

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

## Principal Activities

The Company acts as an investment holding company; through its subsidiaries and associates, the Group engages principally in property development and property investment in the People's Republic of China ("PRC"). The activities of its subsidiaries, associates and jointly controlled entities are set out in notes 46, 17 and 18 to the consolidated financial statements respectively.

## Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 113.

An interim dividend of HK\$0.06 per share was paid to the shareholders on 8 November 2010. The interim dividend was in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. 71.7% of the shareholdings elected to receive shares in lieu of cash and accordingly, 57,753,920 new and fully paid shares were issued.

The Board has resolved to recommend the payment of a final dividend of HK\$0.05 per share for the year ended 31 December 2010 (2009: HK\$0.12 per share), amounting to approximately RMB220 million (2009: RMB530 million) in aggregate. Subject to shareholders' approval of the final dividend at the annual general meeting (the "AGM") to be held on 19 May 2011, the final dividend is expected to be paid on or about 30 June 2011 to shareholders whose names appear on the register of members of the Company on 19 May 2011.

## 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 2010 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 2010 were RMB11,200 million (2009: RMB10,520 million).

## Directors

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

Executive Directors:	Independent Non-executive Directors:
Mr. Vincent H. S. LO	Sir John R. H. BOND
Mr. Louis H. W. WONG (retired on 16 March 2011)	Dr. Edgar W. K. CHENG
Mr. Freddy C. K. LEE (appointed on 28 June 2010)	Dr. William K. L. FUNG
Mr. Daniel Y. K. WAN	Professor Gary C. BIDDLE
	Dr. Roger L. McCARTHY
	Mr. David J. SHAW
Non-executive Director:	
The Honourable LEUNG Chun Ying	

In accordance with the provisions 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 AGM and, being eligible, will offer themselves for re-election; and Mr. Freddy C. K. LEE, appointed as an Executive Director of the Company on 28 June 2010, will retire at the AGM and being eligible, will offer himself for re-election.

## Directors' Interest in Shares

At 31 December 2010, 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 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"):

## Long Position in the Shares and the Underlying Shares of the Company

Name of Directors	Number of ordinary shares				Interests in the underlying shares (Note 4)	Approximate percentage of interests in the Company
	Personal interests	Family interests	Other interests	Total		
Mr. Vincent H. S. LO	–	1,333,430 (Note 1)	2,650,391,985 (Note 2)	2,651,725,415	–	50.88%
Mr. Louis H. W. WONG	1,982,200	–	–	1,982,200	5,428,570	0.14%
Mr. Freddy C. K. LEE	286,000	208,500 (Note 3)	–	494,500	5,152,140 (Note 3)	0.10%
Dr. William K. L. FUNG	4,133,593	–	–	4,133,593	–	0.08%
The Honourable LEUNG Chun Ying	–	–	–	–	500,000	0.01%
Sir John R. H. BOND	–	–	–	–	500,000	0.01%
Dr. Edgar W. K. CHENG	–	–	–	–	500,000	0.01%
Professor Gary C. BIDDLE	220,000	–	–	220,000	500,000	0.01%
Dr. Roger L. McCARTHY	–	–	–	–	500,000	0.01%
Mr. David J. SHAW	–	–	–	–	500,000	0.01%

Notes:

- (1) These shares were beneficially owned by Ms. Loletta CHU ("Mrs. Lo"), the spouse of Mr. Vincent H. S. LO ("Mr. Lo"). Mr. Lo was deemed to be interested in such shares under the SFO.
- (2) These shares were beneficially owned by Shui On Company Limited ("SOCL") through its controlled corporations, comprising 1,411,712,352 shares, 1,101,209,977 shares and 137,469,656 shares held by Shui On Properties Limited ("SOP"), Shui On Investment Company Limited ("SOI") and New Rainbow Investments Limited ("NRI") respectively. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings (PTC) Inc. ("Bosrich"). The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Lo is a discretionary beneficiary and HSBC International Trustee Limited ("HSBC Trustee") is the trustee. Accordingly, Mr. Lo, Mrs. Lo, Bosrich and HSBC Trustee were deemed to be interested in such shares under the SFO.
- (3) Mr. Freddy C. K. LEE was deemed to be interested in 208,500 shares and 960,267 share options held by his spouse under the SFO.
- (4) These represent the interests of share options granted to the Directors and/or his associate(s) under the share option scheme to subscribe for shares of the Company, further details of which are set out in the section headed "Share Options" below.

