax effect of PRC Land Appreciation Tax	(74)	(58)
Tax effect of share of results of associates	(9)	–
Tax effect of expenses not deductible for tax purposes	142	337
Tax effect of income not taxable for tax purposes	(349)	(252)
Tax effect of tax losses not recognised	12	13
Tax effect on utilisation of tax losses previously not recognised	–	(4)
Tax effect on recognition of deferred tax assets arising from tax losses previously not recognised	–	(3)
Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate	(343)	–
Underprovision in prior year	–	17
Tax charge for the year	820	1,145

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

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

Name of director	Notes	Performance				2007 Total RMB'000	2006 Total RMB'000
		Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Retirement benefit costs RMB'000		
Mr. Vincent H.S. Lo		-	-	-	-	-	13
Mr. Wilfred Y.W. Wong	(a)	-	2,772	-	96	2,868	11,397
Mr. William T. Addison		-	7,036	7,798	-	14,834	6,110
Sir John R.H. Bond	(b)	291	-	-	-	291	97
The Honourable Chun Ying Leung	(c)	291	-	-	-	291	182
Dr. Edgar W.K. Cheng	(b)	388	-	-	-	388	130
Dr. William K.L. Fung	(b)	388	-	-	-	388	242
Professor Gary C. Biddle	(b)	485	-	-	-	485	303
Dr. Roger L. McCarthy	(b)	388	-	-	-	388	242
Mr. David J. Shaw	(b)	291	-	-	-	291	182
Mr. Louis H.W. Wong	(d)	-	-	-	-	-	6,687
Mr. Shing Sun Hui	(d)	-	-	-	-	-	3,151
Total for 2007		2,522	9,808	7,798	96	20,224	28,736
Total for 2006		1,378	15,288	11,271	799	28,736	

Notes:

- (a) Executive director resigned during the year
- (b) Independent non-executive directors
- (c) Non-executive director
- (d) Executive directors resigned in 2006 and became senior management

Of the five highest paid individuals in the Group, one (2006: four) is executive director of the Company whose emolument is set out above. The emoluments of the remaining four (2006: one) individuals are as follows:

	2007 RMB'million	2006 RMB'million
Salaries and other benefits	17	7
Performance related incentive payments	9	-
Retirement benefit costs	1	-
	27	7

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	2007 Number of employees	2006 Number of employees
Emolument bands		
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$6,000,001 – HK\$6,500,000	1	–
HK\$6,500,001 – HK\$7,000,000	1	1
HK\$9,000,001 – HK\$9,500,000	1	–
	4	1

12. DIVIDENDS

	2007 RMB'million	2006 RMB'million
Interim dividend paid in respect of 2007 of HK5 cents per share (2006: nil)	203	–
Final dividend proposed in respect of 2007 of HK10 cents per share (2006: HK6 cents per share)	373	248
	576	248

In June 2007, a final dividend in respect of 2006 of HK6 cents (equivalent to RMB5.9 cents) per share was paid to the shareholders.

In October 2007, an interim dividend in respect of 2007 of HK5 cents (equivalent to RMB4.8 cents) per share (2006: nil) was paid to the shareholders.

The final dividend in respect of 2007 of HK10 cents (equivalent to RMB8.9 cents) per share has been proposed by the directors and is subject to approval by the Company's shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

Earnings

	2007 RMB'million	2006 RMB'million
Earnings for the purposes of basic earnings per share, being profit for the year attributable to shareholders of the Company	2,462	1,146
Effect of dilutive potential shares:		
Interest on convertible redeemable preference shares charged to consolidated income statement	–	4
Loss on change in fair value of conversion options of senior preference shares	–	143
Earnings for the purpose of diluted earnings per share	2,462	1,293

Number of shares

	2007 'million	2006 'million
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,185	2,405
Effect of dilutive potential shares:		
Convertible redeemable preference shares	–	1,003
Additional consideration in respect of the Rainbow Sale and Purchase Agreement (note 43(b))	–	2
Share options issued by the Company	15	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	4,200	3,410

	2007	2006
Basic earnings per share (note (a))	RMB0.59 HK\$0.61	RMB0.48 HK\$0.47
Diluted earnings per share (note (a))	RMB0.59 HK\$0.61	RMB0.38 HK\$0.37

Notes:

- (a) The HK dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK\$1.026 for 2007 and RMB1.000 to HK\$0.976 for 2006, being the average exchange rates that prevailed during the respective years, in accordance with the International Accounting Standard 21 "Effects of Changes in Foreign Exchange Rates".
- (b) There are no dilution effects for the share options granted on 1 August 2007, 2 October 2007, 1 November 2007 and 3 December 2007 as the exercise price of these share options were higher than the average market price of the shares for the year.

14. INVESTMENT PROPERTIES

	2007 RMB' million	2006 RMB' million
At fair value		
At beginning of the year	6,205	5,877
Additions	9	105
Transfer from prepaid lease payments and properties under development (notes 16 and 17)	1,203	78
Increase in fair value recognised in the consolidated income statement	577	145
At end of the year	7,994	6,205

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 2007 and 31 December 2006 have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuers not connected to the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in relevant locations. The valuations have been arrived at using the capitalisation of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term.

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.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB' million	Furniture, fixtures, equipment and motor vehicles RMB' million	Total RMB' million
At cost			
At 1 January 2006	134	92	226
Additions	17	35	52
Disposals	–	(25)	(25)
At 31 December 2006	151	102	253
Transfer from properties under development	48	16	64
Additions	–	44	44
Disposals of a subsidiary	–	(7)	(7)
Disposals	–	(19)	(19)
At 31 December 2007	199	136	335
Accumulated depreciation			
At 1 January 2006	17	42	59
Charge for the year	7	21	28
Eliminated on disposals	–	(22)	(22)
At 31 December 2006	24	41	65
Charge for the year	6	22	28
Eliminated on disposals of a subsidiary	–	(2)	(2)
Eliminated on disposals	–	(16)	(16)
At 31 December 2007	30	45	75
Carrying values			
At 31 December 2007	169	91	260
At 31 December 2006	127	61	188

The buildings are all situated in the PRC and 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.

Furniture, fixtures, equipment and motor vehicles are depreciated using the straight-line method after taking into account of their estimated residual values over their estimated useful lives of 3 to 5 years.

16. PREPAID LEASE PAYMENTS

	2007 RMB' million	2006 RMB' million
At beginning of the year	3,710	2,664
Additions	1,100	1,195
Transfer to investment properties (note 14)	(385)	(31)
Release for the year (note 8)	(100)	(118)
At end of the year	4,325	3,710

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.

17. PROPERTIES UNDER DEVELOPMENT

	Non-current		Current	
	2007 RMB' million	2006 RMB' million	2007 RMB' million	2006 RMB' million
At cost				
At beginning of the year	1,760	1,127	4,749	5,244
Additions	693	563	1,887	2,700
Release of prepaid lease payments capitalised to properties under development (note 8)	99	117	–	–
Transfer to investment properties (note 14)	(818)	(47)	–	–
Transfer to properties held for sale	–	–	(291)	(3,195)
Transfer to property, plant and equipment	–	–	(64)	–
At end of the year	1,734	1,760	6,281	4,749

The properties under development are all situated in the PRC.

Included in the current portion of properties under development as at 31 December 2007 is carrying value of RMB4,542 million (2006: RMB4,133 million) 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.

18. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

	2007 RMB' million	2006 RMB' million
Cost of investments, unlisted	59	2
Share of post-acquisition profits	26	1
	85	3
Loans to associates	981	–
Amount due from an associate	12	2

The summarised financial information in respect of the Group's associates is set out below:

	2007 RMB' million	2006 RMB' million
Total assets	2,445	15
Total liabilities	(2,126)	(4)
Net assets	319	11
Group's share of net assets of associates	85	3
Revenue	6	4
Profit for the year	42	2
Group's share of results of associates for the year	26	1

18. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (Continued)

Particulars of the Group's principal associates at 31 December 2007 are as follows:

Name of associate	Form of legal entity	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Place of incorporation/ registration and operations	Principal activities
Synergis Shui On Management Services (Shanghai) Limited (Note (i))	Limited liability company	50%	Hong Kong	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	25%	PRC	Traffic system development
Richcoast Group Limited ("Richcoast") (Note (ii))	Sino-Foreign Joint Venture	61.54%	BVI	Investment holding
Dalian Qiantong Science & Technology Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Ruisheng Software Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Delan Software Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Jiadao Science & Technology Development Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Fazhan Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development
Dalian Software Park Shuion Kaifa Co., Ltd.	Sino-Foreign Joint Venture	48%	PRC	Software park development

Notes:

- (i) 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.
- (ii) The Group does not have control over Richcoast because the Group has the power to appoint only 4 out of the 10 directors of that company.

Loans to associates represent the loans to subsidiaries of Richcoast for financing the development of Dalian Tiandi • Software Hub (formerly known as Dalian Software Park Phase II), a property development project in Dalian, the PRC. Pursuant to the Joint Venture Agreement dated 25 May 2007 referred to in note 43(d), the loans are unsecured, interest free and with no fixed terms of repayment until Many Gain International Limited ("Many Gain"), a shareholder of Richcoast which is an independent third party, has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 10% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rate of 5.4%.

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

19. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	2007 RMB' million	2006 RMB' million
Cost of investment, unlisted	–	–
Share of post-acquisition losses	–	–
	–	–
Amount due from a jointly controlled entity	11	11
Less: Allowance	(11)	(11)
	–	–

Particulars of the Group's jointly controlled entity at 31 December 2007 are as follows:

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

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

20. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	2007 RMB' million	2006 RMB' million
Non-current accounts receivable comprise:		
Receivables from sales of properties (note a)	272	114
Deferred rental receivables	40	33
	312	147
Current accounts receivable comprise:		
Trade receivables	340	294
Less: allowance for bad and doubtful debts	(9)	(2)
	331	292
Consideration receivable on partial disposals of equity interests in subsidiaries (note b)	1,136	389
Prepayments of relocation costs	558	617
Deposit for land acquisition (note 41(b)(v))	1,200	–
Other deposits, prepayments and receivables	252	149
	3,477	1,447

20. 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.

The following is an aged analysis of trade receivables (net of allowance for bad and doubtful debts) at the balance sheet date:

	2007 RMB' million	2006 RMB' million
Not yet due	284	190
Within 30 days	4	53
31 – 60 days	23	12
61 – 90 days	1	4
Over 90 days	19	33
	331	292

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB47 million (2006: RMB102 million) which are past due at the balance sheet date for which the Group has not provided for impairment loss as the Group has collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2007 RMB' million	2006 RMB' million
Within 30 days	4	53
31 – 60 days	23	12
61 – 90 days	1	4
Over 90 days	19	33
	47	102

The Group has provided fully for all receivables with evidences show the receivables are not recoverable.

Movement in the allowance for bad and doubtful debts:

	2007 RMB' million	2006 RMB' million
Balance at beginning of the year	2	1
Impairment losses recognised on trade receivables	7	1
Balance at end of the year	9	2

20. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (Continued)

Movement in the allowance for bad and doubtful debts: (Continued)

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB9 million (2006: RMB2 million) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Notes:

- (a) The amounts are unsecured and repayable on or before 31 December 2010. RMB152 million (2006: nil) of the entire amount outstanding at 31 December 2007 is interest free whereas the remaining balance of RMB120 million (2006: RMB114 million) is interest bearing as follows:
- (i) the whole amount is interest free from 1 January 2007 to 31 December 2007
 - (ii) half of the amount is interest free and the remaining amount bears interest at 5% per annum from 1 January 2008 to 31 December 2008
 - (iii) the whole amount bears interest at simple interest rate of 6% per annum from 1 January 2009 to 31 December 2009
 - (iv) the full amount bears interest at simple interest rate of 8% per annum from 1 January 2010 to 31 December 2010

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

- (b) The balance at 31 December 2007 represents the consideration receivable on partial disposals of equity interests in Fieldcity Investments Limited and Portspin Limited. These amounts are unsecured, interest bearing at People's Bank of China's 1-year borrowing rate and repayable in accordance with the terms set out in notes 36(a) & (b).

The balance at 31 December 2006 represented the consideration receivable on partial disposals of equity interests in Score High Limited. The amount was unsecured, interest free and repayable in accordance with the terms set out in note 36(d). The amount was carried at amortised cost at an effective interest rate of 8% per annum.

21. 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 RMB237 million (2006: RMB368 million) 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 1.7% (2006: 0.7% to 5.0%). The pledged bank deposits carry fixed interest rate range from 0.7% to 1.7% (2006: 0.7% to 5.1%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

22. 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.

23. LOAN RECEIVABLE

The loan is denominated in RMB, unsecured, interest bearing at 5.9% (2006: 5.0%) per annum and repayable on 26 June 2008.

24. AMOUNTS DUE FROM/TO RELATED PARTIES

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

	2007 RMB' million	2006 RMB' million
Amounts due from:		
– shareholders	1	1
– fellow subsidiaries	40	69
– a company in which a director of the Company has a beneficial interest (note)	3	4
– a director	–	11
– close family members of key management	–	15
Amounts due from related parties	44	100
Amounts due to:		
– shareholders	17	19
– fellow subsidiaries	22	54
Amounts due to related parties	39	73

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.

25. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

As at 31 December 2007, other than an amount of RMB84 million (2006: RMB84 million) due to a minority shareholder of a subsidiary, which bears interest at 5% (2006: 5%) per annum, the remaining amounts are unsecured, interest free and repayable on demand.

26. 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.

26. NOTES AND WARRANTS (Continued)**The principal terms of the notes** (Continued)

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

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

The principal terms of the warrants

Each warrant:

- (a) will be exercisable on 30 June 2007, 31 December 2007, 30 June 2008 or 12 October 2008 or, following a Qualifying IPO (as defined in the warrant agreement), the warrants will be exercisable at any time on or after the date of the Qualifying IPO;
- (b) when exercised prior to a Qualifying IPO will entitle the holder thereof to receive cash from the Company in an amount equal to the Fair Value (as defined in Section 6.01 (g) of the warrant agreement) of, a number of fully paid and non-assessable ordinary shares of the Company equal to X (as defined in Section 4.01 (k) of the warrant agreement) at an exercise price of US\$0.01 per share; subject to adjustments in certain cases as defined in the warrant agreement; and
- (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 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement":

- (a) Notes represent the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time of the market interest rate on 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.

