



WATER

LONG-RANGE PLANNING

Our master-planned developments in China that are now maturing should enable us to achieve one million sq. m. of delivery in 2012, once again

meeting targets





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Vincent H. S. LO
Chairman

CHAIRMAN'S STATEMENT

Despite a challenging operating environment in the past year, an increase in revenue and profit is being reported. We achieved our target of increasing the volume of contracted sales to 527,500 sq. m., while largely maintaining average selling prices. The location and quality of our properties has attracted an unusually high level of institutional interest. This was a good performance.

I am pleased to report that your Group has been able to make steady progress on the execution and implementation of our Three-Year Plan. Despite a challenging operating environment in the past year, an increase in revenue and profit is being reported.

IMPROVED FINANCIAL RESULTS

For the year ended 31 December 2011, Shui On Land generated turnover of RMB8,484 million (HK\$10,249 million), representing an increase of 74% compared to 2010. Profit attributable to shareholders was RMB3,428 million or HK\$4,141 million (2010: RMB2,809 million or HK\$3,230 million), a 22% increase over 2010. Basic earnings per share were RMB0.66 (HK\$0.80), 20% higher than in 2010. Your Board has recommended a final dividend of HK\$0.10, bringing the total dividend for the year to HK\$0.125, against the HK\$0.11 declared in 2010.

SOUND BALANCE SHEET

We remain soundly financed. In late 2010 and early 2011 we raised RMB9.22 billion of new debt via three well-received bond issues. As a result, as at 31 December 2011, we had bank balances and cash of RMB6.37 billion. Our gearing ratio, at 65%, although higher than last year, remained at an acceptable level considering the market conditions. In January 2012 we raised additional capital through an issue of S\$250 million in senior notes. In February 2012 we issued US\$475 million in notes. Together with continued inflows of cash from property sales, we therefore have a strong cushion to fund our operations.

A COMPETITIVE POSITION IN THE MARKET

During 2011, we achieved our target of increasing the volume of contracted sales to 527,500 sq.m., while largely maintaining average selling prices. This was a good performance.

Since late 2010, China's Central Government has pursued policies to sustain economic growth, while at the same time curbing the rise in residential property prices, owing to concerns about affordability. There have been increasing restrictions on the sale of property, and property taxes have been introduced in Shanghai and Chongqing. At the same time, credit for homebuyers and developers has become much tighter, following the policy to reduce the amount of credit available to the property market.

The result has been a marked slowdown in the residential property market. Since the final quarter of 2011, falling sales volumes and declines in prices have been recorded in cities across China, with developments outside the city centres especially affected. Needing to raise cash, developers without strong balance sheets have been forced to reduce prices in an attempt to generate sales.

Shui On Land is in a more favourable position. Our large scale projects, each based on a comprehensive master plan, are all maturing as planned community and remain attractive to buyers by virtue of their location and quality.

CHAIRMAN'S STATEMENT

STRENGTHENING MANAGEMENT

Another important factor underpinning our success in the past year has been the reorganisation of our senior management. This has allowed us not only to meet the immediate challenge of the difficult market, but creates a solid foundation for future growth.

In 2011, with the approval of your Directors and with the support of our senior management team, I handed over the responsibilities of CEO to our Managing Director Freddy C. K. LEE. Thanks to careful planning and preparation, the transition has gone very smoothly. It has allowed me to focus more on my duties as Chairman and I have deliberately reduced the amount of time I spent in Shanghai in the past year in order to give Freddy the space he needs to establish himself in the shortest period of time. We are now working to ensure that the Board and the senior management team co-operate well to ensure a coherent future strategy for the Group, as we begin to draw up our next Three-Year Plan in the coming year.

The reduction of the number of departments in your Group from 37 to 13 and the decentralisation of decision-making to project directors and the project teams has also paid significant dividends. The rapidly changing tone of the China property market has put a premium on being able to respond quickly to changes on the ground. This is precisely what the reorganisation has achieved, and it has played an important part in our being able to achieve our sales targets.

This new approach to management will be strengthened from 2012, when we implement a new long-term incentive scheme, which has now been approved both by the Remuneration Committee and your Board. By rewarding senior management over the long term for above-target performance, we aim to promote integrated growth through closely aligning corporate and management interests in the pursuit of rapid yet sustainable expansion.

INSTITUTIONAL INTEREST SUPPORTS SALES

As noted, sales at our projects have been encouraging overall, despite the difficult market. The location and quality of our properties have attracted an unusually high level of institutional interest. The major contributions to sales came from completion of several large en bloc sales of our non-core

commercial properties to major financial institutions including ICBC, Ping An Insurance and local government organisations in Shanghai, Chongqing and Wuhan.

