FINANCIAL REVIEW

Profit attributable to shareholders of the Company for 2009 was RMB2,673 million, an increase of 49% when compared to 2008.

Turnover increased by 2.3 times to RMB6,758 million (2008 restated: RMB2,066 million), primarily due to the increase in property sales recognised in 2009.

Property sales rose by 3.2 times to RMB6,078 million (2008 restated: RMB1,449 million). During the year ended 31 December 2009, the Group has contracted sales of 266,900 sq.m., out of which 194,300 sq.m. were recognised (2008: contracted sales were 85,100 sq.m. with 76,600 sq.m. recognised.). Details of the property sales during the year ended 31 December 2009 are contained in the paragraph headed "Property Sales" in the Business Review Section referred to the above.

Rental and other affiliated income increased by 8% to RMB643 million (2008: RMB593 million), mainly attributable to increases in the average rental rates in Shanghai Xintiandi and Shanghai Corporate Avenue as well as increase in leasable areas in Shanghai Knowledge and Innovation Community and Wuhan Tiandi.

Chongqing residents celebrate the opening of Chongqing Tiandi

Gross profit for 2009 rose to RMB3,529 million (2008 restated: RMB1,038 million) with a gross profit margin of 52% (2008 restated: 50%).

Included in *Other income* for 2008 were tax refunds from reinvestment of dividends and grants received from certain local government authorities totalling RMB109 million. These were non-recurring items and was the reason for the decrease in other income by 50% to RMB170 million for 2009 (2008: RMB342 million).

Selling and marketing expenses increased by 13% to RMB151 million (2008: RMB134 million) mainly due to the increased in contracted sales to RMB6,161 million (2008: RMB2,939 million).

General and administrative expenses decreased by 22% to RMB543 million (2008: RMB697 million), a consequence of the effectiveness of the cost control measures adopted by the Group in 2009.

Operating profit increased by 4.5 times to RMB3,005 million (2008 restated: RMB549 million), a composite effect on the various items mentioned above.

Increase in fair value of investment properties was RMB536 million (2008: RMB382 million). The amount for 2009 included the fair value gain of investment properties under construction or development of RMB277 million due to the application of the amendment to IAS 40 Investment Property arising from improvements to IFRS.

Share of results of associates was RMB436 million (2008: RMB44 million). The increase is attributable to a rise in fair value of the investment properties under development (net of related taxes) of certain associates which amounted to RMB496 million.

Finance costs, net of exchange gain reduced to RMB89 million (2008: RMB133 million). The decrease can be explained by lower interest expenses of RMB761 million (2008: RMB824 million) for 2009 as a result of the repayment of Notes in the second half of 2008, and the slight increase in amount capitalised to properties under development of RMB634 million (2008: RMB618 million).

Profit before taxation increased by 43% to RMB3,894 million (2008 restated: RMB2,725 million, which included a gain on partial disposals of equity interests in subsidiaries of RMB1,883 million).

Taxation of RMB1,301 million for the year 2009 has doubled as compared to the restated comparative figure of RMB657 million. Excluding the Land Appreciation Tax of RMB467 million (which was assessed based on the appreciation value of properties disposed) together with its enterprise income tax effect of RMB117 million, the effective tax rate for the year 2009 was 24.4%, which approximates to the PRC enterprise income tax rate of 25%.

Profit attributable to shareholders of the Company for 2009 was RMB2,673 million, an increase of 49% when compared to 2008 (2008 restated: RMB1,798 million).