Save as disclosed above, at 31 December 2010, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' Interest in Shares

At 31 December 2010, the persons or corporations (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of interests	Total number of ordinary shares	Approximate percentage of interests in the Company
Mrs. Lo	Family and Personal	2,651,725,415 (L) (Note 1)	50.88%
HSBC Trustee	Trustee	2,650,391,985 (L) (Note 2)	50.85%
Bosrich	Trustee	2,650,391,985 (L) (Note 2)	50.85%
SOCL	Interests of Controlled Corporation	2,605,391,985 (L) (Note 2)	50.85%
Standard Chartered PLC	Interests of Controlled Corporation	306,332,010 (L) 300,506,165 (S) (Notes 3 & 4)	5.88% 5.77%

Notes:

- (1) The 2,651,725,415 shares were comprised of 1,333,430 shares beneficially held by Mrs. Lo and 2,650,391,985 shares in which Mr. Lo, the spouse of Mrs. Lo, has a deemed interest under the SFO mentioned in note (2) below. Accordingly, Mrs. Lo was also deemed to be interested in 2,650,391,985 shares under the SFO.
- (2) These shares were beneficially owned by SOCL through its controlled corporations, comprising 1,411,712,352 shares, 1,101,209,977 shares and 137,469,656 shares held by SOP, SOI and NRI respectively. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Lo is a discretionary beneficiary and HSBC Trustee is the trustee. Accordingly, Mr. Lo, Mrs. Lo, Bosrich and HSBC Trustee were deemed to be interested in such shares under the SFO.
- (3) (L) represents long positions and (S) represents short positions.
- (4) The interests are held by Standard Chartered Bank, which is wholly owned by Standard Chartered Holdings Limited, which is in turn ultimately owned by Standard Chartered PLC. Standard Chartered Bank was in a long position of 306,332,010 shares and a short position of 300,506,165 shares (within which the short position consisting of 300,506,165 shares and long position of 190,364,234 shares are derived from the interest in equity derivatives).

Save as disclosed above, at 31 December 2010, the Directors are not aware of any other person or corporation (other than a Director or chief executive of the Company), having an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company 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 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 2010	Reclassifications	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010	Period during which the share options are exercisable
<b>Directors</b>									
Mr. Louis H. W. WONG	20 June 2007	7.00	5,510,203	–	–	–	(81,633)	5,428,570	20 June 2009 – 19 June 2016
Mr. Freddy C. K. LEE	20 June 2007	7.00	–	3,571,428	–	–	(51,021)	3,520,407	20 June 2009 – 19 June 2016
	2 June 2008	7.34	–	681,198	–	–	(9,732)	671,466	2 June 2010 – 1 June 2017
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
Mr. Aloysius T. S. LEE (Note 1)	1 November 2007	11.78	318,336	–	–	–	(318,336)	–	1 November 2009 – 15 March 2010
<b>Sub-total</b>			<b>8,828,539</b>	<b>4,252,626</b>	<b>–</b>	<b>–</b>	<b>(460,722)</b>	<b>12,620,443</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	96,621,895	(3,571,428)	–	–	(15,108,552)	77,941,915	20 June 2009 – 19 June 2016
	1 August 2007	8.18	1,269,802	–	–	–	(159,869)	1,109,933	1 August 2009 – 31 July 2016
	2 October 2007	10.00	2,468,768	–	–	–	(402,312)	2,066,456	2 October 2009 – 1 October 2016
	1 November 2007	11.78	983,279	–	–	–	(258,729)	724,550	1 November 2009 – 31 October 2016
	3 December 2007	9.88	1,234,329	–	–	–	(653,463)	580,866	3 December 2009 – 2 December 2016
	2 January 2008	8.97	3,358,409	–	–	–	(180,400)	3,178,009	2 January 2010 – 1 January 2017
	1 February 2008	8.05	1,717,382	–	–	–	(272,500)	1,444,882	1 February 2010 – 31 January 2017
	3 March 2008	7.68	735,670	–	–	–	(102,662)	633,008	3 March 2010 – 2 March 2017
	2 May 2008	7.93	7,238,273	–	–	–	(1,816,341)	5,421,932	2 May 2010 – 1 May 2017
	2 June 2008	7.34	15,231,560	(681,198)	–	–	(1,556,116)	12,994,246	2 June 2010 – 1 June 2017
	2 July 2008	6.46	1,482,175	–	–	–	(534,944)	947,231	2 July 2010 – 1 July 2017
	4 September 2009	4.90	23,705,524	–	–	–	(2,716,383)	20,989,141	3 November 2010 – 2 November 2017
<b>Sub-total</b>			<b>156,047,066</b>	<b>(4,252,626)</b>	<b>–</b>	<b>–</b>	<b>(23,762,271)</b>	<b>128,032,169</b>	
<b>Total</b>			<b>166,375,605</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(24,222,993)</b>	<b>142,152,612</b>	

