

# DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries, associates and jointly controlled entities are set out in notes 48, 17 and 18 respectively to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 114.

An interim dividend of HK\$0.01 per share was paid to shareholders on 30 October 2009.

The Board has resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting (the "AGM") the payment of a final dividend of HK\$0.12 per share for the year ended 31 December 2009 (2008: HK\$0.01 per share), amounting to approximately RMB530 million (2008: RMB37 million) in aggregate, to shareholders whose names appear on the register of members of the Company on 27 May 2010.

Shareholders will be given the option to receive the final dividend in new shares in lieu of cash (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is subject to: (1) the approval of the proposed final dividend at the AGM; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

A circular containing details of the Scrip Dividend Scheme will be dispatched to shareholders together with the form of election for scrip dividend as soon as practicable after the AGM. Dividend warrants and share certificates in respect of the proposed final dividend are expected to be dispatched to shareholders on or about 19 July 2010.

## 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 2009 are set out in note 28 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as of 31 December 2009 were RMB10,520 million (2008: RMB8,480 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
Mr. Daniel Y. K. WAN (appointed on 27 August 2009)
Mr. Aloysius T. S. LEE (resigned on 16 December 2009)

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 the provisions of the Company's Articles of Association, The Honourable LEUNG Chun Ying, Dr. William K. L. FUNG, Professor Gary C. BIDDLE and Mr. David J. SHAW will retire by rotation at the AGM and, being eligible, will offer themselves for re-election; and Mr. Daniel Y. K. WAN, appointed as an Executive Director of the Company on 27 August 2009, will retire at the AGM and being eligible, will offer himself for re-election.

## DIRECTORS' INTERESTS IN SHARES

As of 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were 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 3)	Approximate percentage of interests in the Company
Mr. Vincent H. S. LO	Other and Family	2,514,375,245 (Note 1) 1,265,000 (Note 2)	–	50.08%
Mr. Louis H. W. WONG	Personal	1,982,200	5,510,203	0.14%
Dr. William K. L. FUNG	Personal	4,070,000	–	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	220,000	500,000	0.01%
Dr. Roger L. McCARTHY	Personal	–	500,000	0.01%
Mr. David J. SHAW	Personal	–	500,000	0.01%

Notes:

- (1) These shares are directly held by the 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 (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 New Rainbow Investments Limited, 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. Mr. Vincent H. S. LO is deemed to be interested in such shares under the SFO.
- (3) 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 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 and Family	181,981,000 (Note 1) 312,000 (Note 2)	37.34%
Dr. William K. L. FUNG	Personal	682,000	0.13%

Notes:

- (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 SOCAM shares are beneficially held by Ms. Loletta CHU, the spouse of Mr. Vincent H. S. LO. 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)	0.32%

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 2009, 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 2009, the following shareholders (other than Directors or the chief executive of the Company) had interests 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 interests	Total number of ordinary shares	Approximate percentage of shareholding
Ms. Loletta CHU	Family and Personal	2,515,640,245 (Note 1)	50.08%
HSBC International Trustee Limited	Trustee	2,514,375,245 (Note 2)	50.06%
Bosrich Holdings (PTC) Inc.	Trustee	2,514,375,245 (Note 2)	50.06%
SOCL	Interest of Controlled Corporation	2,514,375,245 (Note 2)	50.06%
SOCAM	Interest of Controlled Corporation	435,678,793 (Note 3)	8.67%

Notes:

- (1) The 2,515,640,245 shares are comprised of 1,265,000 shares beneficially held by Ms. Loletta CHU and 2,514,375,245 shares in which Mr. Vincent H. S. LO, the spouse of Ms. Loletta CHU, has a deemed interest under the SFO mentioned in note (2) below. Accordingly, Ms. Loletta CHU is also deemed to be interested in 2,514,375,245 shares under the SFO.
- (2) These shares are beneficially owned by SOCL through its subsidiaries, comprising 1,034,000,000 shares, 1,044,696,452 shares and 435,678,793 shares held by Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited respectively. 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, HSBC International Trustee Limited and Bosrich Holdings (PTC) Inc. are deemed to be interested in such shares under the SFO.
- (3) These shares are beneficially owned by New Rainbow Investments Limited, 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 2009, 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 36 to the consolidated financial statements.

