

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

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 46, 17 and 18 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 128.

An interim dividend of HK\$0.025 per share was paid to the shareholders on 18 October 2011.

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\$0.10 per share for the year ended 31 December 2011 (2010: HK\$0.05 per share), amounting to approximately RMB473 million (2010: RMB220 million) in aggregate, to shareholders whose names appear on the register of members of the Company on 13 June 2012.

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 18 July 2012.

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 share capital of the Company during the year ended 31 December 2011 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 2011 were RMB11,029 million (2010: RMB11,200 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. Freddy C. K. LEE	Dr. William K. L. FUNG
Mr. Daniel Y. K. WAN	Professor Gary C. BIDDLE
Mr. Louis H. W. WONG (retired on 16 March 2011)	Dr. Roger L. McCARTHY
	Mr. David J. SHAW
	Dr. Edgar W. K. CHENG (resigned on 3 November 2011)
Non-executive Directors:	
Mr. Frankie Y. L. WONG (appointed on 17 August 2011)	
Mr. LEUNG Chun Ying (resigned on 31 December 2011)	

In accordance with the provisions of the Company's Articles of Association, 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. Frankie Y. L. WONG, appointed as a Non-executive Director of the Company on 17 August 2011, will retire at the AGM and being eligible, will offer himself for re-election.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2011, 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 been taken 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") were as follows:

DIRECTORS' REPORT

(a) Long position in the shares and the underlying shares of the Company

Name of Directors	Number of ordinary shares			Interests in the underlying shares		Total	Approximate percentage of interests to the issued share capital of the Company (Note 6)
	Personal interests	Family interests	Other interests	Share options (Note 4)	Other equity derivatives		
Mr. Vincent H. S. LO	–	1,333,430 (Note 1)	3,266,796,897 (Note 2)	–	276,182,711 (Note 5)	3,544,313,038	68.00%
Mr. Freddy C. K. LEE	286,000	208,500 (Note 3)	–	5,077,338 (Note 3)	–	5,571,838	0.10%
Dr. William K. L. FUNG	4,133,593	–	–	–	–	4,133,593	0.08%
Sir John R. H. BOND	–	–	–	500,000	–	500,000	0.01%
Professor Gary C. BIDDLE	220,000	–	–	500,000	–	720,000	0.01%
Dr. Roger L. McCARTHY	–	–	–	500,000	–	500,000	0.01%
Mr. David J. SHAW	–	–	–	500,000	–	500,000	0.01%

Notes:

- 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 Part XV of the SFO.
- These shares were beneficially owned by Shui On Company Limited ("SOCL") through its controlled corporations, comprising 1,411,712,352 shares, 1,717,614,889 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 Part XV of the SFO. The 1,717,614,889 shares held by SOI include SOI's interests in 613,529,412 shares which were issued by the Company on 16 March 2012, subsequent to the year end, as initial consideration upon completion of the transactions (including the sale and purchase of the entire issued share capital of Rimmer Investments Limited and 66.7% of the entire issued share capital of Magic Garden Investments Limited) under the agreement dated 9 September 2011 amongst Rich Bright Holdings Limited (an indirect wholly-owned subsidiary of the Company), Cassidy Enterprises Corp. (an indirect wholly-owned subsidiary of SOI) and SOI (the "Transactions"). Details of the Transactions are set out in the circular of the Company dated 6 October 2011.
- Mr. Freddy C. K. LEE was deemed to be interested in 208,500 shares and 946,218 share options held by his spouse under Part XV of the SFO.
- These represent the interests of share options granted to the Directors and/or their respective associate(s) under the share option scheme adopted by the Company on 8 June 2007 to subscribe for shares.
- Chester International Cayman Limited ("Chester International") was taken to be interested in 276,182,711 shares as a result of the equity swap transactions entered into between Chester International as equity swap receiver and Standard Chartered Bank, Singapore Branch as equity swap payer on 7 September 2010 and 8 September 2010 respectively. Chester International is a direct wholly-owned subsidiary of SOI. Accordingly, Mr. Lo was deemed to be interested in such shares under Part XV of the SFO.
- These percentages have been compiled based on the total number of issued shares (i.e. 5,211,587,981 shares) at 31 December 2011.