Notes:

(1) Mr. Aloysius T. S. LEE resigned as an executive director of the Company with effect from 16 December 2009 and his share options lapsed on 15 March 2010.

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

Summary of the Share Option Scheme are as follows:

**(1) 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.

**(2) 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.

**(3) 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. At 31 December 2010, the number of shares available for issue in respect thereof is 418,009,717 shares.

**(4) 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.

**(5) 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.

**(6) 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.

**(7) 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.

**(8) 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 2010.

## 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 84 to 91.

## Connected Transactions

Certain related party transactions as disclosed in note 41 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 has increased its registered capital by US\$77 million from US\$60.5 million to US\$137.5 million, whereby SYKIZ did not participate in injecting the additional capital of US\$77 million into KIC. As a result of the completion of this agreement, SYKIZ's interest was diluted from 30% to 13.2% by 16.8%. As SYKIZ is a substantial shareholder of KIC, 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 Group expected that the maximum annual amount payable by KIC to SYKIZ for the advisory services for each of the two years ending 31 December 2011 would not exceed RMB9 million.

An amount of RMB3.6 million was paid and/or is payable by KIC to SYKIZ for the advisory services during the year under review.

## (2) Acquisition of Land with SYKIZ

On 5 March 2010, Top Victory Development Limited ("Top Victory"), a wholly-owned subsidiary of the Company, together with SYKIZ made a successful bid for the land located in Wujiaochang, Yangpu District, Shanghai, the PRC (the "Land"). Top Victory paid RMB1,263 million for the Land. Top Victory and SYKIZ established a joint venture company which was owned as to 99% by Top Victory and as to 1% by SYKIZ for the purpose of, inter alia, holding and developing the Land.

SYKIZ is a connected person of the Company by virtue of its more than 10% shareholding interest in KIC. Therefore, the acquisition of the Land and the establishment of the joint venture company with SYKIZ constituted connected transactions of the Company.

## (3) Leases of Property by the Group from the 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 SOI, 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 and further extended to 31 December 2012 by a second supplemental agreement dated 15 January 2010.

The Group set the maximum aggregate annual rent payable by the Group to the Shui On Group for leasing, sub-leasing and licensing of the properties in Shanghai for the three years ending 31 December 2012 at RMB37 million, RMB39 million and RMB41 million respectively. 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 for the three years ending 31 December 2012 will not exceed HK\$3.8 million, HK\$4 million and HK\$4.2 million respectively.

The amounts of RMB28.5 million for the properties in Shanghai and HK\$3 million for the properties in Hong Kong, respectively were paid and/or are payable by the Group to the Shui On Group for leasing and/or licensing of the premises under the property leasing agreements and the framework lease agreement during the year under review.

## (4) Provision of Construction Services by Shui On Construction and Materials Limited ("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. 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 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 expected that the maximum annual payment for the construction services provided by SOC to the Group for the two years ending 31 December 2011 would not exceed RMB561 million and RMB845 million respectively.

An amount of RMB527 million was paid and/or is payable to SOC for construction services during the year under review.

#### **(5) 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 onshore companies of the Dalian Group entered into a management services agreement pursuant to which each of Shanghai SOD, Max Clear and Yida agreed to provide management services to the Dalian Group for a term of three years commencing from 1 January 2008 to 31 December 2010. On 28 December 2010, Shanghai SOD, Max Clear, Yida and the then onshore companies of the Dalian Group entered into a renewed management services agreement to extend the term for three years to 31 December 2013.

The Dalian Group is effectively held as to 48% by the Group, 22% by SOCAM (a connected person of the Company) and 30% by Yida and thus, a connected person of the Company. In addition, the companies constituting the Dalian Group are subsidiaries of the Group for the purposes of the Listing Rules, and Max Clear and Yida are connected persons of the Company by virtue of being the substantial shareholders of Richcoast.