The following table sets out the movement 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 2009	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2009	Period during which options outstanding at 31 December 2009 are exercisable
<b>Directors</b>									
Mr. Louis H. W. WONG	20 June 2007	7.00	5,714,285	–	–	–	(204,082)	5,510,203	20 June 2009 – 19 June 2016
Mr. Aloysius T. S. LEE	1 November 2007	11.78	2,973,137	–	–	–	(2,654,801)	318,336	1 November 2009 – 15 March 2010
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
Mr. David J. SHAW	20 June 2007	7.00	500,000	–	–	–	–	500,000	20 June 2007 – 19 June 2012
<b>Sub-total</b>			<b>11,687,422</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,858,883)</b>	<b>8,828,539</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>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,500,000</b>	
<b>Employees (in aggregate)</b>									
	20 June 2007	7.00	108,533,259	–	–	–	(11,911,364)	96,621,895	20 June 2009 – 19 June 2016
	1 August 2007	8.18	1,371,013	–	–	–	(101,211)	1,269,802	1 August 2009 – 31 July 2016
	2 October 2007	10.00	4,845,000	–	–	–	(2,376,232)	2,468,768	2 October 2009 – 1 October 2016
	1 November 2007	11.78	1,298,917	–	–	–	(315,638)	983,279	1 November 2009 – 31 October 2016
	3 December 2007	9.88	1,500,488	–	–	–	(266,159)	1,234,329	3 December 2009 – 2 December 2016
	2 January 2008	8.97	3,449,266	–	–	–	(90,857)	3,358,409	2 January 2010 – 1 January 2017
	1 February 2008	8.05	2,099,366	–	–	–	(381,984)	1,717,382	1 February 2010 – 31 January 2017
	3 March 2008	7.68	774,732	–	–	–	(39,062)	735,670	3 March 2010 – 2 March 2017
	2 May 2008	7.93	7,796,274	–	–	–	(558,001)	7,238,273	2 May 2010 – 1 May 2017
	2 June 2008	7.34	15,837,819	–	–	–	(606,259)	15,231,560	2 June 2010 – 1 June 2017
	2 July 2008	6.46	1,784,027	–	–	–	(301,852)	1,482,175	2 July 2010 – 1 July 2017
	3 November 2008	1.60	100,250,000	–	–	(79,937,500)	(20,312,500)	–	3 November 2010 – 2 November 2017
	4 September 2009	4.90	–	23,728,888	–	–	(23,364)	23,705,524	3 November 2010 – 2 November 2017
<b>Sub-total</b>			<b>249,540,161</b>	<b>23,728,888</b>	<b>–</b>	<b>(79,937,500)</b>	<b>(37,284,483)</b>	<b>156,047,066</b>	
<b>Total</b>			<b>262,727,583</b>	<b>23,728,888</b>	<b>–</b>	<b>(79,937,500)</b>	<b>(40,143,366)</b>	<b>166,375,605</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 price.

On 4 September 2009, an aggregate of 79,937,500 options granted on 3 November 2008 with exercise price of HK\$1.60 were being replaced with an aggregate of 23,728,888 options (the "Replacement Options") at exercise price of HK\$4.90 per share. Other than the exercise price, the vesting period and other terms of the Replacement Options remained unchanged. Details of the Replacement Options granted during the year are as follows:

Date of grant of the Replacement Options	Exercise price	Closing share price at date of grant	Weighted average estimated fair value at date of grant calculated using the Binominal model	Number of share options granted
4 September 2009	4.90	4.90	2.04	23,728,888

Summary of the Share Option Scheme is 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 organisation 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 that 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 being exceeded. As of 31 December 2009, 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 2009.

### **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 86 to 93.

### **CONNECTED TRANSACTIONS**

Certain related party transactions as disclosed in notes 33 and 43 to the consolidated 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.

**(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 subsidiary of the Company, with advisory services including assisting with obtaining the relevant regulatory and government approvals and permits as well as the marketing and administrative aspects for the property development projects of KIC (the "Shanghai KIC Project").

SYKIZ owned 30% of KIC upon its incorporation. Pursuant to an agreement signed with SYKIZ, KIC shall increase its registered capital by US\$77,000,000 from US\$60,500,000 to US\$137,500,000, whereby SYKIZ will not participate in injecting the additional capital of US\$77,000,000 into KIC. As a result of the completion of this agreement, SYKIZ's interest will be diluted from 30% to 13.2% by 16.8%. As SYKIZ is a substantial shareholder of KIC, therefore, SYKIZ is a connected person of the Company under the Listing Rules.