26. NOTES AND WARRANTS (Continued)

	Notes	Warrants	Early redemption rights	Total
	RMB' million	RMB' million	RMB' million	RMB' million
As at 1 January 2006	2,787	232	(6)	3,013
Exchange realignment	(109)	(6)	–	(115)
Interest charged during the year (note 9)	322	–	–	322
Interest paid during the year	(238)	–	–	(238)
Loss (gain) on change in fair value (notes 7 and 9)	–	357	(23)	334
Exercise during the year	–	(583)	–	(583)
As at 31 December 2006	2,762	–	(29)	2,733
Exchange realignment	(182)	–	1	(181)
Interest charged during the year (note 9)	329	–	–	329
Interest paid during the year	(242)	–	–	(242)
Loss on change in fair value (note 9)	–	–	17	17
As at 31 December 2007	2,667	–	(11)	2,656

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.

27. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2007	2006
	RMB' million	RMB' million
Trade payables aged analysis:		
Not yet due	495	722
Within 30 days	288	14
61 – 90 days	1	–
Over 90 days	1	–
	785	736
Retention payables (note)	78	76
Deed tax, business tax and other tax payables	555	475
Deposits received and receipt in advance from property sales	39	20
Deposits received and receipt in advance in respect of rental of investment properties	142	124
Accrued charges	169	123
	1,768	1,554

Note:

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

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28. BANK BORROWINGS

	2007 RMB' million	2006 RMB' million
Repayable within a period of		
– Not more than 1 year or on demand	1,514	1,683
– More than 1 year, but not exceeding 2 years	586	287
– More than 2 years, but not exceeding 5 years	2,149	1,745
– More than 5 years	156	–
	4,405	3,715
Less: Amount due within one year shown under current liabilities	(1,514)	(1,683)
Amount due after one year	2,891	2,032

The carrying amount of the Group's bank loans are analysed as follows:

Denominated in	Interest rate per annum	2007 RMB' million	2006 RMB' million
RMB	90% to 100% of People's Bank of China Prescribed Interest Rate	1,135	657
	Fixed rate of 5.59%	100	–
	6-months RMB Base Lending Rate stipulated by the PRC	–	875
		1,235	1,532
Hong Kong dollars	Hong Kong Interbank Offered Rates plus 0.8% to 2.75%	3,170	2,183
		4,405	3,715

As at 31 December 2007, the weighted average effective interest rate on the bank loans was 5.5% (2006: 5.2%), and are further analysed as follows:

	2007	2006
Denominated in RMB	7.0%	5.8%
Denominated in Hong Kong dollars	4.9%	4.7%

The bank loans as at the balance sheet dates were secured by the pledge of assets as set out in note 39.

29. DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

At 31 December 2007, the Group has outstanding cross currency interest swap to receive interest at fixed rate of 8.5% (2006: 8.5%) per annum based on notional amount of US\$375 million (2006: US\$188 million), pay interest at fixed rate of 5.2% (2006: 5.2%) per annum based on notional amount of RMB2,931 million (2006: RMB1,467 million) and to exchange the principal at maturity whereby would receive US\$375 million and pay RMB2,931 million. The Group has designated the cross currency interest swap as a hedge against the variability of cash flows arising from the fluctuation of currency in relation to the notes issued by the Group. The terms of the cross currency interest swap have been negotiated to match the terms of the notes.

The derivative financial instruments are measured at fair value at the balance sheet date. The fair values are determined based on valuation provided by the counterparty financial institution.

During the year ended 31 December 2007, fair value adjustments arising from the cross currency interest swap of RMB316 million (2006: RMB7 million) have been deferred in equity as hedge reserve; an amount of RMB237 million (2006: RMB2 million) is recognised in the consolidated income statement in line with the corresponding exchange gain recognised in respect of the notes liability designated as the hedge item. The remaining balance of the hedge reserve is expected to be recognised in the consolidated income statement at various dates in the coming ten months after the balance sheet, the period in which the interest and the principal of the notes are expected to settle.

30. SHARE CAPITAL

On 20 May 2006, the Company passed a resolution that the par value of each ordinary share 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	US\$'000	Number of	US\$'000
	shares		shares	
Ordinary shares of US\$0.0025 each (after Share Split):				
At 1 January 2006	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 34)	–	–	1,229,642,644	3,074
Issue of shares on exercise of warrants (note 26)	–	–	107,370,582	268
Issue of shares (notes 43(a) and (b))	–	–	283,733,332	709
At 31 December 2006	12,000,000,000	30,000	4,185,097,171	10,463
Issue of shares on exercise of share options	–	–	500,000	1
At 31 December 2007	12,000,000,000	30,000	4,185,597,171	10,464

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30. SHARE CAPITAL (Continued)

	2007 RMB' million	2006 RMB' million
Shown in the consolidated balance sheet as	84	84

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 at 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.

31. 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 consolidated 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 2007, an amount of RMB12 million (2006: RMB23 million) 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 million represents payable waived in 2004 by Shui On Investment Company Limited, a subsidiary of Shui On Company Limited, in respect of development costs of the same amount originally paid by Shanghai Shui On Property Development Management Co., Ltd., a fellow subsidiary of Shui On Investment Company Limited, and recharged to certain subsidiaries of the Company.
 - (ii) Capital contribution of RMB21 million arising on the fair value adjustments at the initial recognition of an interest free loan advanced by a minority shareholder of a subsidiary in 2005, as set out in note 32.
 - (iii) Non-distributable reserve of RMB99 million arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC in 2006.

32. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest free and repayable in two instalments of RMB100 million each on 31 March 2008 (or the other date to be agreed with the minority shareholder of the subsidiary) and 31 March 2009. The amount is carried at amortised cost at effective rate of 5.3% (2006: 5.3%) per annum. Fair value adjustment of RMB29 million at the initial recognition was credited to equity in 2005.

33. 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' million	Revaluation of properties RMB' million	Tax losses RMB' million	Recognition of sales and related cost of sales RMB' million	Others RMB' million	Total RMB' million
At 1 January 2006	113	1,127	(38)	–	26	1,228
Charge (credit) to income for the year	43	48	(24)	721	(3)	785
Charge to reserve for the year	–	–	–	–	40	40
At 31 December 2006	156	1,175	(62)	721	63	2,053
Effect on change in tax rate	(66)	(285)	9	14	(15)	(343)
Transfer to current tax liabilities	–	–	20	(757)	10	(727)
Charge (credit) to income for the year	52	144	9	89	(5)	289
At 31 December 2007	142	1,034	(24)	67	53	1,272

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:

	2007 RMB' million	2006 RMB' million
Deferred tax assets	(89)	(4)
Deferred tax liabilities	1,361	2,057
	1,272	2,053

As at the balance sheet date, the Group had unused tax losses of RMB231 million (2006: RMB288 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to RMB98 million (2006: RMB187 million). No deferred tax asset has been recognised in respect of the remaining tax losses of RMB133 million (2006: RMB101 million) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2007 RMB' million	2006 RMB' million
2007	–	1
2008	5	5
2009	15	15
2010	39	41
2011	38	39
2012	36	–
	133	101

34. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

Authorised:

	Number of shares			Junior preference	Senior preference	Total
	Junior preference shares	Senior preference shares	Total	shares of US\$0.01 each US\$'000	shares of US\$0.01 each US\$'000	
At 1 January 2006	220,000,000	180,000,000	400,000,000	2,200	1,800	4,000
Cancelled upon conversion of issued preference share to ordinary shares	(220,000,000)	(180,000,000)	(400,000,000)	(2,200)	(1,800)	(4,000)
At 31 December 2006 and 2007	–	–	–	–	–	–

Issued and fully paid:

	Number of shares			Junior preference	Senior preference	Total
	Junior preference shares	Senior preference shares	Total	shares of US\$0.01 each RMB' million	shares of US\$0.01 each RMB' million	
At 1 January 2006	220,000,000	180,000,000	400,000,000	1,810	1,481	3,291
Conversion during the year	(220,000,000)	(180,000,000)	(400,000,000)	(1,810)	(1,481)	(3,291)
At 31 December 2006 and 2007	–	–	–	–	–	–

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 required that all the preference shares be converted into ordinary shares upon the date on which the securities of the Company were first listed on a stock exchange in connection with a Qualifying IPO (as defined in the Company's Articles of Association).

