Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

Shui On Land Limited (the "Company") was incorporated on 12 February 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 October 2006. The directors of the Company consider that its parent and ultimate holding company is Shui On Company Limited, a private limited liability company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

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

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

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

IAS 1 (Amendment)	Capital Disclosures[1]
IFRS 7	Financial Instruments: Disclosures[1]
IFRS 8	Operating Segments[2]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[3]
IFRIC 8	Scope of IFRS2[4]
IFRIC 9	Reassessment of Embedded Derivatives[5]
IFRIC 10	Interim Financial Reporting and Impairment[6]
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions[7]
IFRIC 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 March 2006
4 Effective for annual periods beginning on or after 1 May 2006
5 Effective for annual periods beginning on or after 1 June 2006
6 Effective for annual periods beginning on or after 1 November 2006
7 Effective for annual periods beginning on or after 1 March 2007
8 Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are set out as follows:

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for common control combinations

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Acquisition of additional interest in a subsidiary

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

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Prepaid lease payments

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

Properties under development

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

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

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

Interests in associates

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

Properties held for sale

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, loan receivable, amount due from an associate, amount due from a jointly controlled entity, amounts due from related parties, amount due from a minority shareholder of a subsidiary and bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible redeemable preference shares

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

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

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

Issue costs that relate to the issue of the convertible redeemable preference shares are allocated to the liability and equity/conversion option components in proportion to the allocation of the proceeds. Issue costs relating to the equity component and conversion option derivative are charged directly to equity and the income statement immediately, respectively. Issue costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Notes and Warrants

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Other financial liabilities

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

Derivative financial instruments and hedging

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

Embedded derivatives

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

Hedge accounting

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantee contracts

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

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies (continued)

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Retirement benefit costs

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

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

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

Government grants

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

Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (continued)

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

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

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

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 3, the directors of the Company have made the following judgement and key sources of estimation uncertainty at the balance sheet date. The key assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Investment properties

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

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

Taxation

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

Land Appreciation Tax

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

5. FINANCIAL INSTRUMENTS

a. *Financial risk management objectives and policies*

The Group's major financial instruments include accounts receivable, loan receivable, amount due from an associate, amount due from a jointly controlled entity, amounts due from related parties, amount due from a minority shareholder of a subsidiary, bank deposits, accounts payable, amounts due to related parties, amounts due to minority shareholders of subsidiaries and loan from a minority shareholder of a subsidiary, bank borrowings and notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

5. FINANCIAL INSTRUMENTS *(continued)*

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

Foreign currency risk

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

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

Cash flow interest rate risk

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

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

Credit risk

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

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

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

Liquidity risk

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

5. FINANCIAL INSTRUMENTS *(continued)*

b. *Fair value*

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

6. TURNOVER AND SEGMENTAL INFORMATION

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

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

Business segment

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

Principal activities are as follows:

Property development	–	development and sale of properties
Property investment	–	property letting

6. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segment *(continued)*

For the year ended 31 December 2006

	Property development RMB'000	Property investment RMB'000	Others RMB'000	Consolidated RMB'000
TURNOVER				
External sales	4,283,412	428,867	16,987	4,729,266
RESULTS				
Segment results	2,395,349	471,083	(9,344)	2,857,088
Interest income				96,253
Finance costs				(218,777)
Share of profit of associates				694
Net loss on change in fair value of derivative financial instruments				(477,504)
Gain on partial disposal of equity interest in subsidiaries				582,337
Net unallocated expenses				(254,499)
Profit before taxation				2,585,592
Income tax expense				(946,052)
Profit for the year				1,639,540
OTHER INFORMATION				
Allowance for amount due from a jointly controlled entity	—	—	1,294	1,294
Allowance for bad and doubtful debts	—	657	—	657
Capital additions	4,462,738	134,571	18,147	4,615,456
Depreciation of property, plant and equipment charged to consolidated income statement	1,698	14,073	10,591	26,362
Release of prepaid lease payments charged to consolidated income statement	—	1,112	—	1,112
Loss on disposal of property, plant and equipment	74	2,208	1,017	3,299
BALANCE SHEET				
ASSETS				
Segment assets	13,306,449	6,439,571	61,607	19,807,627
Interests in associates				3,194
Unallocated corporate assets				6,224,424
Consolidated total assets				26,035,245
LIABILITIES				
Segment liabilities	(1,500,350)	(172,638)	(3,490)	(1,676,478)
Unallocated corporate liabilities				(9,194,035)
Consolidated total liabilities				(10,870,513)

6. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segment *(continued)*

For the year ended 31 December 2005

	Property development RMB'000	Property investment RMB'000	Others RMB'000	Consolidated RMB'000
TURNOVER				
External sales	603,989	397,289	16,520	1,017,798
RESULTS				
Segment results	271,112	932,134	(9,733)	1,193,513
Interest income				15,701
Finance costs				(166,873)
Share of loss of a jointly controlled entity				(52)
Net loss on change in fair value of derivative financial instruments				(1,180)
Net unallocated expenses				(163,567)
Profit before taxation				877,542
Income tax expense				(331,856)
Profit for the year				545,686
OTHER INFORMATION				
Allowance for amount due from a jointly controlled entity	—	—	10,143	10,143
Allowance for bad and doubtful debts	—	984	—	984
Capital additions	4,588,144	146,684	21,574	4,756,402
Depreciation of property, plant and equipment charged to consolidated income statement	282	16,485	6,108	22,875
Release of prepaid lease payments charged to consolidated income statement	—	1,112	—	1,112
BALANCE SHEET				
ASSETS				
Segment assets	9,791,730	6,112,337	36,359	15,940,426
Interests in associates				2,500
Unallocated corporate assets				2,686,022
Consolidated total assets				18,628,948
LIABILITIES				
Segment liabilities	(720,529)	(301,818)	(2,931)	(1,025,278)
Unallocated corporate liabilities				(12,541,817)
Consolidated total liabilities				(13,567,095)

Geographical segment

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

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

7. OTHER INCOME

	2006 RMB'000	2005 RMB'000
Interest income	**89,770**	15,701
Imputed interest income on consideration receivable on disposal of equity interest in subsidiaries (notes 21 & 44(h)(i))	**6,483**	—
Sundry income	**13,637**	9,843
Net exchange gain	**78,395**	44,670
Grant received from local government	**67,605**	31,453
Gain on disposal of property, plant and equipment	**—**	160
	255,890	101,827

8. NET LOSS ON CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

	2006 RMB'000	2005 RMB'000
Loss on change in fair value of warrants (note 28)	**357,349**	3,132
Loss on change in fair value of conversion option of senior preference shares (note 35)	**143,168**	—
Gain on change in fair value of early redemption rights (note 28)	**(23,013)**	(1,952)
	477,504	1,180

9. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank loans and overdrafts wholly repayable within five years	**212,693**	130,959
Interest on amounts due to shareholders and a fellow subsidiary wholly repayable within five years (note 44(h)(i))	**1,174**	26,306
Interest on amount due to a minority shareholder of a subsidiary wholly repayable within five years (notes 27 and 44(h)(i))	**4,200**	4,200
Imputed interest on loan from a minority shareholder of a subsidiary wholly repayable within five years (notes 33 and 44(h)(i))	**9,155**	2,948
Interest on consideration payable on acquisition of additional interests in subsidiaries (notes 29(b) and 44(h)(i))	**31,765**	—
Interest on convertible redeemable preference shares	**273,102**	296,398
Interest on notes	**322,204**	73,144
Other finance costs	**7,996**	9,036
	862,289	542,991
Less: Amount capitalised to properties under development	**(643,512)**	(376,118)
	218,777	166,873