(b) Interests in the debentures of the Company

Name of Director	Nature of Interests	Amount of Debentures
Dr. William K. L. FUNG	Interest of controlled corporation	RMB12,700,000

(c) Interests in the debentures of the associated corporation of the Company

Name of Director	Name of Associated Corporation	Nature of Interests	Amount of Debentures
Sir John R. H. BOND	Shui On Development (Holding) Limited	Personal	RMB5,000,000

Save as disclosed above, at 31 December 2011, 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' INTERESTS IN SHARES

At 31 December 2011, 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 and underlying shares	Approximate percentage of interests in the Company (Note 6)
Mrs. Lo	Family and Personal	3,544,313,038 (L) (Notes 1, 3 & 4)	68.00%
HSBC Trustee	Trustee	3,542,979,608 (L) (Notes 2, 3 & 4)	67.98%
		613,529,412 (S) (Notes 2, 3 & 4)	11.77%
Bosrich	Trustee	3,542,979,608 (L) (Notes 2, 3 & 4)	67.98%
SOCL	Interests of Controlled Corporation	3,542,979,608 (L) (Notes 2, 3 & 4)	67.98%
Chester International	Beneficial Owner	276,182,711 (L)	5.30%
Standard Chartered PLC	Interests of Controlled Corporation	276,550,853 (L) 283,182,711 (S) (Notes 4 & 5)	5.31% 5.43%

Notes:

- (1) In respect of such shares, 3,268,130,327 shares were comprised of 1,333,430 shares beneficially held by Mrs. Lo and 3,266,796,897 shares in which Mr. Lo, the spouse of Mrs. Lo, had a deemed interest under Part XV of the SFO mentioned in note (2) below. Accordingly, Mrs. Lo was also deemed to be interested in 3,266,796,897 shares under Part XV of the SFO.
- (2) In respect of such shares in the long position, 3,266,796,897 shares were beneficially owned by SOCL through its controlled corporations, comprising 1,411,712,352 shares, 1,717,614,889 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 Part XV of the SFO. The 1,717,614,889 shares held by SOI include SOI's interests in 613,529,412 shares which were issued by the Company on 16 March 2012, subsequent to the year end, as initial consideration upon completion of the transactions (including the sale and purchase of the entire issued share capital of Rimmer Investments Limited and 66.7% of the entire issued share capital of Magic Garden Investments Limited) under the agreement dated 9 September 2011 amongst Rich Bright Holdings Limited (an indirect wholly-owned subsidiary of the Company), Cassidy Enterprises Corp. (an indirect wholly-owned subsidiary of SOI) and SOI, (the "Transactions"). Details of The Transactions are set out in the circular of the Company dated 6 October 2011.
- (3) Chester International was taken to be interested in 276,182,711 shares as a result of the equity swap transactions entered into between Chester International as equity swap receiver and Standard Chartered Bank, Singapore Branch as equity swap payer on 7 September 2010 and 8 September 2010 respectively. Chester International is a direct wholly-owned subsidiary of SOI. Accordingly, each of Mrs. Lo, HSBC Trustee, Bosrich and SOCL was deemed to be interested in such shares under Part XV of the SFO.
- (4) (L) represents long positions and (S) represents short positions.
- (5) 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 276,550,853 shares and a short position of 283,182,711 shares (within which the short position consisting of 283,182,711 shares and long position of 55,391,122 shares are derived from the interest in equity derivatives).
- (6) These percentages have been compiled based on the total number of issued shares (i.e. 5,211,587,981 shares) at 31 December 2011.