The effects on profit attributable to shareholders on the change in fair value of the Group's investment properties, net of related tax effect, and fair value change of derivative financial instruments are as follows:

	Year ended 31 December		
	2009 RMB'million	2008 RMB'million (Restated)	% change
Profit attributable to shareholders of the Company	**2,673**	1,798	+49%
Revaluation increase on investment properties of the Group (net of deferred tax effect and share of non-controlling interests)	**(493)**	(279)	
Share of revaluation increase on investment properties of the associates (net of tax effect)	**(496)**	–	
Loss on change in fair value of derivative financial instruments	**–**	13	
Profit attributable to shareholders of the Company before (i) revaluation of investment properties; and (ii) fair value adjustment on derivatisve financial instruments	**1,684**	1,532	+10%

Earnings per share were RMB0.55 calculated based on a weighted average of approximately 4,823 million shares in issue during the year ended 31 December 2009 (2008 restated: RMB0.39 calculated based on a weighted average of approximately 4,605 million shares in issue).

CAPITAL STRUCTURE, GEARING RATIO AND FUNDING

On 10 June 2009, the Company entered into a Subscription Agreement to place and subsequently issue 418,500,000 new shares at the price of HK$4.87 per share. The gross proceeds of the Subscription were approximately HK$2,038 million (equivalent to RMB1,797 million). The transaction received strong demand from global investors and was fully subscribed within the first 20 minutes of book building.

On 16 December 2009, the Group signed an unsecured HK$1 billion three-year term syndicated loan agreement with a consortium of nine leading international banks and financial institutions. The event casted a strong vote of confidence in Shui On Land's solid development competence and business prospects by banking industries.

As of 31 December 2009, the Group's utilised bank borrowings amounted to approximately RMB10,203 million (31 December 2008: RMB8,198 million). The structure of the Group's bank borrowings as of 31 December 2009 is summarised below:

Currency denomination	Total (in RMB equivalent)	Due within one year	Due in more than one year but not exceeding two years	Due in more than two years but not exceeding five years	Due in more than five years
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
RMB	3,595	212	714	2,182	487
HK$	6,349	1,627	220	4,502	–
US$	259	259	–	–	–
Total	**10,203**	**2,098**	**934**	**6,684**	**487**

Total cash and bank deposits amounted to RMB4,947 million as of 31 December 2009 (31 December 2008: RMB3,380 million), which included RMB2,019 million (31 December 2008: RMB1,709 million) of deposits pledged to banks. The increase in our cash balance was mainly due to the receipt of the proceeds of the Subscription of RMB1,797 million.

As of 31 December 2009, the Group's net debt balance was RMB5,256 million (31 December 2008: RMB4,818 million) and its total equity was RMB22,574 million (31 December 2008 restated: RMB18,175 million). The Group's net gearing ratio was 23% as of 31 December 2009 (31 December 2008 restated: 27%), calculated on the basis of the excess of the sum of bank loans net of bank balances and cash over the total equity.

The Group's rental and affiliated income for 2009 expressed as a percentage of the Group's total interest costs before capitalisation to properties under development was 84% (2008: 72%).

Total undrawn banking facilities available to the Group were approximately RMB898 million as of 31 December 2009 (31 December 2008: RMB340 million). The Group has further obtained new bank facilities of RMB7,164 million, of which RMB1,056 million are unsecured. In addition, the Group has already refinanced certain bank borrowings repayable in 2010 of RMB1,532 million. These facilities will be used to support the continuous growth of business in 2010.

PLEDGED ASSETS

As of 31 December 2009, the Group had pledged certain land use rights, completed properties for investment and sale, properties under development, accounts receivable and bank and cash balances totalling RMB20,877 million (31 December 2008 restated: RMB14,071 million) to secure our borrowings of RMB9,217 million (31 December 2008: RMB7,493 million).

CAPITAL AND OTHER DEVELOPMENT RELATED COMMITMENTS

As of 31 December 2009, the Group had contracted commitments for development costs and capital expenditure in the amount of RMB10,094 million (31 December 2008: RMB5,418 million). The amount of commitment as of 31 December 2009 included the estimated costs of relocation for the development of certain educational facilities to be located in the Taipingqiao area of Luwan District in Shanghai as compensation for the removal of those educational facilities originally located in that area.

