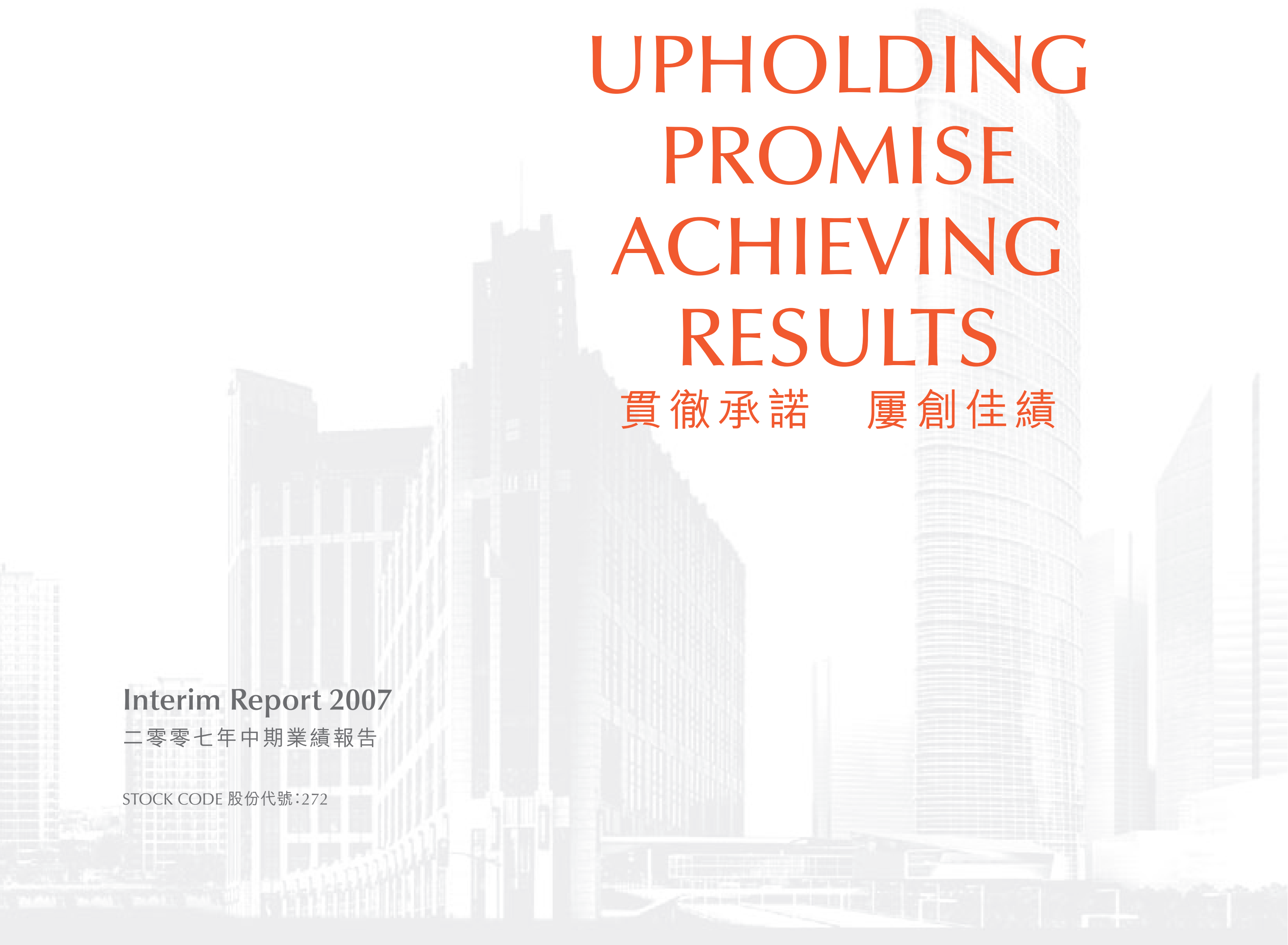
瑞安房地產有限公司
SHUI ON LAND LIMITED

UPHOLDING PROMISE ACHIEVING RESULTS

貫徹承諾　屢創佳績



Interim Report 2007

二零零七年中期業績報告

STOCK CODE 股份代號:272

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OUR PROMISE

Shui On Land has a respected brand that is synonymous with high quality, innovation and excellence, the three pillars of our lasting commitment which enable us to exceed customers' expectation.

INNOVATION
Innovation leading on to product uniqueness, embracing social responsibility and enhancing economic development

QUALITY
Customer Focus, Quality Products and Services

EXCELLENCE
Best of the Best in Every Job

SHANGHAI XINTIANDI

OUR

UNIQUE & COMPELLING

BUSINESS MODEL

SHANGHAI KNOWLEDGE AND INNOVATION COMMUNITY

A STRONG FOOTPRINT IN KEY CITIES

CHONGQING TIANDI

WE BRING

A PREMIER BRAND NAME

IN THE CHINESE MAINLAND'S REAL ESTATE DEVELOPMENT

WUHAN TIANDI

VISIONARY LEADERSHIP & QUALITY MANAGEMENT

XIHU TIANDI

WE AIM TO DELIVER

A HIGH GROWTH TRAJECTORY

WITH SUPERIOR
FINANCIAL RETURNS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the first half of 2007, turnover was RMB2,178 million, representing an increase of 1% over the corresponding period in 2006 (2006: RMB2,158 million). Property sales accounted for approximately 90% of the turnover, with rental income and other related activities accounting for the remaining 10%.

The Group's unaudited profit attributable to shareholders for the period amounted to RMB1,098 million, an increase of 97% over the same period in the last year (2006: RMB558 million); excluding the effect of a non-recurring deferred tax credit adjustment of RMB352 million, the profit attributable to shareholders was RMB746 million, an increase of approximately 34% over the same period in 2006.

Excluding the effect of revaluation of investment properties and fair value adjustment on derivative financial instruments, the Group's profit attributable to shareholders was RMB930 million, an increase of 115% over the same period in 2006 (2006: RMB433 million); excluding the effect of a non-recurring deferred tax credit adjustment of RMB352 million, the profit attributable to shareholders before revaluation of investment properties and fair value adjustments on derivative financial instruments was RMB578 million, an increase of approximately 33% over the same period in 2006.