Save as disclosed above, at 31 December 2011, 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.

DIRECTORS' REPORT

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 under review:

Name or category of eligible participants	Date of grant	Exercise price per share HK\$	At 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2011	Period during which the share options are exercisable
Directors								
Mr. Freddy C. K. LEE	20 June 2007	7.00	3,520,407	–	–	(51,021)	3,469,386	20 June 2009 – 19 June 2016
	2 June 2008	7.34	671,466	–	–	(9,732)	661,734	2 June 2010 – 1 June 2017
Sir John R.H. Bond	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. Louis H. W. WONG (Note 1)	20 June 2007	7.00	5,428,570	–	–	(5,428,570)	–	20 June 2007 – 30 September 2011
Mr. LEUNG Chun Ying (Note 2)	20 June 2007	7.00	500,000	–	–	–	500,000	20 June 2007 – 19 June 2012
Dr. Edgar W. K. CHENG (Note 2)	20 June 2007	7.00	500,000	–	–	–	500,000	20 June 2007 – 19 June 2012
Subtotal			12,620,443	–	–	(5,489,323)	7,131,120	
Consultants								
Mr. Richard K. N. HO	20 June 2007	7.00	1,000,000	–	–	–	1,000,000	20 June 2007 – 19 June 2016
Dr. Thomas K. F. LEUNG	20 June 2007	7.00	500,000	–	–	–	500,000	20 June 2007 – 19 June 2012
Subtotal			1,500,000	–	–	–	1,500,000	
Employees (in aggregate)								
	20 June 2007	7.00	77,941,915	–	–	(13,735,888)	64,206,027	20 June 2009 – 19 June 2016
	1 August 2007	8.18	1,109,933	–	–	(301,302)	808,631	1 August 2009 – 31 July 2016
	2 October 2007	10.00	2,066,456	–	–	(386,734)	1,679,722	2 October 2009 – 1 October 2016
	1 November 2007	11.78	724,550	–	–	(226,695)	497,855	1 November 2009 – 31 October 2016
	3 December 2007	9.88	580,866	–	–	(464,710)	116,156	3 December 2009 – 2 December 2016
	2 January 2008	8.97	3,178,009	–	–	(329,607)	2,848,402	2 January 2010 – 1 January 2017
	1 February 2008	8.05	1,444,882	–	–	(174,890)	1,269,992	1 February 2010 – 31 January 2017
	3 March 2008	7.68	633,008	–	–	(142,627)	490,381	3 March 2010 – 2 March 2017
	2 May 2008	7.93	5,421,932	–	–	(981,278)	4,440,654	2 May 2010 – 1 May 2017
	2 June 2008	7.34	12,994,246	–	–	(3,085,401)	9,908,845	2 June 2010 – 1 June 2017
	2 July 2008	6.46	947,231	–	–	(250,694)	696,537	2 July 2010 – 1 July 2017
	4 September 2009	4.90	20,989,141	–	–	(3,878,712)	17,110,429	3 November 2010 – 2 November 2017
Subtotal			128,032,169	–	–	(23,958,538)	104,073,631	
Total			142,152,612	–	–	(29,447,861)	112,704,751	

Notes:

- (1) Mr. Louis H. W. WONG resigned as an Executive Director of the Company with effect from 16 March 2011. His share options lapsed on 1 October 2011.
- (2) Dr. Edgar W. K. CHENG resigned as Independent Non-executive Director of the Company on 3 November 2011 and Mr. LEUNG Chun Ying resigned as Non-executive Director of the Company on 31 December 2011. Their share options will lapse on 20 June 2012 in accordance with the Share Option Scheme.
- (3) The vesting period of the share options under the Share Option Scheme is from the date of grant until the commencement of the exercise period.

Summary of the Share Option Scheme are as follows:

(i) Purpose

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

(ii) Qualifying participants

The Board may offer to grant an option to any employee including employees who are newly promoted or recruited by the Company and/or its subsidiaries and non-executive directors, consultants or other contributors of the Company or its subsidiaries as recommended by the Chairman.

(iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Share Option Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme if this will result in such limit being exceeded. At 31 December 2011, 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 price 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 participant.

DIRECTORS' REPORT

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 2011.

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 78 to 93.

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 of the Company and its subsidiaries during the year under review, 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 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. The 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 the year ended 31 December 2011 would not exceed RMB9 million.

An amount of RMB1.1 million was paid and/or is payable by KIC to SYKIZ for the advisory services during the year under review. The relevant annual cap for the year ended 31 December 2011 has not been renewed upon its expiry on 31 December 2011.

(2) 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 its subsidiaries are connected persons of the Company under the Listing Rules.

In Shanghai, the Group has entered into property leasing agreements with Shanghai Jiu Hai Rimmer Properties Co. Ltd., an indirect 80% owned subsidiary of SOCL as at 31 December 2011, for various units in Shui On Plaza for use as 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 for use as offices.

The Company entered into a framework lease agreement with SOCL on 30 May 2006. The term of the agreement 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 two years ending 31 December 2012 at RMB39 million and RMB41 million respectively. In addition, the Company expected that the total annual amount payable by the Group to the Shui On Group for leasing of the premises in Hong Kong for the two years ending 31 December 2012 will not exceed HK\$4 million and HK\$4.2 million respectively.

The amounts of RMB27.7 million for the properties in Shanghai and HK\$2.6 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.

(3) Provision of construction services by SOCAM Development 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. ("SOCC"), and Pat Davie (China) Limited (together, the "SOCAM Contractors"), which are the subsidiaries of SOCAM (formerly known as Shui On Construction and Materials Limited), as the contractors for construction works in relation to the Group's 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 and his associates are together currently holding more than 30% equity interest in SOCAM. Therefore, SOCAM and its subsidiaries, including the SOCAM Contractors, are the associates of a connected person of the Company.

On 4 June 2006, the Company entered into a construction services framework agreement with SOCC in respect of the provision of construction services as supplemented by a supplemental agreement dated 15 December 2008 to extend the term for three financial years to 31 December 2011 (the "Construction Services Framework Agreement"). On 9 December 2011, the Company and Shui On Contractors Limited ("SOC"), a wholly-owned subsidiary of SOCAM, entered into a new framework agreement to provide new guidelines and basis of annual caps on the provision of construction services by SOC and its subsidiaries (which form part of SOCAM group and include SOCC as one of its members) to the Group for a further term of three financial years expiring on 31 December 2014.

Under the Construction Services Framework Agreement, 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.

The Group expected that the maximum annual fees for the construction services provided by SOCC to the Group under the Construction Services Framework Agreement for the year ended 31 December 2011 would not exceed RMB845 million.

An amount of RMB816 million was paid and/or is payable by the Group to SOCC for the 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 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 "Renewed Management Services Agreement").

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 is a connected person of the Company under the Listing Rules. In addition, the companies constituting the Dalian Group are subsidiaries of the Company 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.

Pursuant to the Renewed 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 2011 must not exceed RMB25 million, RMB37 million and RMB25 million respectively.

The amounts of RMB19.0 million, RMB28.5 million and RMB19.0 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.

(5) 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 a connected person of the Company under the Listing Rules.

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

An amount of RMB946 million was paid and/or is payable by the Dalian Group to the Yida Group for the construction services fees during the year under review.

(6) Provision of guarantee and counter indemnity with respect to Dalian Tiandi

Under the joint venture arrangement as disclosed in the Company's announcement dated 28 February 2011, Richcoast sold its 30% interest in Many Praises Dalian Limited ("Many Praises") to Mitsui Fudosan Residential Co. Ltd. ("Mitsui") so that upon completion of the related sale and purchase agreement, Many Praises is held as to 70% by Richcoast and 30% by Mitsui.

