

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

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 47, 17 and 18 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 100.

An interim dividend of HK\$0.07 per share was paid to shareholders on 30 October 2008.

The Directors now recommend the payment of a final dividend of HK\$0.01 (2007: HK\$0.10) per share to shareholders on the register of members on 4 June 2009, amounting to approximately RMB37 million.

In addition, the Directors also proposed a bonus issue of shares to the shareholders of the Company on the basis of one new share for every ten shares held.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 13 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 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2008 are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as of 31 December 2008 were RMB8,480 million (2007: RMB8,901 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. Louis H. W. WONG (*appointed on 15 October 2008*)

Mr. Aloysius T. S. LEE (*appointed on 15 October 2008*)

Mr. William T. ADDISON (*resigned on 15 October 2008*)

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

In accordance with Article 102 of the Company's Articles of Association, Mr. Vincent H. S. LO, Sir John R. H. BOND, Dr. Edgar W. K. CHENG and Dr. Roger L. McCARTHY 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 2008, 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 4) | Approximate percentage of interests in the Company |
|--------------------------------|---------------------|---------------------------------|--|--|
| Mr. Vincent H. S. LO | Other | 2,281,250,225 (Note 1) | – | 54.52% |
| | & Family | 1,150,000 (Note 2) | | |
| Mr. Louis H. W. WONG | Personal | 1,802,000 | 5,714,285 | 0.17% |
| Mr. Aloysius T. S. LEE | Personal | 470,000 (Note 3) | 2,973,137 | 0.08% |
| 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 ("NRI"). SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings (PTC) 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 (PTC) 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 NRI, a wholly-owned subsidiary of Shui On Construction and Materials Limited.
- (2) These shares are beneficially owned by Ms. Loletta CHU, the spouse of Mr. Vincent H. S. LO. Under the SFO, Mr. Vincent H. S. LO is deemed to be interested in such shares.
- (3) These shares are held jointly with Ms. Kalice L.T. KWONG, the spouse of Mr. Aloysius T. S. LEE.
- (4) 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 & Family | 181,981,000 (Note 1) 312,000 (Note 2) | 56.63% |
| 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 (PTC) 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.
- (2) These shares are beneficially owned by Ms. Loletta CHU, the spouse of Mr. Vincent H. S. LO. Under the SFO, Mr. Vincent H. S. LO is deemed to be interested in such shares.

(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) These SOCAM shares represent the call option granted by SOCL on 27 August 2002 to Mr. Frankie Y. L. WONG as part of the incentive reward to his services to SOCAM. Mr. Vincent H. S. LO is deemed to have short position in these SOCAM shares under the SFO.

Save as disclosed above, as of 31 December 2008, no short positions were recorded in the register required to be kept under section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

At 31 December 2008, 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 |
|------------------------------------|---------------------------------------|-------------------------------------|--|
| Ms. Loletta CHU | Family & Personal | 2,281,250,225 (Note 1) 1,150,000 | 54.52% |
| HSBC International Trustee Limited | Trustee | 2,281,250,225 (Note 2) | 54.50% |
| Bosrich Holdings (PTC) Inc. | Trustee | 2,281,250,225 (Note 2) | 54.50% |
| SOCL | Interest of Controlled Corporation | 2,281,250,225 (Note 2) | 54.50% |
| SOCAM | Interest of Controlled Corporation | 396,071,631 (Note 3) | 9.46% |

Notes:

- (1) Mr. Vincent H. S. LO is deemed to be interested in 2,281,250,225 shares under the SFO and hence Ms. Loletta CHU is also deemed to be interested in such shares mentioned in note (2) below.
- (2) These shares are beneficially owned by SOCL through its subsidiaries comprising 940,000,000 shares, 945,178,594 shares and 396,071,631 shares held respectively by Shui On Properties Limited, Shui On Investment Company Limited and NRI. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings (PTC) 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 (PTC) Inc. and HSBC International Trustee Limited are deemed to be interested in such shares under the SFO.
- (3) These shares are beneficially owned by NRI, a wholly-owned subsidiary of SOCAM. Accordingly, SOCAM is deemed to be interested in such shares under the SFO.
- (4) All the interests stated above represent long positions.

Save as disclosed above, as of 31 December 2008, 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.