Property Development

During the period under review, construction has been progressing according to plan. The Group's saleable GFA that is expected to be completed in the second half of 2007 and during the years 2008 and 2009 are as follows:

	Saleable GFA (sq.m.)			
Property development held for sale	**Second half of 2007**	**Year 2008**	**Year 2009**	**Group's interest**
Shanghai Taipingqiao Lot 113 ("Lakeville 3")	59,000	21,000	–	99.0%
Shanghai Rui Hong Xin Cheng Lots 4, 6, 8	–	32,000	97,000	99.0%
Shanghai Knowledge and Innovation Community Lots 7-7, 7-9, 8-2 ("R2, KIC Village")	–	43,000	30,000	86.8%[1]
Shanghai Knowledge and Innovation Community Lots 6-2, 6-3, 7-5, 7-6	–	–	76,000	86.8%[1]
Chongqing Tiandi Lots B1-1/01, B2-1/01 ("The Riviera")	–	107,000	121,000	79.4%
Wuhan Tiandi Lot A9 ("The Riverview")	30,000	–	–	75.0%
Wuhan Tiandi Lots A6, A7, A8, A10	–	39,000	89,000	75.0%
Total saleable GFA (sq.m.)	**89,000**	**242,000**	**413,000**	

1 *Subsequent to 30 June 2007, agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.*

The Group's leasable GFA that is expected to be completed in the second half of 2007 and during the years 2008 and 2009 are as follows:

	Leasable GFA (sq.m.)			
Property development held for investment	**Second half of 2007**	**Year 2008**	**Year 2009**	**Group's interest**
Shanghai Taipingqiao Lot 113, Lakeville 3	–	32,000	–	99.0%
Shanghai Rui Hong Xin Cheng Lots 4, 8	–	3,000	13,000	99.0%
Shanghai Knowledge and Innovation Community Lots 7-7, 7-9, 8-2, i.e. R2, KIC Village	–	3,000	4,000	86.8%[1]
Shanghai Knowledge and Innovation Community Lot 5-5, 5-7, 5-8	–	–	49,000	86.8%[1]
Shanghai Knowledge and Innovation Community Hub 2	–	–	47,000	86.8%[1]
Hangzhou Xihu Tiandi Phase 2	–	–	46,000	100.0%
Chongqing Tiandi Lots B1-1/01, B3/01	–	59,000	–	79.4%
Chongqing Tiandi Lots B2-1/01, B2-4/01, B14-1/01	–	–	18,000	79.4%
Wuhan Tiandi Lots A4-1, A4-2, A4-3	12,000	10,000	20,000	75.0%
Wuhan Tiandi Lots A4, A7, A9	1,000	1,000	9,000	75.0%
Total leasable GFA (sq.m.)	**13,000**	**108,000**	**206,000**	

1 *Subsequent to 30 June 2007, agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.*

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

Property Sales

During the six months ended 30 June 2007, the Group sold a total of approximately 46,400 sq.m. of GFA that generated a turnover from property sales of RMB1,943 million, net of business tax (2006: RMB1,945 million).

In the first half of 2007, property markets across the PRC were strong. Our units in both Lakeville Regency in our Shanghai Taipingqiao Project in Luwan District and Shanghai Knowledge and Innovation Community in Yangpu District sold very well. For Lakeville Regency, 62 units or 10,500 sq.m. of Tower 12 and 61 units or 11,300 sq.m of Tower 9 were launched for sale in April and July this year, respectively. In both cases, almost all the units were sold within a few days. The average selling price of Lakeville Regency in 2007 was 9% higher than the average selling price in 2006. Sales in the first half of 2006 included sales of Towers 1 and 2 located at the front of Lakeville Regency, which commanded higher prices. A similar experience occurred at Shanghai Knowledge and Innovation Community where 106 units or 9,850 sq.m. of Lot 8-3, R1 were sold over a weekend at an average selling price of approximately 3% higher than the average selling price in 2006.

An analysis of the GFA sold and our average selling prices in the six months ended 30 June 2007 is set out below:

Project	**Total GFA sold (sq.m.)**	**Average selling price (RMB/sq.m.)**	**Group's interest**
Shanghai Taipingqiao Lot 114, Lakeville Regency	34,000	54,500	69.3%
Shanghai Rui Hong Xin Cheng Phase 2 (Lot 149)	2,800	16,600	99.0%
Shanghai Knowledge and Innovation Community R1	9,600	16,600	86.8%[1]
Total GFA (sq.m.)	**46,400**		

[1] *Subsequent to 30 June 2007, agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.*

The Group's completed GFA that was held for sale at 30 June 2007 was 76,000 sq.m., of which 19,000 sq.m. was located at Lakeville Regency and 57,000 sq.m. was located at Shanghai Knowledge and Innovation Community. The Group's saleable GFA that is expected to be completed in the second half of 2007 (as shown in the table above under the section headed "Property Development") amounts to 89,000 sq.m., rendering a total of 165,000 sq.m. of GFA expected to be available for sale in the second half of 2007 and thereafter. Since 30 June 2007, approximately 80% of the completed GFA at Lakeville Regency and approximately 25% of the completed GFA at Shanghai Knowledge and Innovation Community has been sold.

The pre-sale of the first phase of the residential development at Wuhan Tiandi Lot A9, The Riverview, is scheduled to commence in the fourth quarter of 2007 while Shanghai Taipingqiao Lot 113, Lakeville 3 is also expected to be launched later this year. The sale or pre-sale of units will be subject to compliance with applicable laws and regulations, and will be dependent on obtaining the requisite approvals, licences, permits and consents. Recognition of these sales will depend, amongst others, on the timing of completion of construction and actual completed sales.