In accordance with the management services agreement, each of Shanghai SOD, Max Clear and Yida is entitled to receive an annual management services fee from the Dalian Group to be calculated at 1%, 1.5% and 1% respectively of the annual total budgeted construction cost for the Dalian project with respect to the provision of management services.

The annual caps for the management services fees paid or payable by the Dalian Group to each of Shanghai SOD, Max Clear and Yida for the year ended 31 December 2010 must not exceed RMB12.66 million, RMB19 million and RMB12.66 million respectively.

The amounts of RMB10.2 million, RMB15.3 million and RMB10.2 million were paid and/or are payable to Shanghai SOD, Max Clear and Yida respectively for the management services fees during the year under review.

#### **(6) Provision of Construction Services by Yida and its Subsidiaries (the "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 a 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 by a supplemental agreement dated 17 July 2009 and further extended to 31 December 2012 by a second supplemental agreement dated 26 August 2010.

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, the Yida Group is connected person of the Company.



The annual caps for the payment made or to be made by the Dalian Group to the Yida Group for each of the three years ending 31 December 2012 must not exceed RMB1,000 million.

An amount of RMB550 million was paid and/or is payable to the Yida Group for the construction services fees during the year under review.

#### (7) 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 the Listing Rules.

The term of the agreement is extended to 31 December 2013 by a supplemental agreement dated 2 November 2010. The fees are calculated based on the actual travelling schedules of the passengers.

It was expected that the maximum annual fees payable by the Group to Top Dynasty and its affiliates under the agreement for the year ended 31 December 2010 would not exceed HK\$20 million.

An amount of RMB11.8 million was paid and/or is payable by the Group to Top Dynasty and its affiliates for the use of aircraft during the year under review.

#### (8) Continuing Connected Transactions with Respect to Certain Projects of Chongqing Shui On Tiandi Property Development Company Limited ("Chongqing Tiandi")

On 25 September 2009, Shui On Development (Holding) Limited ("SODH"), Winton 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 (the "WLL Group") to perform services with respect to 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.

The ultimate controlling shareholder of WLL is an associate of Mr. 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 the Listing Rules.

The annual caps for the services fees payable by Chongqing Tiandi to the WLL Group for the two years ending 31 December 2011 must not exceed RMB8.7 million and RMB9.9 million respectively.

An amount of RMB4.3 million was paid and/or is payable by Chongqing Tiandi to the WLL Group for the project services fees during the year under review.

#### (9) Continuing Connected Transactions with Respect to 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 the WLL Group to perform services with respect to the property development projects of RHXC, from time to time in accordance with the terms of the project services framework agreement for the three years ending 31 December 2011.

The ultimate controlling shareholder of WLL is an associate of Mr. 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 project services framework agreement constitute continuing connected transactions of the Company under the Listing Rules.

The annual caps for the services fees payable by RHXC to the WLL Group for the two years ending 31 December 2011 must not exceed RMB0.6 million and RMB8 million respectively.

During the year under review, RHXC has not paid or incurred any service fees to the WLL Group under the project services framework agreement.

#### **(10) Provision of Services by Shanghai SOD to Shanghai Li Xing Hotel Company Limited ("Li Xing")**

On 1 January 2007, Shanghai SOD and Li Xing entered into the services agreement in relation to the provision of the services by Shanghai SOD to Li Xing, including but not limited to, construction management and construction site office administration for the property development projects at Lots 107 and 108 owned by Li Xing.

On 24 December 2009, SOI acquired 100% equity interest of Li Xing. SOI is an associate of Mr. Lo, a director of the Company, and therefore, SOI and its subsidiaries are connected persons of the Company. At the date of publishing the relevant announcement, the provision of services by Shanghai SOD to Li Xing under the services agreement constituted continuing connected transactions of the Company under the Listing Rules. On 18 January 2010, Shanghai SOD and Li Xing entered into the supplemental agreement to restrict the term of the original agreement dated 1 January 2007 to not more than 3 years.

The annual caps for the services fees payable by Li Xing to Shanghai SOD for the three years ending 2012 must not exceed RMB20 million, RMB10 million and RMB5 million respectively.

An amount of RMB15.5 million was paid and/or is payable by Li Xing to the Group for the services fees during the year under review.