The following table sets out the movements in the Company's share options during the year:

| Name or category of eligible participants | Date of grant | Exercise price per share HK\$ | At 1 January 2008 | Reclassifications | Granted during the year | Lapsed during the year | At 31 December 2008 | Period during which option outstanding at 31 December 2008 are exercisable |
|---|-----------------|-------------------------------|--------------------|--------------------|-------------------------|------------------------|---------------------|--|
| Directors | | | | | | | | |
| Mr. Louis H. W. WONG | 20 June 2007 | 7.00 | – | 5,714,285 | – | – | 5,714,285 | 20 June 2009 – 19 June 2016 |
| Mr. Aloysius T. S. LEE | 1 November 2007 | 11.78 | – | 2,973,137 | – | – | 2,973,137 | 1 November 2009 – 31 October 2016 |
| 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 |
| 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 |
| Dr. Mr. David J. SHAW | 20 June 2007 | 7.00 | 500,000 | – | – | – | 500,000 | 20 June 2007 – 19 June 2012 |
| Sub-total | | | 8,000,000 | 8,687,422 | – | (5,000,000) | 11,687,422 | |
| Consultants | | | | | | | | |
| Mr. Richard K. N. HO | 20 June 2007 | 7.00 | 1,000,000 | – | – | – | 1,000,000 | 20 June 2007 – 19 June 2016 |
| Dr. Thomas K. F. LEUNG | 20 June 2007 | 7.00 | 500,000 | – | – | – | 500,000 | 20 June 2007 – 19 June 2012 |
| Sub-total | | | 1,500,000 | – | – | – | 1,500,000 | |
| Employees (in aggregate) | | | | | | | | |
| | 20 June 2007 | 7.00 | 128,166,798 | (5,714,285) | – | (13,919,254) | 108,533,259 | 20 June 2009 – 19 June 2016 |
| | 1 August 2007 | 8.18 | 1,435,193 | – | – | (64,180) | 1,371,013 | 1 August 2009 – 31 July 2016 |
| | 2 October 2007 | 10.00 | 5,200,000 | – | – | (355,000) | 4,845,000 | 2 October 2009 – 1 October 2016 |
| | 1 November 2007 | 11.78 | 4,505,498 | (2,973,137) | – | (233,444) | 1,298,917 | 1 November 2009 – 30 October 2016 |
| | 3 December 2007 | 9.88 | 1,601,700 | – | – | (101,212) | 1,500,488 | 3 December 2009 – 2 December 2016 |
| | 2 January 2008 | 8.97 | – | – | 3,725,183 | (275,917) | 3,449,266 | 2 January 2010 – 1 January 2017 |
| | 1 February 2008 | 8.05 | – | – | 2,419,238 | (319,872) | 2,099,366 | 1 February 2010 – 31 January 2017 |
| | 3 March 2008 | 7.68 | – | – | 813,794 | (39,062) | 774,732 | 3 March 2010 – 2 March 2017 |
| | 2 May 2008 | 7.93 | – | – | 9,722,499 | (1,926,225) | 7,796,274 | 2 May 2010 – 1 May 2017 |
| | 2 June 2008 | 7.34 | – | – | 15,905,938 | (68,119) | 15,837,819 | 2 June 2010 – 1 June 2017 |
| | 2 July 2008 | 6.46 | – | – | 1,784,027 | – | 1,784,027 | 2 July 2010 – 1 July 2017 |
| | 3 November 2008 | 1.60 | – | – | 100,250,000 | – | 100,250,000 | 3 November 2010 – 2 November 2017 |
| Sub-total | | | 140,909,189 | (8,687,422) | 134,620,679 | (17,302,285) | 249,540,161 | |
| Total | | | 150,409,189 | – | 134,620,679 | (22,302,285) | 262,727,583 | |

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.

Details of the share options granted during the year are as follows:

| Date of grant | Exercise price | Closing share price immediately before the date of grant | Weighted average estimated fair value at date of grant calculated using the Binominal model | Number of share options granted |
|-----------------|----------------|--|---|---------------------------------|
| 2 January 2008 | 8.97 | 9.10 | 3.35 | 3,725,183 |
| 1 February 2008 | 8.05 | 8.12 | 2.93 | 2,419,238 |
| 3 March 2008 | 7.68 | 7.58 | 2.80 | 813,794 |
| 2 May 2008 | 7.93 | 7.75 | 2.91 | 9,722,499 |
| 2 June 2008 | 7.34 | 7.30 | 2.75 | 15,905,938 |
| 2 July 2008 | 6.46 | 6.30 | 2.39 | 1,784,027 |
| 3 November 2008 | 1.60 | 1.60 | 0.65 | 100,250,000 |
| Total | | | | 134,620,679 |

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 2008, 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 tranche to 1 year for the seventh tranche 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 2008.

