

Directors' Report

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

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

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

INVESTMENT PROPERTIES

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

FIXED ASSETS

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

SHARE CAPITAL

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

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

DISTRIBUTABLE RESERVES OF THE COMPANY

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

DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

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

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

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

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

(a) *The Company*

Long position in the shares of the Company

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

Note:

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

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

(b) Associated Corporation – Shui On Construction and Materials Limited (“SOCAM”)**(i) Long position in the shares of SOCAM**

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

Notes:

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

The 181,871,000 SOCAM shares beneficially owned by SOCL comprise 166,148,000 SOCAM shares held by SOCL and 15,723,000 SOCAM shares held by Shui On Finance Company Limited, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Vincent H. S. Lo is a discretionary beneficiary. Accordingly, Mr. Vincent H. S. Lo is deemed to be interested in such shares under the SFO.

On 27 August 2002, SOCL granted call options over certain existing SOCAM shares beneficially owned by SOCL to each of Mr. Wilfred Y. W. Wong (“Mr. Wilfred Wong”), Mr. Louis H. W. Wong (“Mr. Louis Wong”) and Mr. Frankie Y. L. Wong, as part of the incentive reward for the services to SOCAM. 50% of such SOCAM shares transferred to or to be transferred upon exercise of call options shall be subject to a restriction of disposal within 12 months from the date such shares were transferred. Mr. Wilfred Wong and Mr. Louis Wong have exercised all their call options and accordingly are deemed to be parties to an agreement to acquire SOCAM shares under section 317 of the SFO. As such, under section 318 of the SFO, SOCL is deemed to be interested in an aggregate of 7,744,000 SOCAM shares, comprising 3,700,000 SOCAM shares and 3,000,000 SOCAM shares underlying equity derivatives of SOCAM (as explained in note (2) below) owned by Mr. Wilfred Wong and 1,044,000 SOCAM shares owned by Mr. Louis Wong.

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

(ii) Short position in the shares of SOCAM

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

Note:

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

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

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

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

Notes:

- (1) These shares are directly held by subsidiaries of SOCL, namely Shui On Properties Limited ("SOP"), Shui On Investment Company Limited ("SOI") and New Rainbow Investments Limited ("NRI"). SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Vincent H. S. Lo is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Vincent H. S. Lo, Bosrich Holding Inc. and HSBC International Trustee Limited are deemed to be interested in such shares under the SFO.
- (2) These shares comprised 563,713,901 shares beneficially owned by SOI and 940,000,000 shares beneficially owned by SOP, which is a wholly-owned subsidiary of SOI. SOI is deemed to be interested in the 940,000,000 shares owned by SOP under the SFO and has an aggregate interest in 1,503,713,901 shares. SOI is owned by Shui On Holdings Limited. Accordingly, Shui On Holdings Limited is also deemed to be interested in the 1,503,713,901 shares held by SOI under the SFO.
- (3) These shares are beneficially owned by NRI, a wholly-owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such shares under the SFO.
- (4) All the interests stated above represent long positions.

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

CORPORATE GOVERNANCE

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

CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (b) the continuing connected transactions as stated in point no. 1 to 6 above have been:
 - (i) carried out in the usual and ordinary course of business of the Group;
 - (ii) conducted on normal commercial terms; and
 - (iii) entered into in accordance with the terms of the respective agreements.

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

- (a) have been approved by the Board of Directors of the Company;
- (b) were entered into in accordance with the terms of the relevant agreements governing the transactions; and
- (c) the amount of each continuing connected transaction did not exceed the relevant limits allowed by the Stock Exchange in the previous waiver or the limit as set out in the relevant announcement or the Company's prospectus dated 20 September 2006.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Vincent H. S. Lo is the Chairman and Chief Executive Officer of the Company, and the ultimate controlling shareholder, Chairman and Chief Executive Officer of the Shui On Group. The core businesses of the Shui On Group include property development and investment projects in Hong Kong, New York and the PRC, as described in the section headed "Relationship with the Shui On Group" of the Company's prospectus dated 20 September 2006. The Company is party to a non-competition agreement with Shui On Company Limited and Mr. Vincent H. S. Lo pursuant to which Shui On Company Limited and Mr. Vincent H. S. Lo have severally undertaken not to compete with the business of the Company, subject to the exceptions set out therein.

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

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

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

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

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

REMUNERATION POLICY

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

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

PROVIDENT AND RETIREMENT FUND SCHEMES

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CHARITABLE DONATIONS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

POST BALANCE SHEET EVENTS

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

AUDITORS

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

On behalf of the Board

Vincent H. S. Lo
Chairman

20 April 2007