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

34. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Continued)

The movement of convertible redeemable preference shares are as follows:

	Liability component	Equity component	Conversion options of senior preference shares	Total
	RMB' million	RMB' million	RMB' million	RMB' million
At 1 January 2006	2,874	423	–	3,297
Exchange realignment	(70)	–	–	(70)
Interest charged during the year (note 9)	273	–	–	273
Interest paid during the year	(112)	–	–	(112)
Change in fair value (note 7)	–	–	143	143
Conversion during the year	(2,965)	(423)	(143)	(3,531)
At 31 December 2006 and 2007	–	–	–	–

The principal terms of these preference shares include the following:

Conversion

(i) Mandatory conversion:

The Company might, 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 was at least 18 months after 31 May 2004; and (b) the conversion was effective only upon, but not before, the date on which the securities of the Company were 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 were approved by the holders then outstanding, whereupon all the preference shares were 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 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, 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 continued 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 had not 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 were convertible into ordinary shares at an initial conversion price of US\$1.07 and US\$1.35, respectively. The conversion prices were 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 had 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 were entitled upon such mandatory conversion was capped at that number of ordinary shares which provided 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 were valued at the price at which shares of the Company were on offer for subscription pursuant to an initial public offering.

34. 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).

Dividend

- (i) The junior preference shares conferred 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 conferred 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 were ranked in priority to the ordinary shares and the junior preference shares on payment of dividend.

34. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Continued)

The net proceeds received from the issue of convertible redeemable preference shares contained the following components that were 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 represented 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 ended 31 December 2006 was calculated by applying effective interest rates of approximately 12% to the debt component for the year since the convertible redeemable preference shares were issued.

- (b) Equity component represented 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, equalled 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 was 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 was nil as at 4 October 2006, the date that all outstanding preference share were converted.

- (d) Conversion options of senior preference shares - in the event of a mandatory conversion of senior preference share, the number of ordinary shares to which the holders of senior preference shares was entitled upon mandatory conversion capped at that number of ordinary shares which provided 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 was valued at the price at which shares of the Company were on offer for subscription pursuant to an initial public offering.

The conversion options were linked to and were settled by delivery of the equity shares of the Company whose fair values could not be reliably measured as at 1 January 2006.

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

35. ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN SUBSIDIARIES

Acquisition of 30% of the issued share capital of Profitstock Holding Limited

Pursuant to a sale and purchase agreement dated 31 July 2007 entered into among Equity Millennium Limited and Shun Hing China Investment Limited collectively as sellers (the "Sellers") and Shui On Development (Holding) Limited ("SOD"), a wholly owned subsidiary of the Company, as purchaser, SOD agreed to acquire a 30% of the issued share capital of a then 70% owned subsidiary, Profitstock Holding Limited ("Profitstock"), from the Sellers. In addition, SOD also agreed to acquire the benefit of the shareholders' loans advanced to Profitstock by the Sellers amounting to RMB121 million. The consideration for the acquisition of the 30% of the issued share capital of Profitstock and the benefit of the shareholders' loans, which amounted to US\$116 million (equivalent to RMB870 million), is payable in cash by two instalments. The first instalment amounting to US\$58 million (equivalent to RMB438 million) was settled in July 2007. The second instalment in the remaining sum of US\$58 million (equivalent to RMB432 million) was settled in October 2007 when the transaction was completed.

35. ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN SUBSIDIARIES (Continued)**Acquisition of 30% of the issued share capital of Profitstock Holding Limited** (Continued)

A gain of RMB80 million arose from the above acquisition, representing the excess of the Group's share of additional interest in the fair value of the net assets of Profitstock attributable to the acquisition over the cost of the acquisition, has been recognised in the consolidated income statement for the year ended 31 December 2007.

36. DISPOSALS OF EQUITY INTERESTS IN SUBSIDIARIES

	2007 RMB' million	2006 RMB' million
Gain on disposals of partial equity interests whilst retaining control of subsidiaries:		
– 25% of the issued share capital of Fieldcity Investments Limited (note a)	480	–
– 49% of the issued share capital of Portspin Limited (note b)	364	–
– 19.8% of the issued share capital of Score High Limited (note d)	–	582
	844	582
Gain on disposal of equity interests in subsidiaries:		
– 100% of the issued share capital of Bestwealth Holdings Limited (note c)	1	–
	845	582

Notes:

(a) Disposal of a 25% of the issued share capital of Fieldcity Investments Limited

Pursuant to a sale and purchase agreement dated 29 June 2007 entered into between SOD as seller and an independent third party as purchaser, SOD agreed to sell to the purchaser a 25% of the issued share capital of Fieldcity Investments Limited ("Fieldcity"), a then wholly owned subsidiary of the Company. In addition, the purchaser also agreed to acquire the benefit of the shareholder's loans advanced to Fieldcity by SOD amounting to US\$98 million (equivalent to RMB746 million). The consideration for the disposal of the equity interest and the benefit of the shareholder's loans, which amounted to RMB1,245 million, is receivable by five instalments. The first instalment in the sum of RMB62 million was settled in June 2007. The second and third instalments in the sum of RMB249 million each, which bore interest at the People's Bank of China ("PBOC") Prescribed Interest Rate, were received in October 2007 and March 2008. The fourth and fifth instalments in the sum of RMB374 million and RMB311 million, which bear interest at PBOC Prescribed Interest Rate, shall be received in July 2008 and October 2008, respectively.

A gain of RMB480 million arose from the above disposal has been recognised in the consolidated income statement for the year ended 31 December 2007.

(b) Disposal of a 49% of the issued share capital of Portspin Limited

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

A gain of RMB364 million arose from the above disposal has been recognised in the consolidated income statement for the year ended 31 December 2007.

36. DISPOSAL OF INTERESTS IN SUBSIDIARIES (Continued)

- (c) Disposal of a 100% of the issued share capital of Bestwealth Holdings Limited

On 14 February 2007, the Group disposed of the entire equity interests in Bestwealth Holdings Limited to the independent third party referred to in (d) below as purchaser for an aggregate cash consideration of RMB11 million. The net assets of the disposed subsidiaries at the date of disposal were as follows:

	<u>RMB' million</u>
Net assets disposed of:	
Property, plant and equipment	5
Bank balances and cash	7
Other payables and accrued charges	(1)
Exchange reserve realised	(1)
	<u>10</u>
Gain on disposal	<u>1</u>
Cash consideration	<u>11</u>
Net cash inflow arising on disposal:	
Cash consideration	11
Bank balances and cash disposed of	(7)
	<u>4</u>

The impact of Bestwealth Holdings Limited on the Group's results and cash flows in the current and prior year is insignificant.

- (d) Disposal of a 19.8% of the issued share capital of Score High Limited

Pursuant to a sale and purchase agreement dated 1 September 2006 entered into between SOD as seller and an independent third party as purchaser, SOD 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 million, was receivable by two instalments in US dollars. The first instalment in the sum of RMB352 million was settled in November 2006 and the second instalment of RMB151 million was settled in June 2007.