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 58 to 67.

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 are the connected transactions between the connected persons (as defined in the Listing Rules) and the Company, certain of which are ongoing. These connected transactions 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 in respect of certain connected transactions.

(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. Therefore, SYKIZ is a connected person of the Company 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, unless terminated with 60 days prior written notice by either party. On 31 December 2008, SYKIZ and KIC entered into the second supplemental agreement to extend the term from 31 December 2008 to 31 December 2011 with a provision of service fee adjustment in accordance with the parties' shareholding. Save for the above, all other terms of the service agreement remain unchanged.

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 the three years ending 31 December 2011 would not exceed RMB6 million, RMB9 million and RMB9 million respectively. An aggregate total amount of RMB4 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 or its subsidiaries, as tenant, have 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 are connected persons 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. (also known as Shanghai Rui Hong Xin Cheng Phase I), which was previously 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. The lease arrangement with Shanghai Ruichen Property Co. Ltd was no longer a connected transaction since the acquisition of Shanghai Rui Hong Xin Cheng Phase I by the Group on 26 February 2008 as mentioned in item 7 below.

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 ended 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 SOCL 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 year ended 31 December 2008 has been revised from RMB25 million to RMB38 million for the leasing, sub-leasing and licensing of the properties in Shanghai. 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 for the leasing, sub-leasing and licensing of the properties in Shanghai. In addition, 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 2009 will not exceed HK\$4.4 million and HK\$5.2 million respectively.

An aggregate amount of RMB28 million for the properties in Shanghai and HK\$4 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 Shui On Construction Co., Ltd. ("SSOC", formerly known as 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. Mr. Vincent H. S. LO, as the controlling shareholder of SOL, also holds more than 30% shareholding in SOCAM. Thus, SOCAM is a connected person of SOL. 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 SSOC 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 SSOC 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. On 15 December 2008, SSOC and SOL entered into a supplemental agreement on 15 December 2008 to extend the term for three financial years to 31 December 2011.

The Group expects that the total annual payment for all construction services provided by SSOC to the Group for the three years ending 31 December 2011, will not exceed RMB410 million, RMB561 million and RMB845 million, respectively.

An aggregate amount of RMB248 million was paid or is payable to SSOC for all construction services during the year under review.

(4) Provision of management services by Shui On Development Limited (“Shanghai SOD”) to Richcoast Group Limited (“Richcoast”) and its subsidiaries (collectively as the “Dalian Group”)

On 28 April 2008, Shanghai SOD, a wholly-owned subsidiary of SOL, Max Clear Holdings Limited (“Max Clear”), a wholly-owned subsidiary of SOCAM, Yida Group Company Limited (“Yida”) and certain other companies entered into a management services agreement pursuant to which each of Shanghai SOD, Max Clear and Yida has agreed to provide management services to the Dalian Group for a term of three years commencing with effect from 1 January 2008 to 31 December 2010.

The Dalian Group is effectively held as to as to 48% by SOL and 22% by SOCAM and thus, a connected person of SOL. In addition, the companies constituting the Dalian Group are subsidiaries of SOL for the purpose of the Listing Rules, and Yida is a connected person of SOL by virtue of being the substantial shareholders of Richcoast. Mr. Vincent H. S. LO, as the controlling shareholder of SOL, also holds more than 30% shareholding in SOCAM. Thus, SOCAM and its subsidiaries including without limitation to Max Clear are connected persons of SOL.

In accordance with the management services agreement, Shanghai SOD, Max Clear, and Yida can receive an annual fee from the Dalian Group based on 1%, 1.5% and 1% respectively of an amount calculated based on the total budgeted construction cost for the Dalian project for the provision of management services.

The annual caps for the receipt by Shanghai SOD of the management fees for the three years ending 31 December 2010, will not exceed RMB4,421,000, RMB12,660,000 and RMB12,660,000, respectively, while the annual caps for the payment by the Dalian Group to Max Clear in respect of the management fees for the three years ending 31 December 2010, will not exceed RMB6,630,000, RMB19,000,000 and RMB19,000,000, respectively and the annual caps for the payment by the Dalian Group to Yida in respect of the management fees for the three years ending 31 December 2010, will not exceed RMB4,421,000, RMB12,660,000 and RMB12,660,000, respectively.