Certain unique features of our service have supported our sales effort. These include the three-year warranty that comes with the purchase of Shui On Land residential premises. We also provide timely repair of defects during the handover inspection, which resulted in 2011 an exceptional 83% average first-time handover rate for all our developments.

RAISING BRAND AWARENESS

We have made more effort recently to support our brand positioning through marketing activities. The most significant such event in 2011 was the Shui On Land China Golf Challenge, which has helped put our name more strongly into the minds of prospective buyers. Over seven days in seven cities, we hosted some 6,700 clients and associates. The event was picked up widely in the local and international media, bringing our name to an estimated 880 million viewers around the globe.

Our strong commitment to corporate social responsibility also supports our brand, through initiatives such as certification under the Leadership in Energy and Environmental Design (LEED) Green Building Rating Systems programme. The Seagull Club, a Shui On employees volunteer charity organisation, raised RMB300,000 for charity in 2011 and enabled 1,177 of our volunteers to participate in various good causes. To develop our more than 1,200 staff, the Shui On Academy continues to offer training, with close to 50 programmes and sessions held during the year.

THE HONGQIAO PROJECT – SHANGHAI'S NEW HUB

During 2011, we have made good progress in the planning and construction of THE HUB, whose importance in creating future value for the Group cannot be overestimated. We acquired the 62,000 sq.m. site in end 2010 and upon completion in 2014, it will be a unique complex that caters to the future of retail and commerce. THE HUB's shopping mall will be China's first to be directly connected to a comprehensive transportation hub. It will be a one-stop shopping experience that will allow retailers to compete with the internet by offering an enjoyable and stimulating modern lifestyle experience.

Benefitting from being a hub for both Shanghai's second airport and its high speed rail station, upon completion THE HUB will benefit from traffic of over one million passengers every day. The large retail centre, including a Xintiandi-styled village, will offer the latest and most fashionable brands, restaurants and entertainment. There will also be sales offices and an international five-star hotel. For the many companies and individuals seeking efficient travel between Mainland and international destinations, THE HUB will offer unparalleled convenience, comfort and services.

STRATEGIC PARTNERSHIP FOR FUTURE GROWTH

An important development during the past year was the formation of a strategic partnership with Mitsui Fudosan Co. Ltd (Mitsui Fudosan), one of Japan's largest and most prestigious property companies. Mitsui Fudosan has taken an interest in our Dalian and Foshan projects, providing not only capital but expertise in areas such as retail. I am pleased to report that Mitsui Fudosan's Chairman and CEO have both expressed an interest in expanding co-operation with your Group over the long term, which will be mutually beneficial.

ON TARGET FOR ONE MILLION SQ. M. OF CONSTRUCTION COMPLETION

Given the downturn in the Chinese property market that is now underway, the first half of 2012 is likely to remain difficult. The Central Government is rightly determined to avoid an overly speculative market and we welcome policies that support its orderly development as well as to work with the private sector to produce sufficient housing that are affordable.

It is important to note, however, that the market is in better shape than many others around the world. Residential purchasers are not as highly leveraged as those in the advanced economies. Some 30% of the purchasers of our residential developments are cash buyers. Furthermore, figures from the People's Bank of China show that nearly RMB34 trillion sits in household savings accounts at the end of 2011. In addition, although credit is currently tight, the Central Government will likely permit a looser monetary policy once the objective of dampening investment and speculation has been achieved.

For the foreseeable future, a shortage of land in the main cities, combined with continuing high rate of urbanisation, will make property in prime locations such as ours still a favoured investment. We therefore planned to complete one million sq.m. of residential and commercial properties in 2012, as one of the goals in our 2009-2012 Three-Year Plan and to maintain reasonable price levels. It is expected that other elements of our current Three-Year Plan will also largely be met. The likely exception will be that certain projects may not achieve financial self-sufficiency, given the state of the market.

We have not added to our land bank since the Hongqiao acquisition in late 2010 and we remain cautious regarding 2012. We already have one of the best land banks in China, with excellent sites in a number of first and second-tier cities that are proving their worth in the current environment. Our focus in the immediate future will rather be to ensure the timely and efficient execution of the projects we have in hand.

APPRECIATION

Finally, I would like to express my gratitude to my fellow Directors for their wise counsel, and to our staff for their dedication and hard work, all of which has been vital to our success.

There is no doubt that 2012 will be a challenging year for Shui On Land, given the uncertainties in the market. But I believe we will be capable of meeting our targets and creating further value for shareholders.



Vincent H. S. LO
Chairman

Hong Kong, 21 March 2012