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

10. INCOME TAX EXPENSE

	2006 RMB'000	2005 RMB'000
PRC Enterprise Income Tax:		
Current taxation		
- Provision for the year	**166,525**	115,355
- Underprovision in prior year	**17,427**	—
	183,952	115,355
Deferred taxation	**762,100**	216,501
	946,052	331,856

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

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

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

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

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

11. PROFIT FOR THE YEAR

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

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors

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

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

Notes:

(a) Independent non-executive directors

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

(c) Non-executive director resigned during the year

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

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

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

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

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

13. PROPOSED DIVIDEND

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

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

14. EARNINGS PER SHARE

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

Earnings

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

14. EARNINGS PER SHARE *(continued)*

Number of shares

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

Notes:

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

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

15. INVESTMENT PROPERTIES

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

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

The buildings are all situated in the PRC.

17. PREPAID LEASE PAYMENTS

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

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

18. PROPERTIES UNDER DEVELOPMENT

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

The properties under development are all situated in the PRC.

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

19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

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

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

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

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

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

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

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

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

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

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

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

21. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

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

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

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

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

Trade receivables comprise:

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

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

Notes:

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

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

- (i) the whole amount is interest free from 1 January 2007 to 31 December 2007
- (ii) half of the amount is interest free and the remaining amount bears interest at 5% per annum from 1 January 2008 to 31 December 2008
- (iii) the whole amount bears interest at simple interest rate of 6% per annum from 1 January 2009 to 31 December 2009
- (iv) the full amount bears interest at simple interest rate of 8% per annum from 1 January 2010 to 31 December 2010

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

22. PLEDGED BANK DEPOSITS/BANK BALANCES

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

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

23. LOAN RECEIVABLE

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

24. INVENTORIES

The amount represents finished goods which are carried at cost.

25. PROPERTIES HELD FOR SALE

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

26. AMOUNTS DUE FROM/TO RELATED PARTIES

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

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

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

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

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

28. NOTES AND WARRANTS

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

The principal terms of the notes

The notes are:

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

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

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

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

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

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

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

28. NOTES AND WARRANTS *(continued)*

The principal terms of the warrants

Each warrant:

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

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

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

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

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

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

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

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

28. NOTES AND WARRANTS *(continued)*

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

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

29. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

Notes:

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

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

30. BANK BORROWINGS

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

30. BANK BORROWINGS *(continued)*

Notes:

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

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

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

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

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

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

31. SHARE CAPITAL

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

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

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

Notes:

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

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

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

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

32. OTHER RESERVES

(a) Merger reserve represents the aggregate of:

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

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

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

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

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

(c) Other reserve comprises:

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

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

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

33. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

34. DEFERRED TAX ASSETS/LIABILITIES

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

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

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

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

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

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

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

Authorised:

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

Issued and fully paid:

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

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

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

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

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

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

The movement of convertible redeemable preference shares are as follows:

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

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

The principal terms of these preference shares include the following:

Conversion

(i) Mandatory conversion:

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

(ii) Optional conversion:

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

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

(iii) Conversion price:

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

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

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

Redemption

(i) Junior preference shares

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

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

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

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

(ii) Senior preference shares

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

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

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

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

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

Dividend

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

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

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

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

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

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

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

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

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

(c) Embedded derivatives, comprising:

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

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

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

35. CONVERTIBLE REDEEMABLE PREFERENCE SHARES *(continued)*

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

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

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

36. DERIVATIVE FINANCIAL INSTRUMENT DESIGNATED AS HEDGING INSTRUMENT

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

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

37. ACQUISITION OF SUBSIDIARIES

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

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

38. DISPOSAL OF INTEREST IN SUBSIDIARIES

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

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

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

39. PROVIDENT AND RETIREMENT FUND SCHEMES

Hong Kong

The Group participates in both a defined benefit plan (the "Plan") which is registered under the Occupational Retirement Schemes Ordinance and in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The Plan was set up by the Group during 2004. The assets of the schemes are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Plan prior to the establishment of MPF Scheme were offered a choice of staying within the Plan or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The MPF Scheme