In addition, the Group entered into a Confirmation Agreement with the Land Exchange Centre affirming the Group's successful bid for a plot of land in Foshan. Under this Confirmation Agreement, the total consideration for acquiring the land use rights is RMB7,510 million, against which RMB3,186 million had been paid to the Land Exchange Centre up to 31 December 2009. The remaining balance of RMB4,324 million will be paid in stages in line with relocation progress.

The Group has agreed to provide further funding to the associates for the development of Dalian Tiandi project, whereby the Group will ultimately hold a 48% effective interest. As of 31 December 2009, the Group has issued guarantees amounting to RMB528 million (31 December 2008: RMB528 million) to banks in respect of banking facilities granted to the associates, from which the associates have drawn down bank loans amounting to RMB480 million (31 December 2008: RMB480 million). In addition, the Group has a commitment to provide further funding to the associates amounting to approximately RMB121 million (31 December 2008: RMB121 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND SOURCES OF FUNDING

In January 2010, the Group signed a purchase agreement with a third party to acquire a special purpose company that holds the land use rights of two lots of land adjacent to the existing Rui Hong Xin Cheng project with GFA of 176,000 sq.m.. In March 2010, the Group successfully bid for a parcel of land in the Shanghai KIC project with developable GFA of 159,600 sq.m. at a consideration of RMB1,264 million. The total development costs of these two investments will be funded by bank financing and internal resources.

We shall continue to focus on the development of our existing landbank of prime locations. While our primary focus is on city-core development projects and integrated residential development projects, we shall, at appropriate times, consider other opportunities to participate in projects of various scale where we can leverage our competitive strengths. We may also pursue other plans, including other ways of acquiring land development rights for the purpose of undertaking property projects or other ways to increase the scale of our operations by leveraging on our master planning expertise.

CASH FLOW MANAGEMENT AND LIQUIDITY RISK

The management of cash flow in the Group is the responsibility of the Group's treasury function at the corporate level.

Our objective is to maintain a balance between continuity of funding and flexibility through a combination of internal resources, bank borrowings and other borrowings, where appropriate. We are comfortable with our present financial and liquidity position and will continue to maintain a reasonable liquidity buffer to ensure sufficient funds are available to meet liquidity requirements at all time.

EXCHANGE RATE AND INTEREST RATE RISKS

The revenue of the Group is denominated in Renminbi. A portion of the revenue, however, is converted into other currencies to meet our foreign currency denominated debt obligations, such as the bank borrowings denominated in Hong Kong dollars and US dollars. As a result, the Group is exposed to fluctuations in foreign exchange rates.

Considering that a relatively stable currency regime with regard to the Renminbi is maintained by the Central Government, which only allows the exchange rate to fluctuate within a narrow range going forward, the Group expects that the fluctuation of the exchange rates between Renminbi and Hong Kong dollars and US dollars may not be significant in the short to medium term.

The Group's exposure to interest rate risk results from fluctuation in interest rates. Most of the bank borrowings of the Group consist of variable rate debt obligations with original maturities ranging from two to four years for project construction loans; and two to ten years for mortgage loans. Increase in interest rates would increase interest expenses relating to the outstanding variable rate borrowings and cost of new debt. Fluctuations in interest rates may also lead to significant fluctuations in the fair value of the debt obligations.

At 31 December 2009, the Group has two outstanding mortgage loans that bear variable interests linked to the Hong Kong Inter-bank Borrowing Rate. Pursuant to the loan agreements of these mortgage loans, the Group is required to hedge against the variability of cash flow arising from interest rate fluctuations. Accordingly, the Group has entered into interest rate swaps in which the Group would receive interest at variable rates at the Hong Kong Inter-bank Borrowing Rate and pay interest at fixed rates ranging from 3.32% to 3.58% based on the notional amounts of HK$4,581 million in aggregate.

Save as disclosed above, the Group did not hold any other derivative financial instruments as of 31 December 2009. The Group continues to monitor its exposure to interest rate and exchange rate risks closely and may employ derivative financial instruments to hedge against the risks exposed when necessary.