Pursuant to a sale and purchase agreement dated 9 September 2006 entered into between SOD as seller and a preference shareholder of the Company as purchaser, SOD agreed to sell to the purchaser another 9.9% of the issued share capital of Score High Limited, subject to the terms and conditions of the agreement. The consideration for the sale of the equity interests, which amounted to RMB503 million, was receivable by three instalments in US dollars. The first instalment in the sum of RMB252 million was settled in November 2006, the second instalment in the sum of RMB75 million was settled in March 2007 and the third instalment on the remaining sum of RMB176 million was settled in June 2007.

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

37. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to directors, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

At 31 December 2007, 150,409,189 share options had been granted and remained outstanding under the Scheme, representing 3.6% of the shares of the Company in issue at that date. The Scheme allows the Board of Directors, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable.

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

HK\$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

The vesting period and the exercisable period of the share options granted to eligible employees and a director are as follows:

	Vesting period	Exercisable period
The first 1/7 of the grant:	From date of grant to the 2nd anniversary	From the 2nd to the 7th anniversary to the date of grant
The second 1/7 of the grant:	From date of grant to the 3rd anniversary	From the 3rd to the 8th anniversary to the date of grant
The third 1/7 of the grant:	From date of grant to the 4th anniversary	From the 4th to the 9th anniversary to the date of grant
The fourth 1/7 of the grant:	From date of grant to the 5th anniversary	From the 5th to the 9th anniversary to the date of grant
The fifth 1/7 of the grant:	From date of grant to the 6th anniversary	From the 6th to the 9th anniversary to the date of grant
The sixth 1/7 of the grant:	From date of grant to the 7th anniversary	From the 7th to the 9th anniversary to the date of grant
The last 1/7 of the grant:	From date of grant to the 8th anniversary	From the 8th to the 9th anniversary to the date of grant

The vesting period and the exercisable period of the share options granted to a consultant are as follows:

	Vesting period	Exercisable period
The first 1/5 of the grant:	Unconditional and fully vested at the date of grant	Before the 5th anniversary to the date of grant
The second 1/5 of the grant:	From date of grant to the 1st anniversary	Before the 6th anniversary to the date of grant
The third 1/5 of the grant:	From date of grant to the 2nd anniversary	Before the 7th anniversary to the date of grant
The fourth 1/5 of the grant:	From date of grant to the 3rd anniversary	Before the 8th anniversary to the date of grant
The last 1/5 of the grant:	From date of grant to the 4th anniversary	Before the 9th anniversary to the date of grant

The share options granted to independent non-executive directors, a non-executive director and a consultant are unconditional and fully vested at the date of grant and exercisable on or before the 5th anniversary to the date of grant.

During the year ended 31 December 2007, options were granted on 20 June, 1 August and 2 October, 1 November and 3 December. The exercise price of the options granted on those dates are HK\$7.00, HK\$8.18, HK\$10.00, HK\$11.78 and HK\$9.88 and the closing share price at the date of grant are HK\$6.98, HK\$7.99, HK\$10.00, HK\$11.78 and HK\$9.88, respectively. The weighted average estimated fair values of the options granted on those dates are HK\$2.90, HK\$3.15, HK\$3.96, HK\$4.58 and HK\$3.73, respectively. These fair values were calculated using the Binominal model. The inputs into the model were as follows:

Expected volatility	40% to 45%
Expected life	3.42 years to 8.76 years
Risk-free rate	2.62% to 4.68%
Expected dividend yield	2.0% to 2.5%

Expected volatility was determined by using the volatility of the listed companies in the same industry over the previous 7 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The Group recognised the total expense of RMB36 million for the year ended 31 December 2007 (2006: nil) in relation to share options granted by the Company.

In respect of the share options exercised during the year, the share price at the date of exercise is HK\$7.95.

The movement in the Company's share options is set out below:

Date of grant	Number of options				At 31 December 2007
	At 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	
20 June 2007	–	146,888,190	(500,000)	(8,721,392)	137,666,798
1 August 2007	–	1,636,903	–	(201,710)	1,435,193
2 October 2007	–	5,222,500	–	(22,500)	5,200,000
1 November 2007	–	4,550,064	–	(44,566)	4,505,498
3 December 2007	–	1,601,700	–	–	1,601,700
	–	159,899,357	(500,000)	(8,990,168)	150,409,189

Number of options exercisable at end of the year 3,700,000

38. 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 2007 amounted to RMB256,000 (2006: RMB110,000). 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.

38. PROVIDENT AND RETIREMENT FUND SCHEMES (Continued)**Hong Kong** (Continued)**The Plan** (Continued)

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out at 31 December 2006 and 31 December 2007 by Ms. Elaine Hwang of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

The principal actuarial assumptions used as at the balance sheet date are as follows:

	2007	2006
Discount rate	3.50%	3.75%
Expected rate of salary increase	2008: 14% 2009: 11% 2010: 8% 2011: 5%	3%
Expected rate of return on plan assets	8.25%	8.25%

The actuarial valuation showed that the fair value of the plan assets attributable to the Group at 31 December 2007 was RMB75 million (2006: RMB66 million), representing 84% (2006: 112%) of the benefits that had accrued to members.

Amounts recognised in the consolidated income statement for the years ended 31 December 2006 and 31 December 2007 in respect of the defined benefit plan are as follows:

	2007 RMB'million	2006 RMB'million
Current service cost	3	2
Interest cost	2	2
Expected return on plan assets	(5)	(3)
Net amount charged to consolidated income statement as staff costs	–	1

The actual returns on plan assets allocated to the Group for the years ended 31 December 2007 and 31 December 2006 were gains of RMB14 million and RMB16 million, respectively.

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

	2007 RMB'million	2006 RMB'million
Present value of funded defined benefit obligations	89	59
Unrecognised actuarial (losses) gains	(20)	2
Fair value of plan assets	(75)	(66)
Defined benefit assets	(6)	(5)

38. PROVIDENT AND RETIREMENT FUND SCHEMES (Continued)

Hong Kong (Continued)

The Plan (Continued)

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

	2007 RMB'million	2006 RMB'million
At 1 January	59	44
Exchange realignment	(4)	(2)
Current service cost	3	2
Interest cost	2	2
Contributions from plan participants	1	2
Actuarial losses	31	10
Transfer-in liabilities for transferred participants	–	1
Benefits paid	(3)	–
At 31 December	89	59

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

	2007 RMB'million	2006 RMB'million
At 1 January	(66)	(47)
Exchange realignment	4	2
Expected return on plan assets	(5)	(3)
Actuarial gains	(9)	(13)
Contributions from the employer	(1)	(2)
Contributions from plan participants	(1)	(2)
Benefits paid	3	–
Transfer-in assets	–	(1)
At 31 December	(75)	(66)

The major categories of plan assets at the balance sheet date are as follows:

	2007 RMB'million	2006 RMB'million
Equities	42	37
Hedge funds	16	14
Bonds and cash	17	15
	75	66

The Group expects to make a contribution of RMB1 million (2006: RMB2 million) to the defined benefit plans during the next financial year.

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.

39. PLEDGE OF ASSETS

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

	2007 RMB'million	2006 RMB'million
Investment properties	7,937	6,205
Property, plant and equipment	134	89
Prepaid lease payments	187	261
Properties under development	2,339	1,053
Properties held for sale	212	950
Bank deposits	854	1,202
	11,663	9,760

Included in pledged bank deposits above is an amount of RMB285 million (2006: nil) which has been pledged to a bank to secure the banking facilities granted to an associate.