An aggregate amount of RMB454,000, RMB682,000 and RMB454,000 was paid or is payable to Shanghai SOD, Max Clear and Yida respectively for management fees during the year under review.

(5) Provision of construction services by Yida and its subsidiaries (“Yida Group”) for DALIAN TIANDI software hub (formerly known as Dalian Software Park Phase II)

On 7 August 2008, Richcoast and Yida entered into a framework construction agreement, pursuant to which the Yida Group may enter into contracts with the Dalian Group to perform site formation and construction works which include excavation and/or filling, clearance of the construction site, removal of the construction garbage, setting up drainage system and construction of the main structures on the land area constituting DALIAN TIANDI software hub for a term expiring no later than 31 December 2010.

Yida, through its wholly-owned subsidiary, is a substantial shareholder of Richcoast, a subsidiary of SOL for the purpose of the Listing Rules. Therefore, Yida and its subsidiaries are connected persons of SOL.

The annual caps for the payment made or to be made by the Dalian Group to Yida for the three years ending 31 December 2010, are RMB110 million, RMB91 million and RMB91 million, respectively.

An aggregate amount of RMB21 million was paid or is payable to Yida Group for construction fees during the year under review.

(6) Further injection into the joint venture for the development of DALIAN TIANDI software hub

On 15 January 2008, Innovate Zone Group Limited ("Innovate Zone"), a wholly-owned subsidiary of SOL, Main Zone Group Limited ("Main Zone"), a wholly-owned subsidiary of SOCAM, and Yida Group agreed to inject further cash by way of capital injection and shareholders' loans into the Dalian Group in the aggregate amount equivalent to approximately RMB910 million for the development of Dalian project.

Yida, through its wholly-owned subsidiary, is a substantial shareholder of Richcoast, a subsidiary of SOL for the purpose of the Listing Rules. Therefore, Yida and its subsidiaries are connected persons of SOL. Mr. Vincent H. S. LO, as the controlling shareholder of SOL, also holds more than 30% shareholding in SOCAM. Thus, SOCAM and its subsidiaries including without limitation to Main Zone are connected persons of SOL.

The further injection was contributed by Innovate Zone, Main Zone and Yida Group in proportion to their respective attributable interests in the Dalian Group, i.e. effectively 48% by Innovate Zone, 22% by Main Zone and 30% by Yida Group and accordingly the respective interests in the Dalian Group remain unchanged after the further injection.

An amount of RMB437 million was injected by Innovate Zone into Dalian Group to make such further injection during the year under review.

(7) Acquisition of Shanghai Rui Hong Xin Cheng Phase I

On 26 February 2008, Foresight Profits Limited ("Foresight") which was at that time a wholly-owned subsidiary of SOL, entered into an agreement with Smithton Limited ("Smithton"), an indirect wholly-owned subsidiary of SOCL, pursuant to which Foresight acquired from Smithton its entire interest in Silomax Limited ("Silomax", the indirect owner of the project company holding Shanghai Rui Hong Xin Cheng Phase I), being 100% of the issued share capital of Silomax and the loan in the amount of approximately HKD147 million for a consideration of approximately HKD152.7 million. After the closing of the transaction, Silomax became a subsidiary of the Company.

As SOCL is a controlling shareholder of SOL, SOCL and each of the subsidiaries of SOCL including without limitation to Smithton are connected persons of the Company.

(8) Further funding or financial assistance to the joint venture for the development of DALIAN TIANDI software hub

On 28 April 2008, Innovate Zone, a wholly-owned subsidiary of SOL, Main Zone, a wholly-owned subsidiary of SOCAM, Many Gain, a member of Yida Group, and Richcoast entered into the offshore supplemental agreement, pursuant to which Innovate Zone, Main Zone and Many Gain agreed to provide further funding or financial assistance to the Dalian Group in an aggregate amount up to the equivalent of RMB1,833 million for the development of the Dalian project.

Main Zone is a wholly-owned subsidiary of SOCAM and thus, a connected person of SOL.

Such additional funding was provided in proportion to their respective interests in Richcoast, i.e. 61.54% by Innovate Zone, 28.2% by Main Zone and 10.26% by Many Gain, while the financial assistance was provided in proportion to their respective attributable interests in the Dalian Group, i.e. effectively 48% by Innovate Zone, 22% by Main Zone and 30% by Yida Group.

