

# DIRECTORS' REPORT

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

## Principal Activities

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

## Results and Appropriations

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

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

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

## Investment Properties

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

## Property, Plant and Equipment

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

## Share Capital

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

## Distributable Reserves of the Company

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

## Directors

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

### Executive Directors:

Mr. Vincent H. S. LO  
Mr. Wilfred Y. W. WONG (resigned on 1 May 2007)  
Mr. William T. ADDISON

### Non-executive Director:

The Honourable LEUNG Chun Ying  
(re-designated on 12 January 2007)

### Independent Non-executive Directors:

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

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

### Directors' Interests in Shares

As of 31 December 2007, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

#### (a) The Company

##### (i) Long position in the shares of the Company

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

#### Notes:

- (1) The shares of the Company are directly held by subsidiaries of Shui On Company Limited ("SOCL"), namely Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Vincent H. S. LO is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Vincent H. S. LO, Bosrich Holdings Inc. and HSBC International Trustee Limited are deemed to be interested in such shares under the SFO. Mr. Vincent H. S. LO is also deemed to be interested in the shares held by New Rainbow Investments Limited, a wholly-owned subsidiary of Shui On Construction and Materials Limited.
- (2) These represent interests of share options granted to the Directors under the share option scheme to subscribe for shares, further details of which are set out in the section "Share Options".

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

*(i) Long position in the shares of SOCAM*

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

Note:

- (1) Among 181,981,000 SOCAM shares beneficially owned by SOCL, 166,148,000 SOCAM shares and 15,833,000 SOCAM shares were held respectively by SOCL and Shui On Finance Company Limited, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Vincent H. S. LO is a discretionary beneficiary. Accordingly, Mr. Vincent H. S. LO is deemed to be interested in such shares under the SFO.

*(ii) Short position in the shares of SOCAM*

Name of Director	Nature of interests	Total number of ordinary shares	Approximate percentage of interests in SOCAM
Mr. Vincent H. S. LO	Other	1,600,000 (Note 1)	0.49%

Note:

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

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

## Substantial Shareholders' Interest in Shares

As of 31 December 2007, the following shareholders (other than Directors or the chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

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

Notes:

- (1) The 2,257,993,225 shares are beneficially owned by SOCL through its subsidiaries comprising 940,000,000 shares, 791,713,261 shares and 526,279,964 shares held respectively by Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited ("NRI"). SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Vincent H. S. LO is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Vincent H. S. LO, Bosrich Holding Inc. and HSBC International Trustee Limited are deemed to be interested in such shares under the SFO.
- (2) These shares are beneficially owned by NRI, a wholly-owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such shares under the SFO.
- (3) All the interests stated above represent long positions.

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

## Share Options

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

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

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

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

Note:

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

Summary of the Share Option Scheme are as follows:

**(i) Purpose**

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

**(ii) Qualifying participants**

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

**(iii) Maximum number of shares**

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

**(iv) Limit for each participant**

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

**(v) Option period**

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

**(vi) Acceptance and payment on acceptance**

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

**(vii) Subscription price**

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

**(viii) Remaining life of the Share Option Scheme**

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

### Arrangement to Purchase Shares or Debentures

Other than the share option holdings disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Purchase, Sale or Redemption of Shares

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

### Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 68 to 77.

### Connected Transactions

Certain related party transactions as disclosed in note 43 to the Financial Statements also constituted non-exempt connected transactions of the Company and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company are ongoing and are subject to the reporting, announcement and/or independent shareholders' approval requirements of Chapter 14A of the Listing Rules. At the time of application for listing of the Company's shares on the Stock Exchange, waivers were granted to the Company from strict compliance with the announcement and independent shareholders' approval requirements.

#### (1) Provision of project management services by Shanghai Yangpu Knowledge Innovation Zone Investment and Development Co., Ltd. ("SYKIZ") to Shanghai Yangpu Centre Development Co., Ltd. ("KIC")

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

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

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

The total service fees payable by us to SYKIZ for the advisory services is fixed at 0.9% of the construction costs for the Shanghai KIC project incurred by KIC. Our Directors believe that the advisory services agreement is on normal commercial terms. The service fee rate of 0.9% was determined based on the rate of 3% generally charged to independent third parties for similar services, adjusted to be proportionate with SYKIZ's shareholding.

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

The Company expects that the total amount payable by KIC to SYKIZ for advisory services for each of the two years ending 31 December 2008 will not exceed RMB11 million.

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

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

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

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

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

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

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

An aggregate amount of RMB22 million for the properties in Shanghai and HK\$3 million for the properties in Hong Kong respectively was paid or is payable by the Group to the Shui On Group for leasing of the premises under the property leasing agreements and the framework lease agreement during the year under review.