For the purpose of the joint venture arrangement, Shui On Development (Holding) Limited ("SODH", a wholly-owned subsidiary of the Company) and SOCAM entered into a guarantee with Mitsui and Many Praises pursuant to which SODH and SOCAM agreed to severally (but not jointly) provide a guarantee to Mitsui and Many Praises (the "Dalian Guarantee"). The aggregate amount to be guaranteed by SODH and SOCAM under the Dalian Guarantee shall be capped at and shall not exceed RMB500 million.

In connection with the guaranteed obligations of SODH and SOCAM to Mitsui and Many Praises under the Dalian Guarantee, Many Gain International Limited ("Many Gain", a member of the Yida Group) executed a counter indemnity in favor of SODH and SOCAM (the "Counter Indemnity"). Pursuant to the Counter Indemnity, Many Gain agreed to guarantee that whenever SODH and SOCAM are required to pay any amount of their guaranteed obligations to Mitsui and Many Praises under the Dalian Guarantee when due, Many Gain shall immediately on demand pay to SODH and SOCAM 30% of such amount as if it were the principal obligor.

Mr. Lo and his associates are together currently holding more than 30% equity interest in SOCAM. Therefore, SOCAM is a connected person of the Company and the provision of the Dalian Guarantee by SODH and SOCAM to Mitsui and Many Praises for the benefit of certain subsidiaries in the Dalian Group constituted a connected transaction of the Company under the Listing Rules.

In addition, Richcoast is a subsidiary of the Company for the purposes of the Listing Rules, Many Gain is a connected person of the Company by virtue of being a substantial shareholder of Richcoast. Therefore, the provision of Counter Indemnity by Many Gain to SODH also constituted a connected transaction of the Company under the Listing Rules.

(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 constituted 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 three years ending 31 December 2013 would not exceed RMB19.4 million, RMB20.2 million and RMB21.1 million respectively.

An amount of RMB11.2 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, SODH, Winnington Land Limited (“WLL”) and Chongqing Tiandi entered into a project services framework agreement (the “CQ(NA) 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 CQ(NA) Agreement for the three years ended 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 CQ(NA) Agreement constituted continuing connected transactions of the Company under the Listing Rules.

The annual cap for the services fees payable by Chongqing Tiandi to the WLL Group under the CQ(NA) Agreement for the year ended 31 December 2011 must not exceed RMB9.9 million.

Pursuant to the CQ(NA) Agreement, an amount of RMB9.0 million was paid and/or is payable by Chongqing Tiandi to the WLL Group for the project services fees during the year under review. The relevant annual caps under the CQ(NA) Agreement for the three years ended 31 December 2011 have not been renewed upon their expiry on 31 December 2011.

(9) Continuing connected transactions with respect to the Super High Rise project of Chongqing Tiandi

On 24 May 2011, WLL and Chongqing Tiandi entered into a project services framework agreement (the “CQ(SHR) Agreement”) pursuant to which Chongqing Tiandi may enter into separate service contracts with the WLL Group to perform services with respect to the Super High Rise project of Chongqing Tiandi, from time to time in accordance with the terms of the CQ(SHR) Agreement for the three years ending 31 December 2013.

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 CQ(SHR) Agreement constituted 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 under the CQ(SHR) Agreement for the three years ending 31 December 2013 must not exceed RMB15.72 million, RMB20.14 million and RMB21.88 million respectively.

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

(10) 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 ended 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 constituted continuing connected transactions of the Company under the Listing Rules.

The annual cap for the services fees payable by RHXC to the WLL Group for the year ended 31 December 2011 must not exceed RMB8 million.

An amount of RMB 1.8 million was paid and/or is payable by RHXC to the WLL Group for the project services fees during the year under review.