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

40. LEASE ARRANGEMENTS**As lessor**

Property rental income in respect of the investment properties earned, net of outgoings, during the year ended 31 December 2007 was RMB339 million (2006: RMB323 million). The investment properties held have committed tenants for the next one to thirteen years at fixed rentals. Certain leases contain contingent rental income recognised during the year ended 31 December 2007 amounting to RMB5 million (2006: RMB10 million).

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

	2007 RMB'million	2006 RMB'million
Within one year	417	405
In the second to fifth years inclusive	701	499
Over five years	145	127
	1,263	1,031

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:

	2007 RMB'million	2006 RMB'million
Within one year	47	30
In the second to fifth years inclusive	50	49
Over five years	83	101
	180	180

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.

41. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

	2007 RMB'million	2006 RMB'million
Contracted but not provided for:		
Capital expenditure in respect of properties under development in the PRC	5,046	3,874
Capital expenditure in respect of the acquisition of property, plant and equipment	19	2

(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 that company and to provide a funding not exceeding RMB320,000. 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 2007 and 31 December 2006.

In August 2004, the Group issued a letter of guarantee amounting to HK\$7 million 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 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 2007, no construction contracts related to the hospital were entered into. No provision for the construction costs has been made in the consolidated financial statements as the amount cannot be measured reliably.
- (iii) 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 2007, no construction contracts related to the educational facilities were entered into. No provision for the construction costs has been made in the consolidated financial statements as the amount cannot be measured reliably.
- (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 million 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.
- (v) On 30 November 2007, the Group entered into a Confirmation Agreement with the Land Exchange Center at Chancheng District in Foshan City, Guangdong Province, the PRC confirming the Group's successful bid for a plot of land in Foshan. Under this Confirmation Agreement, a total consideration for acquiring the land use rights of the land is RMB7,510 million. As at 31 December 2007, the Group has made a refundable deposit amounting to RMB1,200 million (2006: nil) to the Land Exchange Center for acquiring the land in Foshan.

41. COMMITMENTS AND CONTINGENCIES (Continued)

(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 (2006: 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 2007, 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 million in respect of mortgage facilities granted to the buyers of its residential properties. There were no such guarantees outstanding at 31 December 2007.
- (iii) As at 31 December 2007, the Group has issued guarantees amounting to RMB285 million to banks in respect of banking facilities granted to an associate. The full amount of RMB285 million has been utilised by the associate as at 31 December 2007.

In the opinion of the directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated balance sheets as at 31 December 2007 and 31 December 2006.

42. MAJOR NON-CASH TRANSACTIONS

Details of the non-cash transactions entered into during the years ended 31 December 2007 and 2006 in relation to the acquisitions and disposals of interests in subsidiaries are set out in notes 35 and 36, respectively.

43. RELATED PARTY TRANSACTIONS

Apart from the related party transactions and balances as stated in notes 18, 19, 24, 25, 31, 32 and 41, the Group had the following transactions with certain subsidiaries of Shui On Company Limited.

- (a) 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 million 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.

43. RELATED PARTY TRANSACTIONS (Continued)

- (b) 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 (“SOCAM”) as vendor and the Company as purchaser, the Company agreed to acquire from SOCAM 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 SOCAM 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, SOCAM was entitled to receive additional consideration up to the maximum amount of US\$8.8 million 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 SOCAM 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 SOCAM 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 SOCAM as settlement of additional consideration pursuant to the Rainbow Sale and Purchase Agreement.

- (c) Pursuant to the Taipingqiao Sale and Purchase Agreement (note 43(a)), an indemnity dated 31 May 2004 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.
- (d) Pursuant to the Joint Venture Agreement dated 25 May 2007 entered into with Innovate Zone Group Limited (“Innovate Zone”), an indirect subsidiary of the Company, Main Zone Group Limited (“Main Zone”), a direct wholly-owned subsidiary of SOCAM and Many Gain, an independent third party, whereby the parties agreed to form a joint venture company, Richcoast, which owned as to 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone, and Many Gain respectively for the development and operation of Dalian Tiandi Software Hub in Dalian, the PRC.

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43. RELATED PARTY TRANSACTIONS (Continued)

- (e) The Group also had the following transactions with related parties in which certain directors and senior management of the Company have beneficial interests as follows:

	2007 RMB'million	2006 RMB'million
Fellow subsidiaries		
Rental and building management income	–	1
Project management fee income	–	1
Project construction fees	117	30
Rental and building management fee expenses	22	18
Agency fee	–	11
Sales and marketing expenses	–	1
Project management fee	10	–
Associates		
Building management fee expenses	3	–
Shareholders		
Interest expenses	–	1
Reimbursement of staff cost received	–	1
Reimbursement of staff cost paid	–	2
Rental and building management fee expenses	–	3
Minority shareholders of subsidiaries		
Interest income	7	6
Interest expenses	14	45
Property management fee	–	3
Jointly controlled entity		
Rental and building management fee income	4	5
Rental and building management fee expenses	–	1
A director		
Property sales	–	15
Senior management		
Property sales	7	–
Close family members of senior management		
Property sales	–	15

44. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 15 January 2008, the Group agreed to inject further cash by way of shareholders' loan in the equivalent of approximately RMB437 million (about HK\$470 million) to the joint venture formed for the development of Dalian Tiandi • Software Hub, whereby the Group ultimately holds a 48% effective interest. Details of the transactions are set out in announcement of the Company dated 16 January 2008.
- (b) Pursuant to an agreement dated 26 February 2008 entered into between Smithton Limited ("Smithton"), an indirect wholly-owned subsidiary of Shui On Company Limited, as seller and Foresight Profits Limited ("Foresight"), an indirect wholly-owned subsidiary of the Company, as purchaser, Foresight agreed to acquire from Smithton its entire interest in Silomax, being 100% of the issued share capital of Silomax, and the loan in the amount of approximately HK\$147 million (equivalent to approximately RMB137 million). Silomax is the indirect owner of the project company holding Shanghai RHXC Phase I.

44. EVENTS AFTER THE BALANCE SHEET DATE (Continued)

Foresight shall pay to Smithton the consideration in the amount of approximately HK\$153 million (equivalent to approximately RMB142 million, subject to adjustment) in cash. On the signing of the above agreement, Foresight paid to Smithton the first 10% of the consideration. The balance of the consideration will be paid on completion of the acquisition or such other date as mutually agreed by Foresight and Smithton. The consideration will be funded by internal resources of the Company.

The acquisition of Smithton was completed on 28 February 2008. In accordance with the terms of the above Agreement, all profits or losses of Silomax arising on or after 31 December 2007 would be attributable to the Group.

45. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the notes and the bank borrowings disclosed in notes 26 and 28 net of bank balances and cash and pledged bank deposits, and equity attributable to equity holders of the Company, comprising issued share capital and reserves, and minority interests.

The directors of the Company review the capital structure of the Group by using a gearing ratio, which is 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 (inclusive of pledged bank deposits) by total equity. The review is conducted at least quarterly and before each major financing or investment decision is made.

