



Vincent H. S. LO
Chairman & Chief Executive Officer

CHAIRMAN'S STATEMENT

“ Having completed initial infrastructure construction in most of our developments, we are at a stage in our growth when our projects are steadily maturing and our investments are reaping rewards. ”

THE ROAD TRAVELLED, 2009

With every storm comes a silver lining that brings new opportunities. So it was during the 2009 global financial crisis. It helped that the world economy began to recover in the second half of 2009 and the Chinese economy continued to grow from strength to strength over each quarter. Our resilience in the face of worldwide economic challenges paralleled that of China. By the last quarter of 2009, China's economy had reclaimed its pre-crisis level of GDP growth of 10.7%. In clear sight and within reach was a new plateau as the world's second largest economy.

The strength of the China property market mirrored the overall rebound, with further support from the Chinese Government's stimulus measures. Residential transactions increased by 35.6% to 804 million sq.m. in 2009, while nationwide residential sales jumped 80.0% to RMB3.8 trillion, fuelling a 32.7% rise in the average housing price.

Against the tumultuous backdrop of 2009, I am pleased to report that for the year ended 31 December 2009, we achieved a turnover of RMB6,758 million or HK\$7,670 million. Our profit attributable to shareholders was RMB2,673 million or HK\$3,034 million while our underlying profit attributable to shareholders, excluding the revaluation of investment properties and fair-value adjustment on derivative financial instruments, was RMB1,684 million or HK\$1,911 million, representing respective increase of 49% and 10% over 2008. Basic earnings per share were RMB0.55 or HK\$0.63. In addition to the given interim dividend of HK\$0.01, your Directors have proposed a final dividend of HK\$0.12 per share for the

year 2009. Shareholders will be given the option to receive the final dividend in new shares in lieu of cash.*

MATURING PROJECTS, RISING SALES

Having completed initial infrastructure construction in most of our developments, we are at a stage in our growth when our projects are steadily maturing and our investments are reaping rewards. Our high quality premises located in thriving city locations together with our integrated, 'Live-Work-Play', master-planned communities, introduced an exclusive and winning combination to China. The response was overwhelmingly favourable. Our projects achieved strong sales and premium price levels, and even outperformed those of our competitors in certain areas, despite the difficulties presented by the 2009 economic downturn. A detailed account of the business results is contained in the following MD&A section.

In Phase 3 of our deluxe Taipingqiao, Shanghai residential project, Casa Lakeville, a total of 292 units amounted to a total GFA of 44,300 sq.m. with contracted sales of RMB2,965 million and average sales price reaching RMB70,500 per sq.m.. We also achieved dynamic results at our Chongqing Tiandi residential development. During 2009, the contracted area of The Riviera Phase 1 reached 81,700 sq.m., a dramatic increase over the 13,600 sq.m. contracted area recorded in 2008. The residential development at Wuhan Tiandi, The Riverview, was warmly received by the Wuhan market. Sales reflected a remarkable market growth following enhancement of the neighbourhood and surrounding infrastructure.

* Except for dividend per share that is originally denominated in HK dollar, all of the HK dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK\$1.135 for 2009 and RMB1.000 to HK\$1.108 for 2008, being the average exchange rates that prevailed during the respective years.

ACCELERATING FOR SUSTAINABLE GROWTH

Prudence dictates that in the wake of the global financial crisis, we review the challenges that we faced, and strengthen our operation and risk management as deemed appropriate to ensure sustainable growth. Accordingly, we have developed and are now implementing a Three-Year Plan (2009-2012) to maintain a closer balance between value creation for the longer term and cash generation in the short to medium term.

Our prime land bank in China is a major advantage for our development plans going forward. Our total buildable Gross Floor Area (GFA) of 13.0 million sq.m. in six cities, constitutes a portfolio of considerable potential. Accordingly, the cornerstone of our Three-Year Plan is to expedite the development completion of this portfolio. Our development target is a minimum of 1 million sq.m. of GFA by 2012. We aim to increase the completion rate consistently and continuously each subsequent year. In 2009, we began the process by accelerating the development of several existing projects to generate greater cash inflow. These projects included Casa Lakeville, Rui Hong Xin Cheng (Rainbow City) and the Knowledge and Innovation Community (KIC) in Shanghai, as well as The Riverview in Wuhan Tiandi.

A further priority of our Plan is to decentralise decision making so that project teams have closer control of their projects. Those who best understand the local market should have greater authority to develop and manage their projects and to ensure their financial self-sufficiency. Cost control of operating expenses and manpower management are other key elements of our Plan. As we progress with our three-year initiative, we will also judiciously consider the merits of new expansion opportunities and projects.