On 28 April 2008, the four indirect Hong Kong wholly-owned subsidiaries of Richcoast, Yida, being the shareholders of the PRC joint venture companies in relation to Dalian project, entered into the Onshore Shareholders Memorandum, pursuant to which Richcoast and its non-PRC subsidiaries (the "Dalian Offshore Group") and the Yida Group agreed to provide funding or financial assistance to the aforesaid PRC joint venture companies in an aggregate amount up to RMB2,350 million in proportion to their respective interests in them, i.e. 78% by the Dalian Offshore Group and 22% by the Yida Group.

An amount of RMB1,007 million was made by Innovate Zone for such funding or financial assistance during the year under review.

(9) Provision of site formation services by Dalian Yida Building Engineering Co., Ltd. (“Dalian Yida”) to Dalian Software Park Shui On Kaifa Co., Ltd. (“Dalian Shui On”)

On 13 May 2008, Dalian Shui On, a subsidiary of the Company under the Listing Rules, entered into a site formation agreement with Dalian Yida, a member of the Yida Group, for a contract sum of approximately RMB7.5 million, pursuant to which Dalian Yida agreed to perform site formation works for Lots D10, D14 and D22 of Phase I of the land area constituting part of DALIAN TIANDI software hub, which include clearance of the construction site, removal of the construction garbage, and setting up drainage system.

As Yida through its wholly-owned subsidiary is a substantial shareholder of Richcoast, a subsidiary of the Company for the purpose of the Listing Rules, Yida and Dalian Yida are connected persons of the Company.

(10) Transactions with Winnington Capital Limited (“WCL”) in respect of Shanghai Rui Hong Xin Cheng project

- (i) Disposal of 25% equity interest in Foresight Profits Limited (“Foresight”) and granting of an option for the disposal of additional 24% equity interest in Foresight

On 19 May 2008, Shui On Development (Holding) Limited (“SOD”), a wholly-owned subsidiary of the Company, entered into an agreement with WCL pursuant to which WCL acquired from SOD a 25% equity interest (“RHXC Disposal”) in Foresight, which was at that time a wholly-owned subsidiary of the Company, for a total consideration of RMB1,125 million, and also an irrevocable call option (“RHXC Call Option”) which may be exercised from 1 December 2008 to 31 December 2008 to acquire a further 24% equity interest in Foresight at an exercise price of RMB1,134 million plus an amount (if any) representing the difference in any shareholder contribution made between the closing of the RHXC Disposal and the completion of the RHXC Call Option. The RHXC Call Option was subsequently extended from 31 December 2008 to 30 April 2009.

WCL was then a connected person of the Company by virtue of its 19.8% interest in Score High Limited, which is a subsidiary of the Company.

- (ii) Provision of guarantee by the Company and SOD for the benefit of Foresight and its subsidiaries (“Foresight Group”)

On 20 June 2006, the Company and SOD entered into a guarantee with Standard Chartered Bank Shanghai Branch as agent pursuant to which the Company and SOD agreed to provide a joint and several guarantee to facilitate the making of loans of up to the equivalent of approximately RMB1,199 million by a consortium of banks to the Foresight Group. The Company and SOD agreed to continue the guarantee following the completion of the disposal of 25% equity interest and the grant of an option for the disposal of additional 24% equity interest in Foresight.

At the time of making the relevant announcement of the Company dated 19 May 2008, the provision of the guarantee by the Company and SOD to the Foresight Group constitutes a possible connected transaction of the Company.

- (iii) Provision of shareholders’ loans to Foresight

SOD, a wholly-owned subsidiary of the Company, and WCL may be required in accordance with the shareholders agreement dated 19 May 2008 to provide shareholders’ loans to Foresight in an aggregate amount up to the equivalent of RMB594 million in proportion to their respective equity interest in Foresight to finance the relocation costs associated with Shanghai Rui Hong Xin Cheng project.

At the time of making the relevant announcement of the Company dated 19 May 2008, the provision of shareholders’ loans from SOD to Foresight constitutes a possible connected transaction of the Company.