The total services fee payable by KIC 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 services 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.

The Company expects that the total amount payable by KIC to SYKIZ for advisory services for each of the three years ending 31 December 2011 would not exceed RMB6 million, RMB9 million and RMB9 million respectively. An amount of RMB6 million was paid and/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 the subsidiaries of SOCL (the "Shui On Group"). As SOCL is a substantial 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 an indirect 80% owned subsidiary of SOCL, for various units in Shui On Plaza for offices at market rent. In Hong Kong, a subsidiary of the Company 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 prevailing market rent. These properties are used for offices and a showroom.

The Company entered into a framework lease agreement with SOCL on 30 May 2006, the terms of which was extended to 31 December 2009 by a supplemental agreement dated 4 September 2007.

The Company set the maximum aggregate annual rent payable by the Group to the Shui On Group for the year ended 31 December 2009 at RMB48 million for the leasing, sub-leasing and licensing of the properties in Shanghai. In addition, the Company expected 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 year ended 31 December 2009 would not exceed HK\$5.2 million.

An amount of RMB33 million for the properties in Shanghai and HK\$3 million for the properties in Hong Kong respectively was paid and/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 entered into a number of construction contracts with Shui On Construction Co., Ltd. ("SOC"), 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, building decoration works, mechanical and electrical system materials procurement and building materials procurement. Mr. Vincent H. S. LO, as the controlling shareholder of the Company, also holds more than 30% shareholding in SOCAM. Thus, SOCAM is a connected person of the Company. 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 the prevailing market rates.

On 4 June 2006, the Company entered into a construction services framework agreement with SOC which expired on 31 December 2008. On 15 December 2008, SOC and the Group entered into a supplemental agreement to extend the term for three financial years to 31 December 2011.

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

An amount of RMB196 million was paid and/or is payable to SOC for 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 the Company, 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 48% by the Group and 22% by SOCAM and thus, a connected person of the Company. In addition, the companies constituting the Dalian Group are subsidiaries of the Group for the purpose of the Listing Rules, and Yida is a connected person of the Company by virtue of being the substantial shareholder of Richcoast. Mr. Vincent H. S. LO, as the controlling shareholder of the Company, also holds more than 30% shareholding in SOCAM. Thus, SOCAM and its subsidiaries including without limitation to Max Clear are connected persons of the Company.

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 two years ending 31 December 2010 will not exceed RMB13 million for each year, while the annual caps for the payment by the Dalian Group to Max Clear in respect of the management fees for the two years ending 31 December 2010 will not exceed RMB19 million for each year and the annual caps for the payment by the Dalian Group to Yida in respect of the management fees for the two years ending 31 December 2010 will not exceed RMB13 million for each year.

The amounts of RMB8 million, RMB12 million and RMB8 million were paid and/or are payable to Shanghai SOD, Max Clear and Yida respectively for the management fees during the year under review.

**(5) PROVISION OF CONSTRUCTION SERVICES BY YIDA AND ITS SUBSIDIARIES (“YIDA GROUP”) FOR DALIAN TIANDI**

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 for a term expiring no later than 31 December 2010. The term of the agreement was subsequently extended to 31 December 2011.

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

The annual caps for the payment made or to be made by the Dalian Group to Yida for the three years ending 31 December 2011 are RMB200 million, RMB250 million and RMB250 million respectively.

An amount of RMB78 million was paid and/or is payable to Yida Group for the construction fees during the year under review.



### **(6) USE OF AIRCRAFT OWNED BY A SUBSIDIARY OF SOCL**

On 4 September 2009, the Company entered into an agreement with Top Dynasty Investment Limited ("Top Dynasty"), pursuant to which the Group may use an aircraft owned by Top Dynasty for the purpose of transporting passengers for business of the Group. As Top Dynasty is a subsidiary of SOCL, the transactions contemplated under the agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The term of the agreement is from 4 September 2009 and expiring on 31 December 2010. The fees are calculated based on the actual travelling schedules of the passengers. It is expected that the maximum annual fees payable by the Group to Top Dynasty under the agreement for the period from the date of the Agreement up to 31 December 2009 would be HK\$7 million, and for the year ending 31 December 2010 would be HK\$20 million.

An amount of HK\$5 million was paid and/or is payable to Top Dynasty for the use of aircraft during the year under review.