STRENGTHENING CORPORATE GOVERNANCE

Prudent financial management is key to good corporate governance. In April 2009, we established a high-powered Finance Committee to meet regularly and to make recommendations to the Board on financial policies and planning. We also established a special asset monitoring task force to monitor and review our current property portfolio and to identify and dispose of any under-performing assets whose returns do not meet the investment criteria established by the Finance Committee.

We also effected several new appointments. The Group's Chief Financial Officer, Mr. Daniel Y. K. WAN was appointed to the Board. Mr. Freddy C. K. LEE was promoted to the position of Managing Director of Shui On Development, our principal subsidiary responsible for the operation and management of the Group, to head the implementation of our Three-Year Plan.

Our efforts to establish the highest international standards in both corporate governance and investor relations received recognition through a number of prestigious awards, including the "5th Corporate Governance Asia Recognition Award" from *Corporate Governance Asia* magazine and the "Outstanding China Property Award 2009" from *Hong Kong Economic Digest* magazine. In addition, our Annual Report 2008 won a "Citation for Design in the Best Annual Reports Awards 2009" organised by the *Hong Kong Management Association*, as well as a "Silver Award for Overall Annual Report" in the *International ARC Awards 2009*, the world's largest annual report competition.

“ We have developed and are now implementing a Three-Year Plan to maintain a closer balance between value creation for the longer term and cash generation in the short to medium term. ”

STRATEGIC PARTNERSHIPS, WINNING COMBINATIONS

As a leading developer in the Chinese Mainland, we are gratified by the confidence placed in us by the market, whose enthusiastic response to our products reflects recognition of the superior quality and premium value attached to our developments. Our success is enhanced through our cooperation with strategic partners who are themselves leading players in their own areas.

In July 2009, we signed a Memorandum of Understanding with Redevco to co-develop the commercial podium of Wuhan Tiandi Lots A1, A2 and A3. Redevco owns, manages and develops one of the biggest retail portfolios in Europe. We believe Redevco's expertise and experience in the retail industry will accelerate the development and strengthen the performance of Wuhan Tiandi.

We also continued to expand our strategic partnership with Winnington, with whom we worked together to re-position the Rui Hong Xin Cheng (Rainbow City) project. We anticipate project approval by the relevant authorities in the near future. When completed, this re-positioned project will create an exciting new landmark for Shanghai.

BUILDING SUSTAINABLE COMMUNITIES

As responsible developers, we sustain environmental, social and ecological responsibilities in our development plans and projects. Our 'Live-Work-Play' concept represents a holistic approach to the needs of our users and the values of the communities where our high quality developments are located. In addition to enhancing the quality of life, our approach addresses concerns about the local heritage and environment. Our master-planned projects complement government objectives for sustainable economic development while improving the quality of life of all who live and work in them.

From our parent, the Shui On Group, we have inherited close to 40 years' industry experience and dedication to Corporate Social Responsibility. Shui On Land is committed to the preservation of the environment and of architectural and cultural heritage. We were one of the first developers in China to embrace environmental concerns in our projects. In our developments, we aim for the highest certification of the US Leadership in Energy and Environmental Design (LEED) of the US Green Building Council. Our sustainability strategy remains our focus as we progress with our long-term plans for quality developments.

THE ROAD AHEAD, 2010

We have turned the page on 2009, and proceed to write an ambitious, new chapter in our history. The expectation is that China's economy will continue to grow substantially in 2010, a further feather in its cap following the 8.7% growth spurt of 2009. Despite the global financial crisis, the fundamental drivers of the economy remain in place, among them increasing urbanization, growing affluence and market reform. However, since late 2009, China has implemented a series of tightening measures, particularly in the housing sector, aimed at controlling the pace of price increase. These policies include accelerating the pace of development for auctioned land and ensuring adequate supply to meet housing demand, particularly in ordinary and welfare housing. Such measures are expected to slow price growth and help to restore a better balance of demand and supply for low- and mid-end housing. However, we are confident that the on-going demand for better quality residential and commercial properties will provide strong support for the further development of China's high-end property market and for our future business growth. On this basis, our outlook for 2010 is cautiously optimistic.

APPRECIATION

This year has been particularly active in the area of management and succession planning. I welcome our senior appointments. Our new management team has unfurled fresh ideas and invigorated our strategic thinking.

I would like to express my thanks and gratitude to Mr. Aloysius T. S. LEE, Managing Director – Commercial, who left the Group in December 2009. His efforts and contributions during his tenure are much appreciated.

The success of Shui On Land is built upon the support, trust and confidence of all our shareholders, our Directors and every member of the Shui On corporate family. As we navigate our way through the challenges of the year ahead, I am confident that the Group will continue to create value and benefits for all our stakeholders. From our perspective, the road ahead and our future look promising. Rest assured of our commitment to deliver fully on its potential and on our promises to you.



Vincent H. S. LO

Chairman & Chief Executive Officer

Hong Kong, 15 April 2010