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

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

The Plan

Contributions to the Plan are made by the members at 5% of their salaries and by the Group which are based on recommendations made by the actuary of the Plan. The current employer contribution rate ranges from 5% to 10% of the members' salaries. Under the Plan, a member is entitled to retirement benefits which comprise the sum of any benefits transferred from another scheme and the greater of the sum of employer's basic contribution plus the member's basic contribution accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the length of employment with the Group on the attainment of the retirement age of 60. For members who joined the Plan before 1997, the retirement age is 60 for male members and 55 for female members. No other post-retirement benefits are provided.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out at 31 December 2005 and 31 December 2006 by Ms. Elaine Hwang of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

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

Hong Kong *(continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

PRC

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

40. PLEDGE OF ASSETS

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

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

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

41. LEASE ARRANGEMENTS

As lessor

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

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

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

41. LEASE ARRANGEMENTS *(continued)*

As lessee

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

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

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

42. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

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

42. COMMITMENTS AND CONTINGENCIES *(continued)*

(b) Other commitments

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

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

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

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

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

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

(c) Contingent liabilities

Financial guarantee contracts:

(i) Pursuant to an agreement entered into with the district government (the "Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (2005: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 31 December 2006, no amount had been drawn down under this arrangement.

(ii) At 31 December 2006, certain subsidiaries of the Company had outstanding guarantees issued in favour of banks amounting to RMB414,026,000 (2005: RMB16,408,000) in respect of mortgage facilities granted to the buyers of its residential properties.

In the opinion of the directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the balance sheets as at 31 December 2006 and 31 December 2005.

43. MAJOR NON-CASH TRANSACTIONS

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

44. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

44. RELATED PARTY TRANSACTIONS *(continued)*

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

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

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

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

44. RELATED PARTY TRANSACTIONS *(continued)*

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

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

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

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

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

44. RELATED PARTY TRANSACTIONS *(continued)*

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

(i) Nature of transaction

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

45. SUMMARISED BALANCE SHEET OF THE COMPANY

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

46. PARTICULARS OF THE SUBSIDIARIES

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

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1)	Place of operation	Principal activities
Atlantic Best Limited	Hong Kong 5 January 2001	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Bestwealth Holdings Limited	British Virgin Islands ("BVI") 18 November 2004	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Billion Glory Limited	Hong Kong 14 March 2003	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Billion World Limited	Hong Kong 19 November 2003	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Bondwise Profits Limited	BVI 28 December 2000	1 ordinary share of US$1	70%	Hong Kong	Investment holding
Bright Continental Limited	Hong Kong 5 March 2003	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Bright Power Enterprises Limited	BVI 1 July 2004	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Bright Winner Limited	Hong Kong 27 December 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Brixworth International Limited	BVI 3 January 2001	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Century Team Limited	Hong Kong 16 January 1998	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Chinalink Capital Limited	BVI 16 July 2003	999 ordinary shares of US$1 each	100%	Hong Kong	Investment holding
China Advance Limited	Hong Kong 13 November 2006	1 ordinary share of HK$1	100%	Hong Kong	Investment holding
China Wealth (H.K.) Limited	Hong Kong 4 January 2006	1 ordinary share of HK$1	100%	Hong Kong	Investment holding
Chongqing Shui On Tiandi Property Development Co. Ltd.	PRC 21 November 2003	Registered and paid up capital US$71,750,000	79.398%	PRC	Property development
Citichamp Limited	Hong Kong 19 July 2006	1 ordinary share of HK$1	100%	Hong Kong	Investment holding