Property Investments

The total leasable GFA of the Group's portfolio of investment properties at 30 June 2007 comprises:

		Leasable GFA (sq.m.)				
Project	**Date construction completed**	**Office**	**Retail**	**Hotel/service apartment/ clubhouse**	**Total**	**Group's interest**
Shanghai Xintiandi	Aug 2002	5,000	46,000	6,000	57,000	97.0%
Hangzhou Xihu Tiandi Phase 1	May 2003	–	5,000	1,000	6,000	100.0%
Shanghai Corporate Avenue	Mar 2004	76,000	7,000	–	83,000	99.0%
Shanghai Rui Hong Xin Cheng Phase 2 Commercial Complex, North Building	Sept 2004	–	25,000	–	25,000	99.0%
Shanghai Rui Hong Xin Cheng Phase 2 Commercial Complex, South Building	Sept 2006	–	3,000	–	3,000	99.0%
Shanghai Knowledge and Innovation Community R1-office	Aug 2006	8,000	7,000	–	15,000	86.8%[1]
Shanghai Knowledge and Innovation Community Hub 1	Nov 2006	29,000	22,000	–	51,000	86.8%[1]
Total leasable GFA		**118,000**	**115,000**	**7,000**	**240,000**	

[1] *Subsequent to 30 June 2007, agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.*

Rental income from our investment properties in the first half of 2007 was RMB180 million, representing an increase of RMB8 million or approximately 5% over the corresponding period in 2006, primarily due to increases in rental rates at Shanghai Xintiandi and Shanghai Corporate Avenue.

The office spaces in R1 and Hub 1 of Shanghai Knowledge and Innovation Community, which were completed in the second half of 2006, have been gradually occupied by tenants during the period under review, also contributing to the increase in the level of rental income during this period compared to the same period in 2006.

Marketing of the entertainment and retail spaces, with an aggregate GFA of 12,000 sq.m., at Wuhan Tiandi commenced in April 2007. Approximately 36% of that GFA have tenancy agreements signed. Construction of that GFA has been completed and the area is being leased to tenants according to our plan, some of whom will be ready to open for business as early as October this year.

Construction of retail spaces at Lots B1-1/01 and B3/01 of Chongqing Tiandi, with an aggregate GFA of 59,000 sq.m., commenced in July this year and is expected to be completed by December 2008 for hand over to tenants in early 2009.

As at 30 June 2007, the occupancy rates of our investment properties were as follows:

	Occupancy rate	
Project	**30 June 2007**	**31 December 2006**
Shanghai Xintiandi	89%	94%
Shanghai Corporate Avenue	96%	98%
Shanghai Rui Hong Xin Cheng Phase 2 Commercial Complex	90%	86%
Shanghai Knowledge and Innovation Community R1	17%	9%
Shanghai Knowledge and Innovation Community H1	36%	18%
Hangzhou Xihu Tiandi Phase 1	100%	98%

The slightly reduced occupancy rate as at 30 June 2007 in respect of Shanghai Xintiandi and Shanghai Corporate Avenue related to normal void period upon lease expiration when provision was required for reinstatement of premises and fitting out for new tenants. New leases have been signed with replacement tenants and the occupancy rate of these premises is expected to return to near full occupancy from September 2007.

Landbank

It was announced in the Company's circular to the shareholders dated 4 June 2007 that the Group has entered into a joint venture agreement to develop Dalian Tiandi • Software Hub (previously called Dalian Software Park Phase 2), a large-scale city-core development with an expected total GFA of approximately 3.6 million sq.m. located in the city of Dalian. The Group has a 48% interest in this project.

We signed an agreement in July 2006 with the Kunming municipal government to collaborate and to research and determine the feasibility of redeveloping the northern Caohai District of Kunming. The identified site, with a mixed use of entertainment, cultural, live, work and other facilities, is approximately 4 sq. km. and is adjacent to the current city centre, the famous Dianchi Lake, and surrounding the Daguan Park. According to our proposed master plan, the project will have an expected GFA of approximately 2.5 million sq.m. upon completion, subject to change and approval.

The proposed acquisition of the development rights to a piece of land in Yangpu District, Shanghai (also known as Plot A of Lot 24) is in progress. The site is expected to yield an aggregate above ground GFA of approximately 137,400 sq.m. for office and commercial use.

Currently, including Dalian Tiandi • Software Hub, the Group's total landbank has increased by 42% to approximately 11.9 million sq.m. of GFA since the end of 2006 (31 December 2006: approximately 8.4 million sq.m.) and it is located in five cities, namely Shanghai, Chongqing, Wuhan, Hangzhou and Dalian.

The Group continues with its strategy to increase its landbank in prime locations to accelerate its growth.

The current position of the Group and its associates' total landbank is summarised as follows:

Project	Approximate/Estimated leasable and saleable area						
	Leasable GFA (sq.m.)	Saleable GFA (sq.m.)	Hotel/service apartment/ clubhouse (sq.m.)	Open areas and public facilities (sq.m.)	Total GFA (sq.m.)	Group's interest	Attributable GFA (sq.m.)
Completed properties held for investment:							
See section headed "Property Investments" above for details	233,000	-	7,000	-	240,000	Various	228,000
Completed properties held for operation:							
Shanghai Rui Hong Xin Cheng Phase 2 clubhouse	-	-	5,000	-	5,000	99.0%	5,000
Shanghai Taipingqiao Lots 114 & 117 clubhouses	-	-	10,000	-	10,000	69.3%	7,000
Completed properties held for sale:							
Shanghai Taipingqiao Lot 114, Lakeville Regency	-	19,000	-	-	19,000	69.3%	13,000
Shanghai Knowledge and Innovation Community R1	-	57,000	-	-	57,000	86.8%[1]	49,000
Subtotal	**233,000**	**76,000**	**22,000**	**-**	**331,000**		**302,000**
Properties under development:							
Shanghai Taipingqiao	166,000	80,000	3,000	41,000	290,000	99.0%[2]	287,000
Shanghai Rui Hong Xin Cheng Phase 3	13,000	221,000	3,000	15,000	252,000	99.0%	249,000
Shanghai Knowledge and Innovation Community	51,000	73,000	3,000	40,000	167,000	86.8%[1]	145,000
Hangzhou Xihu Tiandi	46,000	-	-	27,000	73,000	100.0%	73,000
Chongqing Tiandi	46,000	309,000	26,000	126,000	507,000	79.4%	403,000
Wuhan Tiandi	22,000	69,000	3,000	9,000	103,000	75.0%	77,000
Subtotal	**344,000**	**752,000**	**38,000**	**258,000**	**1,392,000**		**1,234,000**
Properties held for future development:							
Shanghai Taipingqiao	307,000	256,000	-	94,000	657,000	99.0%[2]	607,000
Shanghai Rui Hong Xin Cheng	168,000	639,000	-	53,000	860,000	99.0%	851,000
Shanghai Knowledge and Innovation Community	142,000	115,000	-	80,000	337,000	86.8%[1]	293,000
Chongqing Tiandi	1,251,000	1,216,000	-	815,000	3,282,000	79.4%	2,606,000
Wuhan Tiandi	620,000	690,000	-	126,000	1,436,000	75.0%	1,077,000
Dalian Tiandi • Software Hub[3]	2,299,000	1,070,000	-	239,000	3,608,000	48.0%	1,732,000
Subtotal	**4,787,000**	**3,986,000**	**-**	**1,407,000**	**10,180,000**		**7,166,000**
Total landbank GFA	**5,364,000**	**4,814,000**	**60,000**	**1,665,000**	**11,903,000**		**8,702,000**