## **(3) Provision of construction services by SOCAM to the Group**

In the ordinary course of the Group's business, the Group has in the past entered into a number of construction contracts with Shanghai Shui On Construction Co., Ltd. and Pat Davie (China) Limited (the "SOCAM Contractors") as the contractors for construction works in relation to our projects in the PRC. The construction contracts include renovation



works contracts, building decoration works, mechanical and electrical system materials procurement and building materials procurement. The SOCAM Contractors are each subsidiaries of SOCAM and are therefore connected persons of the Company.

For contracts over RMB1 million, construction contracts were generally put out to tender and contractors selected through a bidding process under which each potential contractor was assessed on its qualifications, reputation for reliability, quality and price. The construction contracts with SOCAM Contractors of over RMB1 million were entered into pursuant to and on the basis of bids tendered. For contracts of RMB1 million or less, the price was agreed with SOCAM Contractors with reference to prevailing market rates.

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

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

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

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

The Group has provided a shareholder loan to Profitstock Holdings Limited, its then 70%-owned subsidiary, in the principal amount of RMB282 million as evidenced by a deed dated 5 January 2006. This shareholder loan was entered into in the ordinary course of business for the purpose of the payment of land premium, relocation costs and construction costs, each in respect of Lot 114 of the Shanghai Taipingqiao project. The Group has also provided a shareholder loan to Globe State Properties Limited, our 70%-owned subsidiary, in the principal amount of RMB130 million as evidenced by a deed dated 5 January 2006. This shareholder loan was entered into in the ordinary course of business for the purpose of the payment of land premium, relocation costs and construction costs, each in respect of Lot 117 of the Shanghai Taipingqiao project.

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

Both shareholder loans are unsecured, interest free and repayable on demand. For the two years ending 31 December 2008, the annual amount of the financial assistance provided by the Group to Profitstock Holdings Limited and Globe State Properties Limited will not exceed the aggregate of the loan amounts, that is RMB412 million.

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

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

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

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

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

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

The guarantee constitutes financial assistance from the Company to a connected person. The Company has not charged any fees in relation to the provision of the guarantee.

The annual amount of the financial assistance by the Company to Shanghai Jing Fu Property Co., Ltd. will not exceed 70% of the loan and interest amount secured under the guarantee, that is HK\$370 million. No payment has been or is proposed to be made by the Company under its guarantee of the loan to Shanghai Jing Fu Property Co., Ltd. in respect of the year under review.

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

Pursuant to Rule 14A.37 of the Listing Rules, the INEDs of the Company have reviewed the above continuing connected transactions and are of the opinion that the continuing connected transactions as stated in point no. 1 to 5 above have been:

- (i) carried out in the usual and ordinary course of business of the Group;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the respective agreements.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions as set out in point no.1 to 5 above to assist the Directors to evaluate whether the transactions:

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

The auditor has reported their factual findings on these procedures to the Board of Directors.

### Directors' Service Contracts

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

### Directors' Interests in Contracts of Significance

Save for the related party transactions disclosed in note 43 to the consolidated financial statements, no contract to which the Company, its ultimate holding company or any of the subsidiaries of the Company or its ultimate holding company was a party, and in which a Director of the Company had, at any time during the year, whether directly or indirectly, an interest, (being, in either case, in the opinion of the Directors, a contract of significance in relation to the Company's business and in which the Director's interest is or was material), subsisted at the end of the year or at any time during the year.

### Directors' Interests in Competing Business

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

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

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

### Disclosure under Rule 13.21 of the Listing Rules

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

### Remuneration Policy

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

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

### **Provident and Retirement Fund Schemes**

Details of the Group's provident and retirement fund schemes are shown in note 38 to the consolidated financial statements.

### **Pre-emptive Rights**

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

### **Sufficiency of Public Float**

The Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2007.

### **Charitable Donations**

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

### **Major Customers and Suppliers**

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

For the year ended 31 December 2007, payments to our single largest construction contractor, Shanghai Shui On Construction Co., Ltd., accounted for approximately 12% of our total payments for construction services. Details of the transactions with Shanghai Shui On Construction Co., Ltd. are set out under the caption Connected Transactions point (3) "Provision of construction services by SOCAM to the Group" in pages 99 and 100. Our five largest construction contractors accounted for approximately 42% of our total payments for construction services. Except for the construction payments to Shanghai Shui On Construction Co., Ltd., none of our Directors, their associates or any shareholders holding more than 5% of the share capital of the Company has any interest in our five largest construction contractors.

### **Events after the Balance Sheet Date**

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

### **Auditor**

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

On behalf of the Board

**Vincent H. S. LO**

*Chairman*

17 April 2008