

Chairman's Statement

The past year has conveyed challenging and uncertain changes in the global economic environment. Facing varying levels of success in stimulating the US and European markets, the world has turned its eyes to Asia in search of wider economic recovery.

In response, China's powerhouse economy has been rising to the challenge, continuing its strong growth with a 10.3% increase in GDP in 2010 and recalibrating the economic structure by turning more towards domestic consumption.

Addressing concerns of inflation and in an attempt to prevent any possible overheating of the economy, the Chinese Government moved quickly to manage the situation by introducing strict measures to stabilise property prices. Although government tightening initiatives slowed down property transactions and speculation while forcing banks to reign in mortgage lending, China's real estate market remains buoyant; and transaction volumes have returned to substantial levels after a short period of adjustment before yearend. However, in the beginning of 2011, further restrictions on sales and property tax introduced in Shanghai and Chongqing depressed the market once again.

In times such as this, one should not lose sight of the fundamentals. The limited supply of high quality properties in urban areas – combined with unprecedented amounts of available capital together with the high rate of urbanisation – will ensure the continued growth of China's property market for decades to come.

For the year ended 31 December 2010, Shui On Land generated turnover of RMB4,879 million (HKD5,611 million), representing a decrease of 28% compared to 2009. Profit attributable to shareholders was RMB2,809 million or HKD3,230 million (2009: RMB2,673 million or HKD3,034 million). Basic earnings per share were RMB0.55 (HKD0.63), the same as 2009.

A Year of Solid Advancement

2010 was a year of adjustment for the Group in terms of organisation and production. We are progressing on schedule to achieve the goals outlined in our Three-Year Plan, one of the most important of which for the year was to step up production – bringing an increasing volume of new units and new developments to market. Our decentralisation strategy is paying strong dividends. We are now able to flatten our organisation while moving decision-making authority closer to the frontline at the project level.

Sales at our projects were encouraging despite stringent government measures introduced to moderate the pace of the real estate industry. During the year under review we launched sales at our Wuhan project, generating revenue of around RMB850 million. Sales at our Chongqing project generated robust turnover of RMB531 million for the year under review. In addition, the Group completed disposal of Phase II of our Hangzhou project at cost for a total consideration of RMB340 million. The decision to dispose of the Hangzhou project was due to the long delay in relocation and the much increased cost of clearance.

Note: 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\$1.150 for 2010 and RMB1.000 to HK\$1.135 for 2009, being the average exchange rates that prevailed during the respective years.

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One of the Group's most exciting achievements this year has been the acquisition of the Hongqiao Transportation Hub site. Upon completion in 2020, the Hongqiao Transportation Hub will be the first of its kind in the world, with estimated daily passenger throughput of over 1.1 million people. This project enjoys strong government support and represents an important strategic acquisition for the Group.

Our Hongqiao Project will provide commercial, retail and leisure facilities leveraging on the traffic and convenience of the Hongqiao Transportation Hub. We will develop a large retail centre, which includes a Xintiandi-styled village offering the latest and most fashionable brands, restaurants and entertainment for discerning customers from Shanghai and neighbouring cities. Our offices will be a platform for the fastest growing domestic and international companies, looking to efficiently reach Mainland and international markets. Our international 5-star hotel will offer unparalleled convenience, comfort and services to all travellers in an urban resort setting with advanced business facilities. In short, our Hongqiao project will be a hub and a showcase where people, companies and brands connect with China and the world.

The Right Strategy at the Right Time

2010 marked the first year of our Three-Year Plan. Despite the challenging global economic environment, the Group has been steadily achieving our stated goals and objectives. We are confident in the strategy and direction; and are on schedule to meeting our goal of constructing 1 million sq.m. of premises by 2012.

At this time, the Group has successfully secured long term funding to facilitate future growth. In the latter part of 2010, we issued a convertible bond and senior notes which raised over RMB5.7 billion from the market – a testament to the Group's reputation and investors' confidence in Shui On Land.

Positive Business Outlook

Long term, the Group remains very bullish on the outlook for China's real estate market. The consistently burgeoning Chinese economy continues to fuel an increasing appetite for superior quality, well maintained and professionally managed premises. There also continues to be a shortage of available land in prime locations – especially in the first-tier and the fast growing second-tier cities the Group has targeted for development where we already have a substantial landbank in prime locations.

Unlike the highly leveraged real estate markets of the West, the gearing ratio of China's property industry remains relatively low. In fact, almost one third of the Group's customers in China had chosen to settle their purchases in cash. According to 2010 figures published by the People's Bank of China, China also has one of the highest savings rates in the world – with total bank deposits of over RMB73.34 trillion. This high level of savings, combined with the current effective negative interest rates, is bringing investors to the real estate market.

Operating in this environment, the Group holds a number of competitive strengths. One of the most important assets for any property developer is its landbank, and we have one of the best landbanks in China. Having examined over one hundred different cities around China, the Group has carefully chosen a number of first-tier and fast-growing second-tier cities for investment, confirming our selections with the help of internationally respected consultants. This decision has paid off wisely as all of our chosen second-tier cities are now developing faster than their first-tier counterparts. If the appropriate opportunities arise, the Group will strongly consider further expansion in our selected first- and second-tier cities.

In addition, the Group works in close partnership with municipal governments – ensuring that our projects have the support of the government and are indeed catering to the needs of local communities. Our “master planned” development projects often combine elements that are necessary for the future growth of local communities.

Evolving to Accelerate Growth

As Shui On Land continues to grow and develop, it is becoming more apparent that my personal involvement in the decision-making process may have become a bottleneck limiting our future development potential. Due to our increasing size and decentralised management, it is no longer appropriate, nor effective, for me to hold ultimate executive responsibility for the Group.

Therefore, with the approval of your Directors and with the support of our senior management team, I am handing over the CEO responsibilities to our Managing Director – Freddy C. K. LEE. This decision will allow me to focus on my position as Chairman of the Board, leading the development of macro direction and strategic policies for the Group. Splitting the roles of Chairman and CEO will also facilitate improved corporate governance.

Appreciation

Firstly, I must congratulate Freddy C. K. LEE on his appointment as CEO of the Group. It is a challenging, yet extremely rewarding position; and I have every confidence in Freddy's ability and his dedication to taking the Group to new heights.

I would also like to express my sincere thanks to our Directors, who have guided the Group to go from strength to strength over the past few years. Finally, I must thank all our staff for their dedication, loyalty and tireless efforts. Our staff have proven time and again that “people make the difference”.

2011 will be a watershed year for Shui On Land, as we evolve to take on bigger challenges and deliver better results. I look forward to continuing to leading the Group in creating more value for all our shareholders, and taking Shui On Land to greater success.



Vincent H. S. LO
Chairman

Hong Kong, 16 March 2011