#### **(11) Connected Transactions with Winnington Capital Limited ("WCL") in Respect of Rightchina Limited ("Rightchina")**

##### **(i) Receipt of Loan Guarantee Fees from WCL or its Affiliate**

In accordance with the shareholders agreement dated 23 September 2008, the Group may provide guarantees for the purpose of financing the development costs (the "Development Costs") which include, without limitation, the construction costs, interest expenses, 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.

Given that WCL is a connected person of the Company, the receipt of any loan guarantee fees from WCL or its affiliate would constitute continuing connected transactions of the Company.

The annual cap for the amount of receipt of loan guarantee fees from WCL or its affiliate for the year ended 31 December 2010 was set at not exceeding RMB20 million. The Group has not received any loan guarantee fee from WCL or its affiliate during the year under review. The relevant annual caps for the three years ended 31 December 2010 have not been renewed upon their expiry on 31 December 2010.

(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.

Given that WCL is a connected person of the Company, the provision of shareholders' loans by WCL or its affiliate would constitute continuing connected transactions of the Company.

At the time of making the relevant announcement, the annual cap for the provision of additional shareholders' loans for the financial year ended 31 December 2010 was set at not exceeding RMB1,000 million. No additional shareholders' loan was provided by WCL or its affiliate to Rightchina during the year under review. The relevant annual caps for the three years ended 31 December 2010 have not been renewed upon their expiry on 31 December 2010.

**(12) Receipt of Guarantee Fee from Elegant Partners Limited ("EPL")**

On 15 January 2010, a consortium of banks (the "Lenders") agreed to renew and increase the amount of the loan facilities to RHXC and Hollyfield Holdings Limited (collectively, the "Borrowers", the subsidiaries of the Company) from approximately RMB1,180 million to the equivalent of approximately RMB1,651 million (the "Renewed Loan Facilities"), and the Company agreed to renew and amend the terms of the guarantee executed on 20 June 2006 to become the sole guarantor for securing the Borrowers' payment obligations due under the Renewed Loan Facilities.

In consideration of the Company agreeing to provide the renewed guarantee to the Lenders, on 1 June 2010, EPL agreed to pay a guarantee fee (the "Guarantee Fee") to the Company in accordance with the terms as stipulated in an agreement dated 1 June 2010 between EPL, SODH and the Company. The Guarantee Fee is assessed with reference to (a) the fair value rate determined by an independent valuer by reference to the difference in interest rates of the Renewed Loan Facilities that would have been applicable if the Company did not give the renewed guarantee; (b) the Renewed Loan Facilities; and (c) EPL's current 25% shareholding in Foresight Profits Limited, a non-wholly subsidiary of the Company.

Pursuant to Rule 14A.37 of the Listing Rules, the INEDs of the Company have reviewed the above continuing connected transactions referred to in items (1) and (3) to (10), and are of the opinion that the continuing connected transactions as stated in items (1) and (3) to (10) 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 items (11)(i) and (11)(ii).

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions referred to in items (1) and (3) to (10) disclosed by the Group in the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

## 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 41 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 2010, 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 of likely complete with the businesses of the Group	Description of the businesses of the entity which are considered to compete with the businesses of the Group	Nature of interest of the Director in the entity
Mr. Lo	SOCL	Property investment in the PRC	Director and controlling shareholder
Mr. Lo	SOCAM	Property investment in the PRC	Director and controlling shareholder

There is a deed of non-competition dated 30 May 2006 (the "Deed") and entered into between Mr. Lo, SOCL and the Company pursuant to which Mr. Lo and SOCL have given certain undertakings to the Company, among others, that the Company is to be the flagship company of the Shui On Group (that is, SOCL and its subsidiaries and for the purpose of this section "Directors' Interests in Competing Business", excluding SOCAM and its subsidiaries) for the Shui On Group's property development and investment business in the PRC and concerning the Shui On Group's investment in future property development projects in the PRC. Such information has been disclosed in the Company's prospectus dated 20 September 2006. In respect of the year ended 31 December 2010, the Company has received from each of Mr. Lo and SOCL a confirmation on compliance with the non-competition undertakings as contemplated under the Deed.