(11) Acquisition of 24.75% effective rights and interests pertaining to the Non-Retail Portion of Lot 6 of the Shanghai Rui Hong Xin Cheng project

On 1 April 2011, SODH, Elegant Partners Limited (“EPL”), Foresight Profits Limited (“FPL”), Silomax Limited, Selfers Limited and Hollyfield Holdings Limited (collectively as the “Parties”) entered into contractual agreements pursuant to which EPL agreed to dispose of, and SODH agreed to acquire from EPL, all of the 24.75% effective rights and interests owned by EPL pertaining to the non-retail portion of Lot 6 of the Shanghai Rui Hong Xin Cheng project at a total cash consideration of RMB378.3 million or its equivalent amount in USD.

As EPL is a substantial shareholder of FPL, a subsidiary of the Company, EPL is a connected person of the Company under the Listing Rules. Therefore, the acquisition constituted a connected transaction of the Company under the Listing Rules.

(12) 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 a 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, Li Xing (being a subsidiary of SOI at the date of the relevant announcement) became a connected person of the Company. Accordingly, the provision of services by Shanghai SOD to Li Xing constituted continuing connected transaction of the Company under the Listing Rules. On 18 January 2010, Shanghai SOD and Li Xing entered into a 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 two years ending 31 December 2012 must not exceed RMB10 million and RMB5 million respectively.

An amount of RMB10 million was paid and/or is payable by Li Xing to the Group for the services fees during the year under review.

(13) Connected transactions with the Langham Hospitality Group with respect to 88 Tiandi Project

On 22 August 2011, SODH entered into a joint venture arrangement with Langham Hospitality Group Limited and its subsidiaries (the "Langham Hospitality Group") for the purposes of owning and holding the 88 Xintiandi brand and trademarks for use by hotels and branded residences in the PRC as contemplated under the Shareholders' Deed dated 22 August 2011 and the related agreements (the "88 Tiandi Project").

Pursuant to the Shareholders' Deed and in furtherance of the 88 Tiandi Project, SODH and the Langham Hospitality Group further entered into the Master Agreement on 22 August 2011 pursuant to which the members of the Langham Hospitality Group may enter into separate services contracts with the Group for the provision of fitting-out, centralized services, marketing and management services, and the granting of licences to the hotels and branded residences developed and/or owned by the Group or third parties under the 88 Xintiandi brand.

The Langham Hospitality Group is under Great Eagle Holdings Limited ("Great Eagle") which is the associate of Mr. Lo for the purposes of the Listing Rules. Accordingly, the transactions contemplated under the Shareholders' Deed and the Master Agreement constituted connected transactions of the Company under the Listing Rules.

The annual caps for the services payable by the Group to the Langham Hospitality Group under the Master Agreement for each of the financial years ending 31 December 2025 shall not exceed RMB80 million (approximately HK\$97.56 million).

An amount of RMB0.2 million was paid and/or is payable by the Group to the Langham Hospitality Group for the services during the year under review.

(14) Disposal of the 49% interests in Value Land Investment Limited ("Value Land") to Mitsui and future buyback of Mitsui's interests in Value Land

On 29 November 2011, SODH and Mitsui entered into an agreement pursuant to which SODH agreed conditionally to sell and Mitsui agreed conditionally to purchase the 49% equity interests of the entire issued share capital of Value Land and the related shareholder's loans (the "Disposal"). Upon completion of the Disposal, Value Land will be held as to 51% by SODH and 49% by Mitsui.

Upon occurrence of the buyback triggering event, Mitsui will receive economic interest through dividend distribution (the "Buyback"). The Group expected that the price for the Buyback payable by SODH to Mitsui shall not exceed RMB730 million.

Mitsui is a connected person of the Company by virtue of its 30% shareholding interest in Many Praises, which is an indirect non-wholly owned subsidiary of the Company. Accordingly, each of the Disposal and the Buyback constituted a connected transaction of the Company as defined under 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 items (1) to (5), items (7) to (10) and items (12) to (13) and are of the opinion that the continuing connected transactions as stated in items (1) to (5), items (7) to (10) and items (12) to (13) 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 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) to (5), items (7) to (10) and items (12) to (13) 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.