1 *Subsequent to 30 June 2007, agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.*

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

3 *As disclosed in the Company's circular to the shareholders dated 4 June 2007, Dalian Tiandi • Software Hub comprises 23 plots of land with an expected GFA totalling approximately 3,608,000 sq.m. planned for development in 6 phases over a period of 8 to 10 years. It is the intention of the joint venture companies to acquire all 23 plots of the land. Other than 3 plots of land of approximately 1,466,000 sq.m of site area (or 1,435,000 sq.m. of GFA) which the joint venture companies have entered into legally binding contracts, acquisition of these lands will be by way of competitive bidding and there is no assurance that the joint venture companies will be successful in acquiring the remaining 20 pieces of land with a total of approximately 5,516,000 sq.m. of site area (or 2,173,000 sq.m. of GFA).*

Accelerate Growth through Strategic Partnerships

It was announced on 29 June 2007 that the Group had brought in Trophy Property Development, L.P., a collective investment scheme (the "Trophy Fund") managed by Winnington Capital Limited, as a strategic partner through the transfer of a 25% interest in Wuhan Tiandi and a 49% interest in Lot116 of Shanghai Taipingqiao project to Trophy Fund for a total consideration of approximately RMB1,609 million. A total gain of approximately RMB835 million from these transactions is expected to be reported by the Group in the second half of 2007.

Following the tremendous success of the development and sales of Lakeville Regency that generated total sales in excess of RMB6 billion over 2006 and 2007, the Group has entered into an agreement with the existing strategic partners to buy out their 30% equity interest in the company holding Lakeville Regency for a cash consideration of USD116 million, which was determined as a result of arm's length negotiations. Full details of this transaction will be provided in a circular to be dispatched to the Company's shareholders as soon as practicable. The buyout allows the Group the flexibility to carry on the further development of other phases of the Shanghai Taipingqiao project by the same vehicle, and the flexibility of retaining the RMB proceeds from sales of Lakeville Regency to be reinvested in the Group's other projects in the PRC.

It remains the Group's strategy to forge strategic partnerships with developers, contractors, consultants and other investors and replicate those relationships in our other projects in the same city or elsewhere, to the extent commercially feasible, when such relationships are proving to be beneficial and working well, thereby also enhancing our operational efficiency.

Market Outlook

In the Chinese Mainland, strong economic growth and the continuously improving living standards of the fast-growing urban community are major forces driving the healthy growth of the property sector. The Group is expecting to continue pursuing its strategy of enhancing our existing portfolio in Shanghai, Chongqing, Wuhan, Dalian and Hangzhou and expanding strategically in other fast growing cities in the Chinese Mainland. In the second half of 2007, we will continue to sell the remaining completed saleable GFA at Knowledge and Innovation Community and we are also expecting to launch the third phase of the premium Lakeville residential development, both of which are located in Shanghai. In Wuhan and Chongqing, the first phase of their respective residential developments should be launched towards the end of 2007 in the case of Wuhan or next year in the case of Chongqing.

Various government authorities in the Chinese Mainland have, over the past year, introduced and enforced new macro policies to curb the rapid increases in residential property prices and to promote healthy development of the property market in the Chinese Mainland. The Group remains optimistic about the Chinese Mainland's property market and is confident that the changes in the market landscape, given our premium brand reputation and proven business models, will be favorable to the Group.

Looking ahead, the Group is optimistic about the prospects and future success of the projects in the cities where we are located. At the same time, we will apply our successful business models and leverage our premium branding to take advantage of new opportunities opened up by the increasing affluence and urbanisation in the Chinese Mainland. We will continue to pursue our aspiration to be the premium innovative property developer in the Chinese Mainland, the most exciting property market in the world.

Financial Review

Operating Results

Turnover for the six-month period ended 30 June 2007 amounted to RMB2,178 million, an increase of RMB20 million or 1% over the same period in 2006. The Lakeview Regency continued to be our key contributor to our sales during the period.

Gross profit was RMB1,513 million and gross margin was 69% as compared to RMB1,512 million and gross margin of 70% for the first half of 2006. Sufficient provision for Land Appreciation Tax has been made and included in cost of sales.

Other income increased to RMB128 million (2006: RMB61 million) due largely to a higher level of interest income from deposits with banks following the Company's successful initial public offering in October 2006 (the "IPO").

Staff costs increased to RMB134 million (2006: RMB64 million) due to an increase in our headcount, bonus and general salary increment. The average number of employees during this first six months was 1,048 compared to 935 over the same period in 2006. In addition, share compensation costs of RMB11 million have been charged against the income statement for the share options granted during this period.

