From left to right: Mr. Aloysius T. S. LEE, Mr. Vincent H. S. LO, Mr. Louis H. W. WONG, Mr. Daniel Y. K. WAN

Moving Forward Prudently

MANAGEMENT CHAT ROOM

From **Mr. Louis H. W. WONG**
Managing Director – Project Management

We master plan large parcels of land in the prime locations of key cities. Our mixed-use developments and master-plans enable us to adjust our construction mix in accordance with market demands. In the light of the current market situation, we may choose to accelerate the construction mix of projects or products that are currently preferred in the market; for example, retail buildings or mid-end residential units.

In the past few years, more of our projects have came out of incubation - Wuhan launched its first phase of development in 2007 while Chongqing followed in 2008 with the launch of the first phase of The Riviera. Our Dalian and Foshan projects are expected to come out of incubation by 2010.

In 2008, we completed 235,000 sq.m. of saleable and leasable GFA. We are on target to complete 229,000 sq.m. in 2009 and deliver these units to our commercial team for their onward sale and leasing. Our GFA to be completed is expected to increase going forward as more of our projects emerge from incubation, namely Foshan Lingnan Tiandi and DALIAN TIANDI.software hub which will complete 167,000 sq.m. in 2010.

We use our computerised Cost Analysis Management System to control and monitor the cost of all projects. We continue our pursuit of cost reduction by forming strategic partnerships with contractors and suppliers for the supply and installation of tiles, kitchen cabinets, insulation wall panels, lifts, air-conditioners and electrical appliances. We compare and evaluate quotations from different contractors and suppliers to get the most competitive quotes. Tender prices have decreased since mid 2008 due to a substantial reduction in metals' prices.

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We place considerable emphasis on product quality. Accordingly, we have set up and updated relevant procurement, quality and design policies, guidelines and procedures. The performance of contractors, suppliers and consultants is monitored quarterly using a performance assessment system and regular quality audits. Contracts are awarded to the best performers based on their past performance evaluations. Standard contract terms and design specifications are prepared and adopted to ensure that a consistent quality standard is achieved in all projects. We also provide a three-year warranty to the buyers of our residential units, thereby demonstrating our confidence in our project quality.

We proactively source for environmental-friendly materials and new technology to achieve our sustainable development goals. Our LEED certifications for various buildings are evidence of our continuous efforts and commitment to creating a green environment. We have successfully developed a pre-cast concrete construction method through the integration of insulation panels and have introduced low carbon emission electrical and mechanical systems into some of our new office buildings.

Finally, we have launched the Project Management Excellence Programme to provide training to supervisory and management staff through the newly set up Shui On Academy. We are continuing our Graduate Trainee Programme in preparation for the future growth and development of the Group.

From **Mr. Aloysius T. S. LEE**
Managing Director – Commercial

RESIDENTIAL PROPERTIES

Overall, sales are moving at a slower pace than in previous years due to the worsening financial crisis and the fact that buyers are adopting a wait-and-see attitude. However, following the economic stimulus measures from the Chinese Government, there has been an improvement in buying sentiment as reflected by the increase in transaction volume in the property sector in recent months. Although the property sales rate may not be as fast as that experienced in 2007 (units are sold in a matter of hours), the units can generally be sold within months.

Our residential business can be segmented into high-end luxury segment and mid-end residential. Although sales of the high-end luxury segment remain slow, sales in the mid-end segment has been proceeding reasonably well. In the upcoming months, we have launched or will launch units in Rui Hong Xin Cheng Phase 3 (Lot 8), Shanghai KIC Village R2, Wuhan Tiandi The Riverview Lot A10 and Chongqing Tiandi The Riviera (Lot B1-1/01), bringing the total GFA that will be made available for sale and pre-sale for the remainder of 2009 to be 187,400 sq.m. To boost sales, we will, amongst other action plans, pre-sell our units earlier in the cycle to take into consideration the longer sales lead time, implement a sound product positioning campaign and provide more value-added services to customers, for example, installation of better furnishings.

I believe our residential units located in prime locations, well master-planned communities with good amenities, excellent transportation links and high quality finishing will differentiate us from the rest of the competition.

"By building landmarks in our developments, we will be able to attract more tenants and customers to our projects."

> "The Group adheres to a prudent financial policy and recognises the importance of striking a balance between a healthy gearing ratio and project funding requirements."

INVESTMENT PROPERTIES

To-date, we have about 262,000 sq.m. of office and retail buildings, the bulk of which are located in Shanghai, predominantly Shanghai Xintiandi and Shanghai Corporate Avenue. Occupancy rates in these buildings continue to be high despite the current market conditions. In the short term, our rental contribution will continue to be from Shanghai.

We will also begin leasing for the 337,000sq.m. of commercial properties that will complete construction in 2009 and 2010. It is our target to increase our investment property portfolio to 599,000 sq.m. by 2010.

By building landmarks in our developments, we will be able to attract more tenants and customers to our projects, including renowned retail brands and restaurants. We maintain long-term relationships with our tenants and work alongside with them as they expand their businesses. One key feature of our rental properties is the presence of an evolving dynamics brought about by our master-plans and the transformation of the community. For example, in Shanghai Taipingqiao, two world-class hotels will be located right next to Shanghai Xintiandi, bringing in a new flow of customers to the area such as business travellers and tourists. The opening of the retail podium in Casa Lakeville (Shanghai Taipingqiao Lot 113) will tie in with the commencement of the metro lines, enriching the customer mix in this area.

Our two office buildings in Shanghai Taipingqiao, Corporate Avenue Phase 2 (Lot 126 and Lot 127) are proceeding well and construction is expected to commence in 2009. We believe that, as compared to Pudong, the supply and demand conditions for Grade A office buildings remains comparatively tight in Puxi. This will support our take-up rate and rental level when we start pre-leasing Corporate Avenue Phase 2 in 2010/2011.

From **Mr. Daniel Y. K. WAN**
Managing Director & Chief Financial Officer

The Group adheres to a prudent financial policy and recognises the importance of striking a balance between a healthy gearing ratio and project funding requirements. We remain dedicated to pursuing a balanced portfolio comprising rental and sales income. This, together with proceeds from strategic partnerships, will continue to enhance the quality of our revenue.

Our rental income from our investment properties, such as Shanghai Xintiandi and Shanghai Corporate Avenue, represents approximately 60% of our total interest costs. Furthermore, the Group's rental income will increase as our investment property portfolio expands in the coming years. Projects in Shanghai, Wuhan and Chongqing are expected to be key contributors to our property sales in 2009, as mentioned earlier. In February 2009, Shui On Group signed a Memorandum of Understanding with the Agricultural Bank of China for a loan facility up to RMB13 billion, of which RMB8 billion will be used for Shui On Land and its subsidiaries. Bank of China also offered a Letter of Intent for loan facilities of RMB4 billion for the development of our Foshan project. These facilities will ensure the smooth and continued development of our projects, providing sufficient financing for the property developments that we intend to complete in the coming years.

Forming and nurturing strategic partnerships remained an essential component of our business strategy in 2008 as we embarked on numerous large-scale projects. From 2006 to 2008, we formed strategic partnerships for projects worth RMB4.8 billion in the Chinese Mainland. We will continue to focus on developing strategic partnerships in 2009 and beyond. Strategic partners have helped improve our cashflow, diversify our risks and enhance our operational efficiency.

In late 2008, we implemented a Cost Control Programme designed to minimise wastage and foster a cost consciousness culture across our organisation.