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 2011, the following Director or his associates was 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 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 2011, 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 million (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 maintain a minimum 35% of the direct or indirect legal and beneficial interest in the Company during the term of the facility agreement.

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 million 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.

On 26 January 2011, 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 million US\$ settled 7.625% senior notes due 2015 issued by SODH (the “2015 Notes”), 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.

Any breach of the above obligations will cause a default in respect of the Chongqing HSBC Loan, the BNP Loan, the 2013 Notes and the 2015 Notes, and may trigger cross defaults in other outstanding debts of the Group in the aggregate amount of approximately RMB10,948 million as of 31 December 2011.

Subsequent to the year ended 31 December 2011, a written agreement (the “2015 SODS Indenture”) was entered into between the Company and SODH as guarantors Shui On Development (Singapore) Pte. Ltd. (“Shui On Development (Singapore)”) as issuer and DB as trustee of the S\$250 million 8% senior notes due 2015 issued by Shui On Development (Singapore) (the “2015 SODS Notes”) on 26 January 2012, pursuant to which the 2015 SODS Notes were issued.

The 2015 SODS Indenture provided that upon the occurrence of a change of control, the Company, SODH or Shui On Development (Singapore) will make an offer to repurchase all outstanding 2015 SODS Notes, at a purchase price equal to 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 SODS Indenture includes, among others, any transaction that results in any of the following: (1) the merger, amalgamation or consolidation of the Company or SODH with or into another individual or entity or the merger or amalgamation of another individual or entity with or into the Company or SODH, or the sale of all or substantially all the assets of the Company or SODH to another individual or entity; or (2) 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 SODS Indenture”) being the beneficial owner of less than 35% of the total voting power of the voting stock of the Company or SODH; or (3) any person or group (as defined in the 2015 SODS Indenture) other than the Permitted Holders under the 2015 SODS Indenture being the beneficial owner of more voting power of the voting stock of the Company or SODH than the voting power held beneficially by the Permitted Holders under the 2015 SODS Indenture; or (4) the adoption of a plan relating to the liquidation or dissolution of the Company or SODH.

Subsequent to the year ended 31 December 2011, a written agreement (the “2015 SODH Indenture”) was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the US\$475 million 9.75% notes due 2015 issued by SODH (the “2015 SODH Notes”) on 22 February 2012, pursuant to which the 2015 SODH Notes were issued.

The 2015 SODH Indenture provides that upon the occurrence of a change of control, the Company or SODH will make an offer to repurchase all outstanding 2015 SODH Notes, at a purchase price equal to 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 SODH Indenture includes, among others, any transaction that results in any of the following: (1) the merger, amalgamation or consolidation of the Company or SODH with or into another individual or entity or the merger or amalgamation of another individual or entity with or into the Company or SODH, or the sale of all or substantially all the assets of the Company or SODH to another individual or entity; or (2) 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 SODH Indenture”) being the beneficial owner of less than 35% of the total voting power of the voting stock of the Company or SODH; or (3) any person or group (as defined in the 2015 SODH Indenture) other than the Permitted Holders under the 2015 SODH Indenture being the beneficial owner of more voting power of the voting stock of the Company or SODH than the voting power held beneficially by the Permitted Holders under the 2015 SODH Indenture; or (4) the adoption of a plan relating to the liquidation or dissolution of the Company or SODH.

DIRECTORS' REPORT

REMUNERATION POLICY

The remuneration policy of the Group to reward its employees is based on individual 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 during the year ended 31 December 2011, as required under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB14 million (2010: RMB12 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 2011, payments to our single largest construction contractor, SOC, accounted for approximately 16% 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" on page 117. Our five largest construction contractors accounted for approximately 38% 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 holds 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

21 March 2012