Other expenses increased to RMB181 million from RMB100 million of the same period in 2006. The increase is due to a higher level of sales and marketing expenses in promoting our residential properties, namely Lakeville Regency and phase 1 of our Shanghai Knowledge and Innovation Community project.

Finance costs amounted to RMB56million, a 66% decrease from RMB167 million in the first half of 2006. This decrease in interest expenses arose from the conversion of all the preference shares into ordinary shares of the Company at the time of the IPO. Prior to that, preference share dividends had been treated as finance costs.

Revaluation of investment properties has given rise to a gain before deferred taxation of RMB267 million for the period (2006: RMB168 million).

Taxation was RMB180 million (effective tax rate: 12%) for the first half of 2007 as compared to RMB578 million (effective tax rate: 41%) for the first half of 2006. The significant reduction in effective tax rate was largely attributable to a RMB355 million deferred tax credit adjustment. As a result of the enactment in March 2007 of the new Enterprise Income Tax Law of the PRC, enterprises will be subject to a uniform income tax rate of 25% with effect from 1 January 2008. To reflect the anticipated change in tax rate from 33% to 25%, the carrying value of deferred tax liabilities has been written down by RMB355 million and credited to the income statement resulting in a lowered effective tax rate for the six-month period ended 30 June 2007.

Profit attributable to shareholders for the period was RMB1,098 million, a 97% increase from that of the same period last year (2006: RMB558 million). Excluding the effect of the deferred tax credit adjustment described above, profit attributable to shareholders for the period was RMB746 million, a 34% increase from the same period in 2006.

Profit attributable to shareholders before revaluation of investment properties and fair value adjustment on derivative financial instruments for the period was RMB930 million, a 115% increase from that of the corresponding period in 2006 (2006: RMB433 million). Excluding the effect of the deferred tax credit adjustment described above, profit attributable to shareholders before revaluation of investment properties and fair value adjustment on derivative financial instruments for the period was RMB578 million, a 33% increase from the same period in 2006.

Earnings per share were RMB26 cents calculated based on a weighted average of approximately 4,185 million shares in issue during the period (2006: RMB31 cents based on a weighted average of approximately 1,802 million shares in issue).

Capital Structure, Gearing Ratio and Funding

As at 30 June 2007, the Group's utilised project loans, mortgage loans and senior notes amounted to approximately RMB6,918 million (31 December 2006: RMB6,477 million) and our total equity was approximately RMB16,249 million (31 December 2006: RMB15,165 million).

Our cash and bank deposits amounted to RMB5,229 million as at 30 June 2007 (31 Dec 2006: RMB5,654 million), which included RMB1,162 million (31 December 2006: RMB1,202 million) of deposits pledged to banks. The slight decrease in cash balance during the year was due mainly to payments of land cost for Chongqing Tiandi Phase 3 and Wuhan Tiandi Site B, partially offset by proceeds from property sales and from transfer of equity interests to strategic partners.

The Group's net gearing ratio was approximately 10% as at 30 June 2007 (31 December 2006: approximately 5%) (calculated on the basis of dividing the excess of the sum of bank loans and notes payable over the sum of bank balances and cash by total equity).

Total undrawn banking facilities available to the Group were approximately RMB1,454 million as at 30 June 2007 (31 December 2006: RMB2,560 million). Subsequent to 30 June 2007, additional banking facilities of approximately RMB1,574 million have been arranged, bringing the total available banking facilities to RMB3,028 million. We will continue to adopt a prudent financial policy so as to sustain an optimal level of borrowings to meet our funding requirements.

Pledged Assets

As at 30 June 2007, the Group had pledged land use rights, completed properties for investment and sale, properties under development and bank and cash balances totalling of approximately RMB9,750 million to secure our borrowings of RMB3,862 million, or 56% of our total borrowings.

Capital and Other Development Related Commitments

As at 30 June 2007, the Group had contracted commitments for capital expenditure in the amount of RMB4,772 million. Additionally, the Group had committed to providing a shareholder's loan to certain associates for the development of Dalian Tiandi • Software Hub in the amount of approximately RMB1,120 million and a guarantee of up to a maximum of RMB240 million in case when additional third party funding may be required.

The Group has also committed to building certain educational facilities to be located in the Taipingqiao area of the Luwan District as compensation for the removal of those educational facilities originally located in that area. As at 30 June 2007, the Group had not entered into any construction contracts relating to such educational facilities.

Future Plans for Material Investments and Sources of Funding

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

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

We may also pursue other plans, including other ways of acquiring land development rights for the purpose of undertaking property projects, or other ways to increase the scale of our operations by leveraging on our master planning expertise, if we feel the right opportunity presents itself.

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

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

Cashflow Management and Liquidity Risk

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

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF SHUI ON LAND LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 33, which comprises the condensed consolidated balance sheet of Shui On Land Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Notes	**30 June 2007 RMB'million (unaudited)**	31 December 2006 RMB'million (audited)
Non-current assets			
Investment properties	12	**7,652**	6,205
Property, plant and equipment		**184**	188
Prepaid lease payments		**4,198**	3,710
Properties under development		**1,368**	1,760
Interests in associates		**4**	3
Accounts receivable	13	**296**	147
Pledged bank deposits		**336**	368
Defined benefit assets		**4**	5
Deferred tax assets		**–**	4
		14,042	12,390
Current assets			
Inventories		**2**	2
Properties under development for sale		**5,642**	4,749
Properties held for sale		**1,146**	1,799
Accounts receivable, deposits and prepayments	13	**1,559**	1,445
Loan receivable		**233**	227
Amount due from an associate		**2**	2
Amounts due from related parties		**43**	100
Amount due from a minority shareholder of a subsidiary		**6**	6
Tax recoverable		**141**	–
Early redemption rights on notes		**15**	29
Pledged bank deposits		**826**	834
Bank balances and cash		**4,067**	4,452
		13,682	13,645
Current liabilities			
Accounts payable, deposits received and accrued charges	14	**1,793**	1,752
Amounts due to related parties		**47**	73
Amounts due to minority shareholders of subsidiaries		**373**	267
Tax liabilities		**29**	76
Bank borrowings — due within one year		**2,273**	1,683
		4,515	3,851
Net current assets		**9,167**	9,794
Total assets less current liabilities		**23,209**	22,184
Capital and reserves			
Share capital	15	**84**	84
Reserves		**14,708**	13,868
Equity attributable to equity holders of the Company		**14,792**	13,952
Minority interests		**1,457**	1,213
Total equity		**16,249**	15,165
Non-current liabilities			
Loan from a minority shareholder of a subsidiary		**91**	183
Notes	17	**2,734**	2,762
Bank borrowings — due after one year		**1,911**	2,032
Deferred tax liabilities		**2,178**	2,035
Derivative financial instrument designated as hedging instrument		**46**	7
		6,960	7,019
		23,209	22,184