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 28 November 2006, the Company entered into a guarantee (the "Guarantee") to guarantee the performance of its subsidiary, Chongqing Tiandi, under a loan facility of up to RMB300 million granted by The Hongkong and Shanghai Banking Corporation Limited, Shanghai Branch and subsequently transferred and assigned to HSBC Bank (China) Company Limited, Chongqing Branch (the "Chongqing HSBC Loan"). The Guarantee requires that Mr. Lo, a director of the Company, 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.

On 16 December 2009, SODH (being the immediate subsidiary of the Company) as borrower, the Company as guarantor, the original lenders as lenders, and BNP Paribas Hong Kong Branch as the coordinating arranger and facility agent entered into a facility agreement in relation to a three-year term loan facility of HK\$1,000,000,000 (the "BNP Loan"). Pursuant to the facility agreement, there is a requirement that Mr. Lo and his family (the "Lo 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.

On 13 May 2010, SODH as borrower, the Company as guarantor and The Hongkong and Shanghai Banking Corporation Limited as lender entered into a facility letter in relation to a three-year term loan facility of up to HK\$250,000,000 (the "HSBC Loan"). Pursuant to the facility letter, there is a requirement that the Lo Family maintains a minimum 35% of the direct or indirect legal and beneficial shareholding in the Company during the term of the facility letter. The HSBC Loan was repaid on 10 December 2010.

On 23 December 2010, a written agreement (the "2013 Indenture") was entered into between the Company as guarantor, SODH as issuer and DB Trustees (Hong Kong) Limited ("DB") as trustee of the RMB3,000,000,000 US\$ settled 6.875% senior notes due 2013 issued by SODH (the "2013 Notes"), pursuant to which the 2013 Notes were issued.

The 2013 Indenture provided that upon the occurrence of a change of control, SODH will make an offer to repurchase all outstanding 2013 Notes, at a purchase price equal to a RMB-denominated amount that would be due under the 2013 Notes or the 2013 Indenture in RMB, the RMB amount converted into US\$ using the spot rate for the applicable rate calculation date, of 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase.

A change of control under the 2013 Indenture includes, among others, any transaction that results in either: (1) Mr. Lo, any other person under common control with Mr. Lo and any person owned 80% by persons aforesaid (collectively, the "Permitted Holders under the 2013 Indenture") being the beneficial owner of less than 35% of the total voting power of the voting stock of the Company or SODH; or (2) any person or group (as defined in the 2013 Indenture) other than the Permitted Holders under the 2013 Indenture being the beneficial owner of more voting power of the voting stock of SODH than each Permitted Holders under the 2013 Indenture.

Any breach of the above obligations will cause a default in respect of the Chongqing HSBC Loan, the BNP Loan and the 2013 Notes, and may trigger cross defaults in other outstanding debts of the Group in the aggregate amount of approximately RMB13,608 million as of 31 December 2010.

Subsequent to the year ended 31 December 2010, a written agreement (the "2015 Indenture") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the RMB3,500,000,000 US\$ settled 7.625% senior notes due 2015 issued by SODH (the "2015 Notes") on 26 January 2011, pursuant to which the 2015 Notes were issued.

The 2015 Indenture provided that upon the occurrence of a change of control, SODH will make an offer to repurchase all outstanding 2015 Notes, at a purchase price equal to a RMB-denominated amount that would be due under the 2015 Notes or the 2015 Indenture in RMB, the RMB amount converted into US\$ using the spot rate for the applicable rate calculation date, of 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase.

A change of control under the 2015 Indenture includes, among others, any transaction that results in either: (1) Mr. Lo, any other person under common control with Mr. Lo and any person owned 80% by persons aforesaid (collectively, the "Permitted Holders under the 2015 Indenture") being the beneficial owner of less than 35% of the total voting power of the voting stock of the Company or SODH; or (2) any person or group (as defined in the 2015 Indenture) other than the Permitted Holders under the 2015 Indenture being the beneficial owner of more voting power of the voting stock of SODH than each Permitted Holders under the 2015 Indenture.

## 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 34 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 2010.

## Charitable Donations

During the year, the Group made charitable donations amounting to RMB12 million (2009: RMB8 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 2010, our single largest construction contractor, SOC accounted for approximately 15% of our total construction cost incurred. Details of the transactions with SOC are set out under the caption Connected Transactions point (4) "Provision of construction services by SOCAM to the Group" in pages 104 and 105. Our five largest construction contractors accounted for approximately 38% of our total construction services employed. Except for the construction services provided by 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*

16 March 2011