CEO REPORT

CONTRACTED SALES INCREASED BY 114% TO RMB10.7 BILLION AND CORE EARNINGS GREW BY 108% TO RMB1,572 MILLION

The year 2011 marked my 25th year with Shui On and my first year as the CEO of Shui On Land. During the year under review, the macro-environment was affected by weaknesses in global financial markets brought about by the European sovereign debt crisis and inflationary pressures in China. At the industry level, we experienced the impact of new austerity measures and policies introduced by the Chinese Government to stabilise the property market. These measures and policies were effected mainly through raising interest rates and banks' required reserve ratio, along with the implementation of home purchase restriction policies.

Despite this challenging backdrop, I am pleased to report that the Group posted stellar results in 2011. The Group exceeded its sales target, achieving a 114% increase in contracted sales to RMB10.7 billion, on a total GFA of 527,500 sq.m. Approximately a total of RMB5.8 billion or a 55% of total contracted sales was generated by property sales, which recorded a 64% increase in average selling prices ("ASP") to RMB28,500 per sq.m. The *en-bloc* sales of commercial property contributed the remaining 45% of total contracted sales.

As of 31 December 2011, the Group's undelivered contracted sales increased to RMB4,877 million, a jump of 51% when compared to RMB3,222 million as of 31 December 2010. In view of the uncertain market environment, the higher locked-in sales will provide greater visibility of the Group's earnings in 2012.

EN-BLOC SALES OF NON-CORE COMMERCIAL DEVELOPMENTS, INCREASED ASSET TURNOVER AND SHORTENED PAYBACK PERIOD OF INVESTMENTS

Approximately a total of RMB4.8 billion of contracted sales was generated through the *en-bloc* sales of offices and the ancillary retail space located at Wuhan Tiandi, Shanghai KIC and Chongqing Tiandi. These include Corporate Centre No. 5, an international grade A office building located at Wuhan Tiandi, which was sold to Ping An Insurance in April, and an office building located at Shanghai KIC C2 site, which was sold to China ICBC Yangpu Branch in November. In addition, various office buildings at Chongqing Tiandi, together with retail and car parking spaces, were sold to several third parties, including certain affiliates of Ping An. The transactions outlined above are reflective of strong demand for well-located, quality commercial properties in China.

THREE-YEAR PLAN PROPELLED EARNINGS GROWTH IN 2011

The Group recorded a 57% increase in GFA completion to 585,000 sq.m. in the year under review, testament to the success of our first Three-Year Plan in expediting our asset and development turnover.

Group turnover for 2011 increased by 74% to RMB8,484 million, due mainly to a 83% rise in property sales to RMB7,581 million and a 20% increase in rental and related income to RMB849 million. Property sales accounted for 89% of Group turnover while rental and other income accounted for the remaining 11%.

"Three-Year Plan propelled earnings growth in 2011."

Freddy C. K. LEE
Managing Director & CEO

The ASP of recognised sales increased by 25% to RMB24,600 per sq.m. in 2011. Strong ASP growth was achieved against the backdrop of the cooling measures promulgated by the Central Government of China. This ASP attainment further illustrated the pricing power and success of our large-scale, mixed-use, "Total Community" development concept, the geographical advantage of our prime location landbank, as well as the strong branding of our "Tiandi" model.

The Group achieved a 84% increase in gross profit to RMB3,701 million in 2011, while operating profit rose by 103% to RMB3,116 million. Gross profit margin and operating profit margin rose by 3% and 6%, to 44% and 37% respectively.

The margin improvements reflect the Group's efforts to achieve a successful balance among standardisation of the business value chain, master-planning of comprehensive projects, product design, strong property sales and marketing and decentralisation decision-making within project-based management.

The aforementioned results ensured that the Group ended 2011 on a strong note, with profit attributable to shareholders rising by 22% to RMB3,428 million and core earnings rising by 108% to RMB1,572 million.

EFFECTIVE MANAGEMENT THROUGH THE THREE-YEAR PLAN

Our achievements in 2011 are attributable largely to the successful implementation of the Three-Year Plan launched in 2009. The Plan aims to provide accelerated yet sustainable growth and to maintain a balance between cash generation in the short-to-medium term and value creation for the long term.

As part of our Three-Year Plan, we introduced a decentralisation and project-based management system. Through decentralisation, our project teams are empowered to make timely decisions about product development, construction management, pricing, sales, leasing and marketing programs. The strong growth in sales performance and selling prices recorded in the past two years has reaffirmed that this project-based management approach is an efficient and conducive way to cope with the ever-changing operating environment.