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1)	Place of operation	Principal activities
Cititop Pacific Limited	Hong Kong 1 December 2000	2 ordinary shares of HK$1 each	70%	Hong Kong	Investment holding
Costworth Investments Limited	BVI 12 January 2001	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Cybricity Limited	Hong Kong 28 April 2000	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
East Trend Limited	Hong Kong 14 February 2001	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Excel Efficient Limited	BVI 19 August 2002	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Fieldcity Investments Limited	BVI 30 March 2005	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Focus Top Limited	Hong Kong 24 April 1998	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Foresight Profits Limited	BVI 8 February 2001	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Galore Profits Limited	BVI 23 January 2001	1 ordinary share of US$1	70%	Hong Kong	Investment holding
Global Ocean Investments Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Globaland Limited	Hong Kong 30 October 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Globe State Properties Limited	BVI 12 October 2005	100 ordinary shares of US$1 each	70%	Hong Kong	Investment holding
Glory Advance Investments Limited	BVI 18 August 2006	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Grand Hope Limited	Hong Kong 14 March 2003	2 ordinary shares of HK$1 each	80.2%	Hong Kong	Investment holding
Grand Rich Limited	Hong Kong 14 March 2003	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Hangzhou Xihu Tiandi Management Company Limited	PRC 6 March 2003	Registered and paid up capital US$1,400,000	100%	PRC	Property management

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1)	Place of operation	Principal activities
Hangzhou Xihu Tiandi Properties Company Limited	PRC 12 June 2003	Registered and paid up capital US$34,540,000	100%	PRC	Property development
Hollyfield Holdings Limited	Mauritius 19 April 2001	2 ordinary shares of US$1 each	100%	Hong Kong	Investment holding
Infoshore International Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Interchina International Limited	BVI 12 January 2001	100 ordinary shares of US$1 each	100%	Hong Kong	Investment holding
Join Legend Limited	Hong Kong 2 June 2006	1 ordinary share of HK$1 each	100%	Hong Kong	Investment holding
Keen Allied Investments Limited	BVI 18 September 2002	1 ordinary share of US$1	100%	Hong Kong	Investment holding
King Concord Limited	Hong Kong 3 October 2006	1 ordinary share of HK$1	100%	Hong Kong	Investment holding
Kinmax Limited	Hong Kong 24 April 1998	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Legend City Limited	Hong Kong 4 June 1997	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Lucky Gain Limited	Hong Kong 8 November 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Marble Way Limited	BVI 28 August 1996	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Modern Prosper Investments Limited	BVI 1 November 2002	1 ordinary share of US$1	100%	Hong Kong	Investment holding
New Asia Limited	Hong Kong 31 October 2003	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
New Power Profits Limited	BVI 18 October 2005	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Onfair Limited	Hong Kong 13 November 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Onwin Limited	Hong Kong 13 November 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Oriental Gain Limited	Hong Kong 2 February 2001	2 ordinary shares of HK$1 each	70%	Hong Kong	Investment holding

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1)	Place of operation	Principal activities
Pacific Gain Limited	Hong Kong 11 September 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Portspin Limited	BVI 22 May 1997	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Princemax Limited	Hong Kong 15 April 1998	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Profitstock Holdings Limited	BVI 2 June 2005	100 ordinary shares of US$1 each	70%	Hong Kong	Investment holding
Score High Limited	BVI 12 February 2003	1,000 ordinary share of US$1	80.2%	Hong Kong	Investment holding
Shanghai Bai-Xing Properties Co., Limited	PRC 2 February 1999	Registered and paid up capital RMB151,300,000	97%	PRC	Property development
Shanghai Fu Ji Properties Co., Ltd.	PRC 18 January 2004	Registered capital US$35,773,000 Paid up capital US$9,184,180	99%	PRC	Property development
Shanghai Fu-Xiang Properties Co., Ltd.	PRC 19 December 2001	Registered capital RMB345,000,000 Paid up capital RMB219,088,690	99%	PRC	Property development
Shanghai Ji-Xing Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB71,600,000	97%	PRC	Property development
Shanghai Jing-Fu Property Co., Ltd.	PRC 26 December 2001	Registered and paid up capital RMB400,000,000	69.3%	PRC	Property development
Shanghai Lakeville Properties Co., Ltd. (formerly known as Shanghai Si Fu Properties Co., Ltd.)	PRC 23 May 2001	Registered and paid up capital RMB165,000,000	69.3%	PRC	Property development
Shanghai Le Fu Properties Co., Ltd.	PRC 20 February 2004	Registered capital US$42,507,000 Paid up capital US$39,971,656	99%	PRC	Property development
Shanghai IPO Food & Beverage Co., Ltd.	PRC 6 September 2006	Registered and paid up capital US$1,050,000	100%	PRC	Food and beverage services