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company												
	Share capital RMB' million	Share premium RMB' million	Merger reserve RMB' million (Note 16(a))	Special reserve RMB' million (Note 16(b))	Capital reserve RMB' million	Share option reserve RMB' million (Note 18)	Exchange reserve RMB' million	Hedge reserve RMB' million	Other reserves RMB' million (Note 16(c))	Accumulated profits RMB' million	Total RMB' million	Minority interests RMB' million	Total RMB' million
At 1 January 2007	84	10,684	122	(401)	–	–	69	(5)	603	2,796	13,952	1,213	15,165
Net exchange difference arising on translation of foreign operations and intra-group balances	–	–	–	–	–	–	(17)	–	–	–	(17)	3	(14)
Deferred tax on intra-group balances	–	–	–	–	–	–	(19)	–	–	–	(19)	–	(19)
Loss on cash flow hedge	–	–	–	–	–	–	–	(39)	–	–	(39)	–	(39)
Net income (expense) recognised directly in equity	–	–	–	–	–	–	(36)	(39)	–	–	(75)	3	(72)
Profit for the period	–	–	–	–	–	–	–	–	–	1,098	1,098	233	1,331
Transfer to profit or loss on cash flow hedge	–	–	–	–	–	–	–	54	–	–	54	–	54
Total recognised income (expense) for the period	–	–	–	–	–	–	(36)	15	–	1,098	1,077	236	1,313
Share-based payments	–	–	–	–	–	11	–	–	–	–	11	–	11
Capital injection by minority shareholders	–	–	–	–	–	–	–	–	–	–	–	8	8
Dividends paid	–	–	–	–	–	–	–	–	–	(248)	(248)	–	(248)
At 30 June 2007 (unaudited)	84	10,684	122	(401)	–	11	33	10	603	3,646	14,792	1,457	16,249
At 1 January 2006	36	2,314	122	(424)	423	–	32	–	504	1,749	4,756	306	5,062
Net exchange difference arising on translation of foreign operations and intra-group balances	–	–	–	–	–	–	89	–	–	–	89	1	90
Deferred tax on intra-group balances	–	–	–	–	–	–	(7)	–	–	–	(7)	–	(7)
Net income recognised directly in equity	–	–	–	–	–	–	82	–	–	–	82	1	83
Profit for the period	–	–	–	–	–	–	–	–	–	558	558	276	834
Total recognised income for the period	–	–	–	–	–	–	82	–	–	558	640	277	917
Issue of shares	3	878	–	–	–	–	–	–	–	–	881	–	881
Release of special reserve	–	–	–	1	–	–	–	–	–	–	1	–	1
Capital injection	–	–	–	–	–	–	–	–	–	–	–	6	6
At 30 June 2006 (unaudited)	39	3,192	122	(423)	423	–	114	–	504	2,307	6,278	589	6,867

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

1. GENERAL

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

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

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

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

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

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

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

3. SEGMENT INFORMATION

Business segment

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

Principal activities are as follows:

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

3. SEGMENT INFORMATION – continued

Business segment – continued

Segment information about these segments are presented below:

For the six months ended 30 June 2007

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

For the six months ended 30 June 2006

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

Geographical segment

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

4. STAFF COSTS

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

5. DEPRECIATION AND RELEASE OF PREPAID LEASE PAYMENTS

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

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

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

7. FINANCE COSTS

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

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

8. INCOME TAX EXPENSE

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

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

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

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

9. PROFIT FOR THE PERIOD

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

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

10. DIVIDENDS

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

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

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

11. EARNINGS PER SHARE

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

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

11. EARNINGS PER SHARE – continued

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

Notes:

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

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

12. INVESTMENT PROPERTIES

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

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

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

13. Accounts receivable, deposits and prepayments

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

Trade receivables comprise:

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

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

Note:

The amount comprises:

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

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

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

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

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

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

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

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

14. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

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

15. SHARE CAPITAL

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

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

16. OTHER RESERVES

(a) Merger reserve represents the aggregate of:

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

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

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

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

(c) Other reserve comprises:

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

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

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

17. NOTES

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

The principal terms of the notes

The notes are:

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

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

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

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

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

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

18. SHARE BASED PAYMENT

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

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

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

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

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

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

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

19. DISPOSAL OF INTERESTS IN SUBSIDIARIES

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

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

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

20. PLEDGE OF ASSETS

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

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

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

21. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

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

(b) Other commitments

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

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

(c) Contingent liabilities

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

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

22. RELATED PARTY TRANSACTIONS

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

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

22. RELATED PARTY TRANSACTIONS – continued

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

(i) Nature of transaction

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

23. EVENTS AFTER THE BALANCE SHEET DATE

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

23. EVENTS AFTER THE BALANCE SHEET DATE – continued

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

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

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

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

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

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

DIVIDEND AND BOOK CLOSE

The Board has declared an interim dividend of HK5 cents (2006: Nil) per share to shareholders whose names appear on the Company's register of members on 22 October 2007. The interim dividend will be paid on 30 October 2007.

The register of members of the Company will be closed from 16 October 2007 to 22 October 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by registration not later than 4:30 p.m. on 15 October 2007.