The gearing ratio at the year end was as follows:

	2007 RMB'million	2006 RMB'million
Notes	2,667	2,762
Bank borrowings	4,405	3,715
Pledged bank deposits	(854)	(1,202)
Bank balances and cash	(2,843)	(4,452)
Net debt	3,375	823
Total equity	16,706	15,165
Net debt to total equity	20.2%	5.4%

46. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 RMB'million	2006 RMB'million
Financial assets		
Fair value through profit or loss	11	29
Loans and receivables (including bank balances and cash)	8,769	7,583
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	(323)	(7)
Amortised cost	(9,598)	(8,287)

46. FINANCIAL INSTRUMENTS (Continued)**b. Financial risk management objectives and policies**

The Group's major financial instruments include accounts receivable, loan receivable, loans to associates, amount due from an associate, amounts due from related parties, amount due from a minority shareholder of a subsidiary, pledged 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 and bank borrowings.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Currency risk

All of the Group's turnover is denominated in RMB. However, the Group has certain bank balances and 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 currency risk, the Group has entered into highly effective cross currency interest swaps (which has been designated as hedging instruments) whereby the principal of the US dollar note repayable in October 2008 has been hedged against RMB. Details of the hedging instruments are set out in note 29. The Group continues reviewing the effectiveness of these hedging instruments and the underlying strategies in monitoring currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	2007 RMB'million	2006 RMB'million
HK dollar		
Assets	401	2,463
Liabilities	(3,296)	(2,342)
US dollar		
Assets	689	1,634
Liabilities	(3,063)	(3,425)

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items assuming the balances outstanding for the whole year and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

46. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Sensitivity analysis (Continued)

	Note	2007 RMB'million	2006 RMB'million
HK dollar			
Profit or loss	(i)	138	(6)
US dollar			
Profit or loss	(ii)	98	85
Other equity	(iii)	15	–

(i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in HK dollar not subject to cash flow hedge at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables and payables denominated in US dollar not subject to cash flow hedge at year end.

(iii) This is as a result of the changes in fair value of derivative instruments designated as cash flow hedges in relation to the Group's senior note denominated in US dollar.

The Group's sensitivity to foreign currency has increased during the current year mainly due to both the significant depreciation of HK dollar and US dollar against RMB and increase in foreign currency bank borrowings.

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. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and PBOC prescribed interest rate arising from the Group's HK dollar and RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by RMB22 million (2006: decrease/increase by RMB19 million). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

46. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

The Group's principal financial assets are bank balances and cash, pledged bank deposit, accounts receivable, loan receivable, loans to associates, amount due from an associate, amount due from a minority shareholder of a subsidiary 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 consolidated 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, except for as at 31 December 2007 and 2006 where the largest debtor amounting to approximately RMB114 million and RMB125 million, respectively, arising from sales of properties and loans to associates of RMB981 million and loan receivable of RMB240 million.

The credit risk on liquid funds is limited because majority of the counterparties are banks with creditworthy financial institutions.

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.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash outflows are presented.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Within 1 year or on demand RMB' million	More than 1 year but less than 2 years RMB' million	More than 2 years but less than 5 years RMB' million	More than 5 years RMB' million	Total undiscounted cash flows RMB' million	Carrying amount at 31.12.2007 RMB' million
2007							
Non-derivative financial liabilities							
Trade and other payables	-	1,418	-	-	-	1,418	1,418
Bank borrowings at variable rates	5.4%	1,561	634	2,678	303	5,176	4,405
Senior notes	8.5%	2,972	-	-	-	2,972	2,667
Amounts due to related parties	-	39	-	-	-	39	39
Amounts due to minority shareholders of subsidiaries	-	880	-	-	-	880	876
Loan from a minority shareholder of a subsidiary	-	193	-	-	-	193	193
		7,063	634	2,678	303	10,678	9,598
Derivatives – net settlement							
Cash flow hedge instruments	-	323	-	-	-	323	323

46. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate %	Within 1 year or on demand RMB' million	More than 1 year but less than 2 years RMB' million	More than 2 years but less than 5 years RMB' million	More than 5 years RMB' million	Total undiscounted cash flows RMB' million	Carrying amount at 31.12.2006 RMB' million
2006							
Non-derivative financial liabilities							
Trade and other payables	–	1,287	–	–	–	1,287	1,287
Bank borrowings at variable rates	5.2%	1,734	300	1,893	–	3,927	3,715
Senior notes	8.5%	–	3,426	–	–	3,426	2,762
Amounts due to related parties	–	73	–	–	–	73	73
Amounts due to minority shareholders of subsidiaries	–	271	–	–	–	271	267
Loan from a minority shareholder of a subsidiary	–	183	–	–	–	183	183
		<u>3,548</u>	<u>3,726</u>	<u>1,893</u>	<u>–</u>	<u>9,167</u>	<u>8,287</u>
Derivatives – net settlement							
Cash flow hedge instruments	–	–	7	–	–	7	7

c. Fair value

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

- the fair value of 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.

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47. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007 RMB'million	2006 RMB'million
Investments in subsidiaries	1,237	1,237
Amounts due from subsidiaries	8,121	6,204
Other receivables	–	32
Bank balances	26	2,683
Total assets	9,384	10,156
Amount due to a subsidiary	–	(29)
Total liability	–	(29)
Net assets	9,384	10,127
Share capital	84	84
Reserves	9,300	10,043
Total equity	9,384	10,127

48. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2007 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
Billion China Investments Limited	British Virgin Islands ("BVI") 18 October 2007	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
Central Fit Investments Limited	BVI 23 October 2007	1 ordinary share of US\$1	100%	Hong Kong	Investment holding

48. 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
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\$140,000,000	79.398%	PRC	Property development
Citichamp Limited	Hong Kong 19 July 2006	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Cititop Pacific Limited	Hong Kong 1 December 2000	2 ordinary shares of HK\$1 each	70%	Hong Kong	Investment holding
Costworth Investments Limited	BVI 12 January 2001	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Crown Fame Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$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
Eastern View Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	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	100 ordinary shares of US\$1 each	75%	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	100%	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

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48. 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
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 Co., Ltd.	PRC 6 March 2003	Registered and paid up capital US\$1,400,000	100%	PRC	Property management
Hangzhou Xihu Tiandi Properties Co., Ltd.	PRC 12 June 2003	Registered and paid up capital US\$34,540,000	100%	PRC	Property development
Hing Tin Investments Limited	BVI 23 October 2007	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
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
Info Union Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Innovate Zone Group Limited	BVI 3 January 2007	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Intellect Profit Investments Limited	BVI 10 August 2007	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	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
Land Pacific Limited	Hong Kong 2 November 2007	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Legend City Limited	Hong Kong 4 June 1997	2 ordinary shares of HK\$1 each	51%	Hong Kong	Investment holding

48. 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
Lucky Gain Limited	Hong Kong 8 November 2002	2 ordinary shares of HK\$1 each	100%	Hong Kong	Investment holding
Magic Best Investments Limited	BVI 19 July 2007	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Magic Bright Investments Limited	BVI 18 September 2007	1 ordinary share of US\$1	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
Nice In Investments Limited	BVI 18 October 2007	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	100%	Hong Kong	Investment holding
Oriental Host Limited	Hong Kong 23 October 2007	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Pacific Gain Limited	Hong Kong 11 September 2002	2 ordinary shares of HK\$1 each	100%	Hong Kong	Investment holding
Portspin Limited	BVI 22 May 1997	100 ordinary share of US\$1 each	51%	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	100%	Hong Kong	Investment holding
Regal Victory Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Rich Prime Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Rise Lake Investments Limited	BVI 23 August 2007	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Score High Limited	BVI 12 February 2003	1,000 ordinary share of US\$1 each	80.2%	Hong Kong	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