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1)	Place of operation	Principal activities
Shanghai Rui Hong Xin Cheng Co., Ltd.	PRC 2 July 2001	Registered and paid up capital RMB567,000,000	99%	PRC	Property development
Shanghai Rui Zhen Food & Beverage Co., Ltd.	PRC 7 November 2003	Registered and paid up capital US$2,100,000	99%	PRC	Food and beverage services
Shanghai Taipingqiao Properties Management Company Limited	PRC 31 August 2001	Registered and paid up capital RMB1,655,000	99%	PRC	Property management
Shanghai Xin-tian-di Plaza Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB101,300,000	97%	PRC	Property development
Shanghai Xing-Bang Properties Co., Ltd.	PRC 21 June 2001	Registered and paid up capital RMB290,500,000	99%	PRC	Property development
Shanghai Xing-Qi Properties Co., Ltd.	PRC 2 February 1999	Registered and paid up capital RMB274,900,000	97%	PRC	Property development
Shanghai Xing Qiao Properties Co., Ltd.	PRC 18 January 2004	Registered capital US$37,727,000 Paid up capital US$37,429,753	99%	PRC	Property development
Shanghai Xintiandi Huting Food & Beverage Co., Ltd.	PRC 14 March 2005	Registered and paid up capital US$1,750,000	100%	PRC	Food and beverage services
Shanghai Yangpu Centre Development Company Limited	PRC 26 August 2003	Registered and paid up capital US$60,500,000	70%	PRC	Property development
Shui On Development (Holding) Limited	Cayman Islands 27 July 2005	22 ordinary shares of US$0.01 each	100%	PRC	Investment holding
Shui On Land Management Limited	Hong Kong 12 May 2004	1 ordinary share of HK$1	100%	Hong Kong	Provision of management services
Shui On Secretaries & Nominees Limited	Hong Kong 30 November 2006	1 ordinary share of HK$1	100%	Hong Kong	Provision of secretarial services
Shine First Limited	BVI 25 October 2006	1 ordinary share of US$1	100%	Hong Kong	Investment holding

46. PARTICULARS OF THE SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held (Note 1)	Place of operation	Principal activities
Shine Prime Investments Limited	BVI 2 November 2006	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Sino Realty Limited	Hong Kong 3 October 2006	1 ordinary share of HK$1	100%	Hong Kong	Investment holding
Sino Wisdom Investments Limited	BVI 12 May 2006	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Sinoco Limited	Hong Kong 28 October 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Sinothink Holdings Limited	BVI 15 September 2000	100 ordinary shares of US$1 each	100%	Hong Kong	Investment holding
Smart Silver Limited	BVI 18 December 2002	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Super Field Limited	Hong Kong 25 February 2005	1 ordinary share of HK$1	100%	Hong Kong	Investment holding
Timezone Management Limited	BVI 28 February 2001	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Tip Profit Limited	BVI 18 July 2006	1 ordinary share of US$1	100%	Hong Kong	Investment holding
Union Grow Limited	Hong Kong 8 November 2002	2 ordinary shares of HK$1 each	100%	Hong Kong	Investment holding
Wuhan Shui On Tiandi Property Development Co., Ltd.	PRC 2 August 2005	Registered capital US$97,000,000 Paid up capital US$66,000,000	100%	PRC	Property development
上海瑞安房地產發展有限公司 (Shui On Development Limited (formerly known as Shanghai Shui On Land Limited))	PRC 14 June 2004	Registered and paid up capital US$5,350,000	100%	PRC	Management

Notes:

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

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

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