DIRECTORS' INTERESTS

As at 30 June 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) The Company

(i) Long position in the shares of the Company

Name of Director	Nature of interests	Interests in shares	Interests in underlying shares[2]	Percentage of interests in the Company
Mr. Vincent H. S. LO ("Mr. LO")	Other	2,250,565,225[1]	–	53.78%
Mr. William T. ADDISON	Personal	–	5,000,000	0.12%
Dr. William K. L. FUNG	Personal	3,200,000	–	0.07%

Notes:

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

2 *These represent interests of share options granted to the Directors under the share option scheme to subscribe for shares of the Company, further details of which are set out in the section "Share Option Scheme".*

Subsequent to the period under review, The Honourable LEUNG Chun Ying, Sir John R. H. BOND, Dr. Edgar W. K. CHENG, Dr. William K. L. FUNG, Professor Gary C. BIDDLE, Dr. Roger L. McCARTHY and Mr. David J. SHAW have reported their respective interests in the share options granted under the share option scheme to the Company and the Stock Exchange in July 2007 upon their acceptance of the respective offer made by the Company.

(b) Associated Corporation – SOCAM

(i) Long position in the SOCAM shares

Name of Director	Nature of interests	Interests in SOCAM shares	Percentage of interests in SOCAM
Mr. Vincent H. S. LO	Other	185,915,000[1]	61.74%
Dr. William K. L. FUNG	Personal	682,000	0.23%

Note:

1 *These shares comprise 181,871,000 SOCAM shares beneficially owned by SOCL and 4,044,000 SOCAM shares and SOCAM underlying shares in which SOCL is deemed to be interested under sections 317 and 318 of the SFO.*

Among 181,871,000 SOCAM shares beneficially owned by SOCL, 166,148,000 SOCAM shares and 15,723,000 SOCAM shares were held respectively by SOCL and SOF, which is an indirect wholly owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. LO is a discretionary beneficiary. Accordingly, Mr. LO is deemed to be interested in such shares under the SFO.

On 27 August 2002, SOCL granted call options over certain existing SOCAM shares beneficially owned by SOCL to each of Mr. Wilfred Y. W. WONG ("Mr. Wilfred WONG"), Mr. Louis H. W. WONG ("Mr. Louis WONG") and Mr. Frankie Y. L. WONG as part of the incentive reward for their services to SOCAM. A maximum of 50% of such SOCAM shares transferred or to be transferred upon exercise of call options shall be subject to a restriction of disposal within 12 months from the date such shares are transferred. Mr. Wilfred WONG and Mr. Louis WONG had exercised all their call options and accordingly are deemed to be parties to an agreement to acquire SOCAM shares under sections 317 and 318 of the SFO. As such, SOCL is deemed to be interested in the SOCAM shares and SOCAM underlying shares owned by Mr. Wilfred WONG and Mr. Louis WONG.

(ii) Short position in the SOCAM shares

Name of Director	Nature of interests	Interests in SOCAM shares	Percentage of interests in SOCAM
Mr. Vincent H. S. LO	Other	1,600,000[1]	0.53%

Note:

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

Save as disclosed above, as at 30 June 2007, none of the Directors and chief executive of the Company, or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to the Directors of the Company, as at 30 June 2007, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interests in shares	Percentage of interests in the Company
HSBC International Trustee Limited	Trustee	2,250,565,225[1]	53.78%
Bosrich Holdings Inc.	Trustee	2,250,565,225[1]	53.78%
Shui On Company Limited	Interest of Controlled Corporation	2,250,565,225[1]	53.78%
Shui On Holdings Limited	Interest of Controlled Corporation	1,503,869,901[2]	35.93%
Shui On Investment Company Limited	Beneficial Owner and Interest of Controlled Corporation	1,503,869,901[2]	35.93%
Shui On Properties Limited	Beneficial Owner	940,000,000[2]	22.46%
Shui On Construction and Materials Limited	Interest of Controlled Corporation	746,695,324[3]	17.84%
New Rainbow Investments Limited	Beneficial Owner	746,695,324[3]	17.84%

Notes:

1. *The 2,250,565,225 shares are beneficially owned by SOCL through its subsidiaries comprising 940,000,000 shares, 563,713,901 shares, 746,695,324 shares and 156,000 shares held respectively by SOP, SOI, NRI and SOF. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. LO is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. LO, HSBC International Trustee Limited and Bosrich Holdings Inc. are deemed to be interested in such shares under the SOF.*
2. *The shares comprise 563,713,901 shares beneficially owned by SOI, 940,000,000 shares beneficially owned by SOP and 156,000 shares beneficially owned by SOF, which are wholly owned subsidiaries of SOI. SOI is deemed to be interested in these shares held by SOP and SOF under the SFO and has an aggregate interest in 1,503,869,901 shares. SOI is owned by Shui On Holdings Limited. Accordingly, Shui On Holdings Limited is also deemed to be interested in the 1,503,869,901 shares held by SOI under the SFO.*
3. *These shares are beneficially owned by NRI, a wholly owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such shares under the SFO.*
4. *The interests stated above represent long positions.*

Save as disclosed above, as at 30 June 2007, no short position was recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to a share option scheme (the "Share Option Scheme") which was approved and adopted by the Company on 8 June 2007, the Board may offer to grant share options to any employees, executive and non-executive Directors (including independent non-executive Directors), consultants, advisers, or service providers and business partners who have contributed or may contribute to the Group as the Chairman may recommend. The Board believes that the Share Option Scheme will provide the qualifying participants with the opportunity of participating in the growth of the Company by acquiring shares in the Company and may, in turn, assist in building the Group into a high performing organisation with loyal staff and contributors.

During the period, 146,888,190 share options were granted under the Share Option Scheme.

The fair values of the share options granted during the period determined at the dates of grant using the Binomial Model range from HK$2.02 and HK$3.10. The details of calculating the fair values are set out in note 18 to the unaudited condensed consolidated financial statements.