### **(7) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF CERTAIN PROJECTS OF CHONGQING SHUI ON TIANDI PROPERTY DEVELOPMENT COMPANY LIMITED ("CHONGQING TIANDI")**

On 25 September 2009, Shui On Development (Holding) Limited ("SODH"), Winnington Land Limited ("WLL") and Chongqing Tiandi entered into a project services framework agreement pursuant to which Chongqing Tiandi may enter into separate service contracts with the Group and/or WLL and its associates ("WLL Group") to perform services in respect of the property development projects (excluding the Super High Rise project) of Chongqing Tiandi from time to time in accordance with the terms of the framework agreement for the three years ending 31 December 2011.

At the date of publishing the relevant announcement, Chongqing Tiandi was a connected person of the Company as the ultimate controlling shareholder of WLL, a connected person of the Company (at the Company level) was considered at the time as entitling to exercise, or control the exercise of, 10% or more of the voting power at the general meeting of Score High Limited (the offshore holding company of Chongqing Tiandi). However, the ultimate controlling shareholder of WLL does not currently hold such voting power. Accordingly, the services fees payable by Chongqing Tiandi to the Group under the framework agreement no longer constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The ultimate controlling shareholder of WLL is an associate of Mr. Vincent H. S. LO pursuant to Rule 14A.11(4)(c) of the Listing Rules, and is therefore an associate of a connected person of the Company. Accordingly, WLL together with the WLL Group are connected persons of the Company and the services fees payable by Chongqing Tiandi to the WLL Group under the framework agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The annual caps for the services fees payable by Chongqing Tiandi to the Group for the three years ending 31 December 2011 will not exceed RMB29.1 million, RMB31.1 million and RMB47.0 million respectively; the annual caps for the services fees payable by Chongqing Tiandi to WLL Group for the three years ending 31 December 2011 will not exceed RMB3.8 million, RMB8.7 million and 9.9 million respectively.

The amounts of RMB18.8 million and RMB1.4 million were paid and/or are payable by Chongqing Tiandi to the Group and WLL Group respectively for the services fees during the year under review.

**(8) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF THE PROJECTS OF SHANGHAI RUI HONG XIN CHENG CO., LTD (“RHXC”)**

On 27 October 2009, SODH, WLL and RHXC entered into a project services framework agreement pursuant to which RHXC may enter into separate service contracts with the Group and/or WLL Group to perform services in respect of the property development projects of RHXC from time to time in accordance with the terms of the framework agreement for the three years ending 31 December 2011.

At the date of publishing the relevant announcement, RHXC was a connected person of the Company as the ultimate controlling shareholder of WLL, a connected person of the Company (at the Company level) was considered at the time as entitling to exercise, or control the exercise of, 10% or more of the voting power at the general meeting of Foresight Profits Limited (the offshore holding company of RHXC). However, the ultimate controlling shareholder of WLL does not currently hold such voting power. Accordingly, the services fees payable by RHXC to the Group under the framework agreement no longer constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The ultimate controlling shareholder of WLL is an associate of Mr. Vincent H. S. LO pursuant to Rule 14A.11(4)(c) of the Listing Rules, and is therefore an associate of a connected person of the Company. Accordingly, WLL together with the WLL Group are connected persons of the Company and the services fees payable by RHXC to the WLL Group under the framework agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The annual caps for the services fees payable by RHXC to the Group for the three years ending 31 December 2011 will not exceed RMB30 million, RMB25 million and RMB68 million respectively; the annual caps for the services fees payable by RHXC to WLL Group for the two years ending 31 December 2011 will not exceed RMB0.6 million and RMB8 million respectively.

An amount of RMB4 million was paid and/or is payable by RHXC to the Group for the services fees during the year under review.

**(9) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF THE PROJECTS OF WUHAN SHUI ON TIANDI PROPERTY DEVELOPMENT COMPANY LIMITED (“WUHAN TIANDI”)**

On 20 November 2009, SODH and Wuhan Tiandi entered into a project services framework agreement pursuant to which Wuhan Tiandi may enter into separate service contracts with the Group to perform services in respect of the property development projects of Wuhan Tiandi from time to time in accordance with the terms of the framework agreement for the three years ending 31 December 2011.