48. 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 Bai-Xing Properties Co., Ltd.	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 and paid up capital RMB645,000,000	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	99%	PRC	Property development
Shanghai Lakeville 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\$82,500,000 Paid up capital US\$50,551,600	99%	PRC	Property development
Shanghai IPO Food & Beverage Co., Ltd.	PRC 6 September 2006	Registered and paid up capital US\$1,050,000	100%	PRC	Food and beverage services
Shanghai Rui Hong Xin Cheng Co., Ltd.	PRC 2 July 2001	Registered capital RMB1,400,000 Paid up capital RMB1,263,000	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 Co., Ltd.	PRC 31 August 2001	Registered and paid up capital US\$200,000	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

48. 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 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\$67,000,000 Paid up capital US\$52,552,388	99%	PRC	Property development
Shanghai Yangpu Centre Development Co., Ltd. (Note 4)	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 Resort Community (Yunnan) Development Limited	Cayman Islands 17 July 2006	1 ordinary share of US\$0.01	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Holding Limited	BVI 18 July 2006	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Shui On Resort Community (Kunming) Limited	Hong Kong 25 July 2006	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Shui On Secretaries & Nominees Limited	Hong Kong 30 November 2006	1 ordinary share of HK\$1	100%	Hong Kong	Provision of secretarial services
Shine First Limited	BVI 25 October 2006	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Shine Prime Investments Limited	BVI 2 November 2006	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Sino Realty Limited	Hong Kong 3 October 2006	1 ordinary share of HK\$1	100%	Hong Kong	Investment holding
Sino Wisdom Investments Limited	BVI 12 May 2006	1 ordinary share of US\$1	100%	Hong Kong	Investment holding
Sinoco Limited	Hong Kong 28 October 2002	2 ordinary shares of HK\$1 each	100%	Hong Kong	Investment holding
Sinohink Holdings Limited	BVI 15 September 2000	100 ordinary shares of US\$1 each	100%	Hong Kong	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

48. 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
Smart Century Limited	Hong Kong 18 October 2007	1 ordinary share of HK\$1	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	75%	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
Triumph Sky Group Limited	BVI 23 October 2007	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\$238,000,000 Paid up capital US\$203,600,000	75%	PRC	Property development
Wuhan Shui On Tian Di Trading Co., Ltd	BVI 8 January 2007	Registered and paid up capital US\$600,000	100%	PRC	Retail business
上海瑞安房地產發展有限公司 (Shui On Development Limited)	PRC 14 June 2004	Registered and paid up capital US\$5,350,000	100%	PRC	Management

Notes:

- 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.
- All subsidiaries established in the PRC are either equity joint ventures or cooperative joint ventures except Hangzhou Xihu Tiandi Properties Company Limited, Wuhan Shui On Tian Di Trading Co., Ltd. and 上海瑞安房地產發展有限公司 (Shui On Development Limited) which are wholly foreign owned enterprises.
- Except for Shui On Development (Holding) Limited, none of the subsidiaries had any debt securities subsisting at 31 December 2007 or at any time during the year.
- The registered capital in Shanghai Yangpu Centre Development Company Limited ("KIC") shall be increased from US\$60,500,000 to US\$137,500,000 by US\$77,000,000 pursuant to an amendment agreement dated 14 August 2007 (the "Amendment Agreement") entered into between Bright Continental Limited ("BCL", an indirect wholly owned subsidiary) and Shanghai Yangpu Knowledge and Innovation Zone Investment and Development Company Limited ("SYKIZ"). BCL shall inject the entire portion of the increase in equity capital from US\$60,500,000 to US\$77,000,000 and at a premium of US\$8,470,000 in cash (being US\$85,470,000 in total). SYKIZ will not participate in injecting any additional equity capital into KIC. As a result of the completion of the Amendment Agreement, the interest of BCL in the equity capital of KIC will be increased from 70% to 86.8% by 16.8% and SYKIZ's interest will be diluted from 30% to 13.2% by 16.8%.

SYKIZ has made the necessary applications for the increase in registered capital. The Amendment Agreement is expected to be completed shortly after obtaining the approval by the relevant PRC government authorities is obtained.

49. COMPARATIVE FIGURES

In the current year, the comparative amounts have been restated to conform to the current year's presentation as follows:

- (i) the presentation of consolidated income statement has been changed to function of expense method to reflect a more relevant and meaningful presentation.
- (ii) In September 2007, the Financial Reporting Standards Committee of the Hong Kong Institute of Certified Public Accountants issued a meeting summary in which the committee concluded that Land Appreciation Tax is a form of income tax and is within the scope of the accounting standard "Income Tax". Taking this into account, the Land Appreciation Tax has been reclassified from cost of sales to taxation in the consolidated income statement.

FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT SUMMARY

for the year ended 31 December

	2003	2004	2005	2006	2007
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Turnover	977	1,039	1,018	4,729	4,570
Profit attributable to shareholders	29	786	380	1,146	2,462
Minority interests	56	324	166	494	405
Profit for the year	85	1,110	546	1,640	2,867

CONSOLIDATED BALANCE SHEET SUMMARY

as at 31 December

	2003	2004	2005	2006	2007
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Investment properties	2,383	5,142	5,877	6,205	7,994
Property, plant and equipment	140	146	168	188	260
Prepaid lease payments	677	855	2,665	3,710	4,325
Properties under development	3,239	4,000	6,371	6,509	8,015
Properties held for sale	55	61	157	1,799	325
Interests in and loans to associates	–	–	3	3	1,066
Accounts receivable, deposits and prepayments	50	94	712	1,594	3,789
Other assets	603	180	278	373	408
Pledged bank deposits, bank balances and cash	1,018	1,773	2,398	5,654	3,697
Total assets	8,165	12,251	18,629	26,035	29,879
Current liabilities	4,855	3,040	5,146	3,829	8,828
Non-current liabilities	2,388	4,100	8,421	7,041	4,345
Total liabilities	7,243	7,140	13,567	10,870	13,173
Net assets	922	5,111	5,062	15,165	16,706
Equity attributable to: Shareholders of the Company	753	4,519	4,756	13,952	15,878
Minority interests	169	592	306	1,213	828
Total equity	922	5,111	5,062	15,165	16,706

PER SHARE DATA

for the year ended 31 December

	2003	2004	2005	2006	2007
Basic earnings per share (RMB)	0.02	0.46	0.22	0.48	0.59
Dividend per share					
– Interim paid (HK\$)	–	–	–	–	0.05
– Final proposed (HK\$)	–	–	–	0.06	0.10
– Full year (HK\$)	–	–	–	0.06	0.15

Note:

The Company was incorporated and registered as an exempted company in the Cayman Islands on 12 February 2004 and become 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. William T. ADDISON
(Managing Director & Chief Financial Officer)

Non-executive Director

The Honourable LEUNG Chun Ying

Independent Non-executive Directors

Sir John R. H. BOND
Dr. Edgar W. K. CHENG
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Dr. Roger L. McCARTHY
Mr. David J. SHAW

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. UY Kim Lun

Qualified Accountant

Mr. George W. K. CHAN

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
Mayer Brown JSM

Registered Office

Walker House
87 Mary Street, George Town
Grand Cayman KY1-9002
Cayman Islands

Corporate Headquarters

26/F, Shui On Plaza
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

China Construction Bank Corporation
Deutsche Bank AG
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Industrial and Commercial Bank of
China
Standard Chartered Bank Limited

Stock Code

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Website

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