The following share options were outstanding under the Share Option Scheme during the six months ended 30 June 2007:

Name or category of eligible participants	Date of grant	Subscription price per share HK$	Number of options At 1.1.2007	Granted during the period[2]	Exercised during the period	Cancelled during the period	Lapsed during the period	At 30.6.2007	Exercise period
Directors									
Mr. William T. ADDISON	20.6.2007	7.00	–	5,000,000	–	–	–	5,000,000	20.6.2009 - 19.6.2016
The Honourable LEUNG Chun Ying	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Sir John R. H. BOND	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Dr. Edgar W. K. CHENG	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Dr. William K. L. FUNG	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Professor Gary C. BIDDLE	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Dr. Roger L. McCARTHY	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Mr. David J. SHAW	20.6.2007	7.00	–	500,000[3]	–	–	–	500,000	20.6.2007 - 19.6.2012
Sub-total				8,500,000	–	–	–	8,500,000	
Consultants									
Mr. Richard K. N. HO	20.6.2007	7.00	–	1,000,000	–	–	–	1,000,000	20.6.2007 - 19.6.2016
Dr. Thomas K. F. LEUNG	20.6.2007	7.00	–	500,000	–	–	–	500,000	20.6.2007 - 19.6.2012
Sub-total				1,500,000	–	–	–	1,500,000	
Employees (in aggregate)	20.6.2007	7.00	–	136,888,190	–	–	–	136,888,190	20.6.2009 - 19.6.2016
Total				**146,888,190**	**–**	**–**	**–**	**146,888,190**	

Notes:

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

2 *The closing price of the Company's shares preceding the date on which the share options were granted was HK$6.90.*

3 *Subsequent to the period under review, The Honourable LEUNG Chun Ying, Sir John R. H. BOND, Dr. Edgar W. K. CHENG, Dr. William K. L. FUNG, Professor Gary C. BIDDLE, Dr. Roger L. McCARTHY and Mr. David J. SHAW have reported their respective interests in the share options granted under the Share Option Scheme to the Company and the Stock Exchange in July 2007 upon their acceptance of the respective offer made by the Company.*

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance that it believes are crucial to the development of the Group and to safeguarding the interests of the shareholders of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as the code regarding securities transactions by the Directors and relevant employees. All Directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2007.

Audit Committee

The Company established an Audit Committee in June 2004, which was reconstituted in May 2006 with written terms of reference pursuant to the rules set out in Chapter 3 of the Listing Rules. The Audit Committee consists of three members, namely Professor Gary C. BIDDLE ("Professor BIDDLE"), Dr. Edgar W. K. CHENG and Dr. Roger L. McCARTHY. All of them are independent non-executive Directors. The chairman of the Audit Committee is Professor BIDDLE.

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2007, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors.

Remuneration Committee

The Company established a Remuneration Committee in June 2004, which was reconstituted in May 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules. The Remuneration Committee consists of three members, namely Dr. William K. L. FUNG ("Dr. FUNG"), Mr. Vincent H.S. LO ("Mr. LO") and Professor BIDDLE. Dr. FUNG and Professor BIDDLE are independent non-executive Directors. The chairman of the Remuneration Committee is Dr. FUNG.

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

Compliance with Code on Corporate Governance Practices

During the six months ended 30 June 2007, the Company complied with the code provisions of the CG Code except for the following deviations:

1. Code provision A.2.1: The roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual.

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

2. Code provision A.4.2: All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

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

Other than the above, the Company has also performed the following in furtherance to those corporate governance principles and practices as set out under the CG Code during the six months ended 30 June 2007:

1. A written procedure was established in March 2007 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

2. Written guidelines for dealing in the Company's securities by the relevant employees were established and adopted in March 2007 on no less exacting terms than the Model Code, to regulate securities dealings by certain employees of the Company or any of its subsidiaries who are considered likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

3. Functions reserved to the Board and those delegated to the management have been formalised in writing.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2007.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

The Company has on 28 November 2006 entered into a guarantee (the "Guarantee") to guarantee the performance of its subsidiary, Chongqing Shui On Tiandi Property Development Co., Ltd. ("Chongqing Shui On"), under a 3-year loan facility of up to RMB300,000,000. The Guarantee requires that Mr. LO, the Chairman and CEO, to remain as a controlling shareholder of the Company and that the Company has to maintain its indirect and beneficial ownership of not less than 70% of Chongqing Shui On. Breach of such obligations will cause a default in respect of the loan.

EMPLOYEES AND REMUNERATION POLICY

At 30 June 2007, the number of employees in the Group was 1,061. Employee remuneration packages are maintained at competitive levels and employees are rewarded on a performance-related basis. Other staff benefits include provident fund schemes, share option scheme, medical insurance, in-house training and subsidies for job-related seminars, and programmes organised by professional bodies and educational institutes.

The Remuneration Committee strongly believes in the principle of equality of opportunity and reward for staff. During the period, the Remuneration Committee commenced work on a remuneration policy that will embrace the value of diversity of workforce, and encourage all staff to use their skills, knowledge and creativity to achieve excellence.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Vincent H. S. LO
(Chairman & Chief Executive Officer)
Mr. William T. ADDISON
(Managing Director & Chief Financial Officer)

Non-executive Director
The Honourable LEUNG Chun Ying

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

AUDIT COMMITTEE

Professor Gary C. BIDDLE *(Chairman)*
Dr. Edgar W. K. CHENG
Dr. Roger L. McCARTHY

REMUNERATION COMMITTEE

Dr. William K. L. FUNG *(Chairman)*
Mr. Vincent H. S. LO
Professor Gary C. BIDDLE

COMPANY SECRETARY

Mr. UY Kim Lun

QUALIFIED ACCOUNTANT

Mr. George W. K. CHAN

AUDITORS

Deloitte Touche Tohmatsu

JOINT COMPLIANCE ADVISERS

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

LEGAL ADVISERS

Freshfields Bruckhaus Deringer
Johnson Stokes & Master

REGISTERED OFFICE

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

CORPORATE HEADQUARTERS

26/F, Shui On Plaza
333 Huai Hai Zhong Road
Shanghai 200021, PRC

PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

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WEBSITE

www.shuionland.com

瑞安集團成員
Member of Shui On Group

Design and Production : Yellow Creative (HK) Limited