At the date of publishing the relevant announcement, Wuhan Tiandi was a connected person of the Company as an associate of Mr. Vincent H. S. LO, a connected person of the Company (at the Company level) was considered at the time as entitling to exercise, or control the exercise of, 10% or more of the voting power at the general meeting of Fieldcity Investments Limited (the offshore holding company of Wuhan Tiandi). However, such associate does not currently hold such voting power. Accordingly, the services fees payable by Wuhan Tiandi to the Group under the framework agreement no longer constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The annual caps for the services fees payable by Wuhan Tiandi to the Group for the three years ending 31 December 2011 will not exceed RMB39 million, RMB64 million and RMB81 million respectively.

An amount of RMB33 million was paid and/or is payable by Wuhan Tiandi to the Group for the services fees during the year under review.

**(10) CONNECTED TRANSACTIONS WITH WINNINGTON CAPITAL LIMITED ("WCL") IN RESPECT OF RIGHTCHINA LIMITED ("RIGHTCHINA")**

**(i) 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 time of publishing 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. However, the call option has expired and was not exercised, and that Rightchina is not currently a connected person of the Company pursuant to Rule 14A.11(5) of the Listing Rules, the provision of guarantees no longer constitutes continuing connected transaction of the Company. Given that WCL is still a connected person of the Company, the receipt of any loan guarantee fees from WCL or its affiliate would still constitute continuing connected transactions of the Company.

At the time of making the relevant announcement, the annual caps for the provision of guarantee by the Group during the two financial years ending 31 December 2010 were set at not exceeding 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 two years ending 31 December 2010 were set at not exceeding 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.

**(ii) 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 Limited 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 Limited 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.

As stated above, Rightchina is not currently a connected person of the Company pursuant to Rule 14A.11(5) of the Listing Rules, therefore the provision of shareholders' loan by Score High no longer constitutes continuing connected transaction of the Company. Given that WCL is still a connected person of the Company, the provision of shareholders' loans by WCL or its affiliate would still constitute continuing connected transactions of the Company. No additional shareholders' loan was provided from the date of the announcement, being 21 August 2008 to 31 December 2009.

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

**(11) ACQUISITION OF THE REMAINING 30% INTEREST IN GLOBE STATE PROPERTIES LIMITED IN RELATION TO LOT 117, TAIPINGQIAO**

On 29 July 2009, the Group entered into a sale and purchase agreement with Equity Millennium Limited and Shun Hing China Investment Limited, the then non-controlling shareholders of Globe State Properties Limited ("Globe State", an indirect 70% owned subsidiary of the Company), to acquire their entire interests in Globe State, being 20% and 10% equity interests in the issued share capital of Globe State respectively, together with an amount due by Globe State to the non-controlling shareholders of RMB56 million, for a total cash consideration of RMB100 million.

Each of Equity Millennium Limited and Shun Hing China Investment Limited was a connected person of the Company by virtue of its being a substantial shareholder of Globe State, a subsidiary of the Company for the purpose of the Listing Rules. Accordingly, the acquisition constitutes a connected transaction of the Company under Chapter 14A 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 referred to in points no. (1) to (9) and are of the opinion that the continuing connected transactions as stated in points no. (1) to (9) 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. (10)(i) and (10)(ii).

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 (9) 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 announcements.

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 AGM 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, or any of the subsidiaries of the 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 2009, 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

On 16 December 2009, the immediate subsidiary of the Company, SODH as borrower, the Company as guarantor, the original lenders as lenders, and BNP as the coordinating arranger and facility agent entered into a facility agreement in relation to a loan. Pursuant to the facility agreement, there is a requirement that Mr. Vincent H. S. Lo and his family be the single largest shareholder of the Company and maintains a minimum 35% of the direct or indirect legal and beneficial interest in the Company during the term of the facility agreement. Any breach of this obligation will cause a default in respect of the loan, and may trigger cross-defaults in other outstanding bank loans of the Group in the aggregate amount of approximately RMB6,619 million as of 31 December 2009.

### DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES (CONTINUED)

The Company has on 28 November 2006 entered into a guarantee ("Guarantee") to guarantee the performance of its subsidiary, Chongqing Tiandi, 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 in Chongqing Tiandi. 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 37 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 2009.

### CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB8 million (2008: RMB19 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 2009, payments to our single largest construction contractor, SOC accounted for approximately 8% of our total payments for construction services. Details of the transactions with SOC are set out under the caption Connected Transactions point (3) "Provision of construction services by SOCAM to the Group" in page 106. Our five largest construction contractors accounted for approximately 29% of our total payments for construction services. Except for the construction payments to SOC, 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 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Vincent H. S. LO**  
*Chairman*

15 April 2010