(11) Connected transactions with WCL in respect of Rightchina Limited ("Rightchina")

- (i) Disposal of 25% equity interest in Rightchina and granting of an option for the acquisition by WCL or its affiliates of an additional 25% equity interest in Rightchina and the assignment to WCL or its affiliate of the additional shareholders' loans

On 21 August 2008, Score High Limited ("Score High"), a 80.2%-owned subsidiary of the Company, entered into the sale and purchase Agreement with WCL pursuant to which WCL acquired from Score High a 25% equity interest ("SHR Disposal") in Rightchina, which was then a wholly-owned subsidiary of Score High, for a total consideration of RMB1,021 million, Score High also granted an irrevocable call option to WCL ("SHR Call Option") for the acquisition by WCL or its affiliate of a further 25% equity interest ("Option Shares") in Rightchina and the assignment of the additional shareholders' loans made by Score High to Rightchina between the date of closing of SHR Disposal and the closing date of SHR Call Option attributable to the Option Shares at an exercise price of approximately RMB1,072 million plus an amount equivalent to the aforesaid additional shareholders' loans. The SHR Call Option period was subsequently extended from 31 December 2008 to 30 April 2009.

WCL was then a connected person of the Company by virtue of its 19.8% interest in Score High, which is a subsidiary of the Company.

- (ii) Provision of guarantee and receipt of loan guarantee fees

In accordance with the shareholders agreement dated 23 September 2008, the Group may provide guarantees for the purpose of financing the development costs ("Development Costs") which include without limitation the construction costs, interest expenses and sales and marketing costs and the relocation and land costs. The requirement of the Development Costs may be realized in the form of bank loans. In the event where the Group agrees to provide WCL's or its affiliate's proportionate share of a guarantee, WCL or its affiliate shall give loan guarantee fees to the Group for its input.

At the timing of making the announcement of the Company dated 21 August 2008, it was stated that if the call option was exercised and completed, Rightchina would become a connected person of the Company. Therefore, the provision of guarantees and the receipt of loan guarantee fees would constitute possible continuing connected transactions of the Company. However, Rightchina has subsequently become a connected person of the Company pursuant to 14A.11(5) of the Listing Rules. Accordingly, the provision of guarantees and the receipt of loan guarantee fees have constituted continuing connected transactions of the Company.

The annual caps for the provision of guarantee by the Group during the three financial years ending 31 December 2010 are set at not exceeding RMB200 million, RMB500 million and RMB1,000 million, respectively.

The Group has not provided any financial guarantee during the year under review.

The annual caps for the amount of receipt of loan guarantee fees from WCL or its affiliate for the three financial years ending 31 December 2010 are set at not exceeding RMB4 million, RMB10 million and RMB20 million, respectively.

The Group has not received any loan guarantee fee from WCL or its affiliate during the year under review.

(iii) Provision of shareholders' loans

In accordance with the shareholders agreement dated 23 September 2008, additional shareholders' loans may be required to be provided by Score High and/or WCL or its affiliate for the Super High Rise project to finance the Development Costs. Where the external banking facilities are unavailable to fund the Development Costs due to any reason, Score High and WCL, the shareholders of Rightchina shall provide shareholders' loans to fund the shortfall amount in accordance with their shareholding proportion to facilitate the development of the Super High Rise project.

At the time of making the announcement of the Company dated 21 August 2008, it was stated that if the call option was exercised and completed, Rightchina would become a connected person of the Company. Therefore, the provision of guarantees and the receipt of loan guarantee fees would constitute possible continuing connected transactions of the Company. Given that Rightchina has subsequently become a connected person of the Company pursuant to 14A.11(5) of the Listing Rules, the provision of any shareholders' loans has constituted continuing connected transaction of the Company. No additional shareholders' loan was provided from such date up to 31 December 2008.

At the time of making the relevant announcement, the annual caps for provision of additional shareholders' loans during the three financial years ending 31 December 2010 are set at not exceeding RMB745 million, RMB900 million and RMB1,000 million, respectively.

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

The INEDs of the Company confirmed that no continuing connected transaction was entered into in respect of points no. (11)(ii) and (11)(iii).

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 points 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 2008, the following Director or his associates are 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 2008.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB19 million (2007: RMB13 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 2008, payments to our single largest construction contractor, Shui On Construction Co., Ltd., accounted for approximately 7% of our total payments for construction services. Details of the transactions with 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 page 90. Our five largest construction contractors accounted for approximately 23% of our total payments for construction services. Except for the construction payments to 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.

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

16 April 2009