As always, we strive for management standardisation to unify best practices, set up standards and operating systems to shorten the development cycle and allow for effective cost control without compromise in product quality. In addition to our centralised procurement of key materials/products for construction works, we have established strategic partnerships with capable and reliable main contractors, electrical and mechanical contractors, and interior fitting-out contractors for our projects, thus enhancing our efficiency, quality and cost benefits. We also engage third-party auditors to conduct regular quality assessments of our projects. This ensures that the highest standards are met and encourages our contractors to deliver quality products through a quality incentive scheme. As a result, approximately 83% of our residential units delivered in 2011 were free of defects.

PRIME INVESTMENT PROPERTY PORTFOLIO, RENTAL INCOME AND ASSET ENHANCEMENT

In 2011, we celebrated the 10th anniversary of our flagship project, "Shanghai Xintiandi", one of the "must-visit" destinations in Shanghai for both domestic and international tourists as well as business travellers. We currently own a GFA of 167,000 sq.m. in completed investment properties located at Shanghai's Xintiandi area. The investment properties include Xintiandi historical restoration and entertainment area, Corporate Avenue Phase 1 office buildings, Xintiandi Style shopping centre, excluding the newly-acquired Shui On Plaza office building and Langham Xintiandi Hotel. In addition, our 156,000 sq.m. Corporate Avenue Phases 2 and 3 (a commercial development comprising office towers and retail shopping centres), is currently under construction and is expected to be completed progressively over 2014 and 2015.

In 2011, total completed investment properties held by the Group increased by 16% to 509,000 sq.m.. Rental and other income generated by the completed investment property portfolio increased by 20% to RMB849 million in 2011. The carrying value of the completed investment property portfolio rose by 16% to RMB17,981 million as of 31 December 2011. The increase was due principally to higher rental income from the completed portfolio and new completion of 72,000 sq.m. in investment property. Of our 11.1 million sq.m. GFA landbank, a total of approximately 1.4 million sq.m. was recorded at valuation with the balance stated at cost.

GREEN AND SUSTAINABLE DEVELOPMENT AND CUSTOMER SERVICES AND SATISFACTION ARE OUR TOP PRIORITIES

As a responsible property developer in China, we are committed to improving the social, economic and environmental well being of every community in our places of operation. In 2009, Wuhan Tiandi received certification from the US Green Building Council, as LEED-Neighbourhood Development Stage 2 Gold Plan, while Chongqing Tiandi and Foshan Lingnan Tiandi were certified in 2011. These developments were designed, constructed and operated by adopting green concepts and strategies such as mass transit-oriented development, adaptive reuse of historical heritage, preservation of native trees, rainwater collection and recycling systems, and outdoor spot cooling and heating systems and others. The commercial areas and office buildings of Wuhan Tiandi, Shanghai Taipingqiao Corporate Avenue Phase 2, Wuhan Tiandi Lot A4, A5 and A123, Chongqing Tiandi Lot B11 and 12, and Shanghai KIC Lot 5 respectively also obtained LEED–CS Gold Certifications/Pre-certifications in 2011.

In order to maintain our product and service quality, we introduced a Customer Satisfaction Index (CSI) in 2009. While adopted initially only for our Shanghai projects, we extended the index to cover all projects in 2010. Our customer research and standards team, together with an independent research company, conduct surveys on a regular basis. Since its inception, the index has recorded improvements every year, achieving 85% and 87% satisfaction levels for our commercial properties and residential properties respectively in 2011.

OUTLOOK

Volatility in global financial markets and concerns over a potential 'soft landing' for the Chinese economy continue to signal challenges for the year ahead. Nevertheless, the Group remains committed to maintaining its competitive edge and sustaining growth through our business strategies. We are in the process of preparing our second Three-Year Plan. All of our projects are maturing in accordance with our master plan, achieving high margins. Moving forward, we will continue to leverage our expertise and in-depth market knowledge to pursue viable opportunities for growth, while actively monitoring market developments so as to effectively align our business strategies for the Group's long-term growth and profitability.

Shui On Land enjoyed an outstanding year in 2011. I would like to take this opportunity to express my deepest appreciation to our staff for their dedication and efforts. I am confident that we will continue to deliver value to our shareholders in the years ahead with the guidance and support of our Chairman and the Members of our Board of Directors.

Freddy C. K. LEE
Managing Director & CEO