FINANCIAL REVIEW

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Daniel Y. K. WAN
Managing Director & CFO

REPORT FORM THE CFO

During 2011, global market sentiment was beset by uncertainty and volatility, resulting primarily from the high levels of government debt in the United States and Europe. In particular, the looming Euro crisis in the second half of 2011 had a negative impact on the debt capital markets in Asia.

In China, the Central Government tightened bank credit policies in order to control inflation. The consequent reduction in the availability of bank credit caused market interest rates to rise.

My priority in 2011 was to maintain adequate liquidity for the Group under a debt structure acceptable to the market, and matching the investment funding requirements of our Three Year Plan. In overall terms, our ship has steered a steady course, maintaining sustainable and balanced growth on the basis of solid performance and careful long range planning. Our prime land bank and our human capital are the assets that underpin our development.

Against this backdrop, we successfully secured banking facilities to cover the development costs of our new Shanghai Hongqiao project, amounting to RMB4,617 million. Additionally, during 2011 we drew on new bank loans amounting to RMB6,106 million.

Riding on the success of our note issue in 2010, we issued a new 4-year synthetic bond in the amount of RMB3,500 million in January 2011. Our close monitoring of the market has thus ensured that we have been able to tap the funding opportunities that have arisen, despite the sluggish state of the debt capital markets.

We take pride in being a pioneer in the Asian debt capital markets. In January and February 2012, we successfully launched two issues, respectively a 3-year SGD250 million senior notes

Marco Polo Hotel & Residence at Foshan Lingnan Tiandi

and US$475 million notes. Together with the RMB2,720 million convertible bonds and the RMB3,000 million notes issued respectively in September and December 2010, the Group has raised an aggregate of RMB13,516 million debt instrument. As a result, the Group has sufficient financial resources to ensure adequate liquidity to execute our Three Year Plan.

I would like to take this opportunity to thank our bankers and investors for their continual support for and confidence in our Group, which we value greatly.

Daniel Y. K. WAN
Managing Director & CFO

FINANCIAL REVIEW

Turnover of the Group rose to a record high in 2011 of RMB8,484 million (2010: RMB4,879 million), an increase of 74% due primarily to the higher property sales recognised in 2011.

Property sales increased by 83% to RMB7,581 million (2010: RMB4,133 million) due to a rise in average selling price ("ASP") across all projects ranging from 31% to 52%, together with an increase in the area being delivered from 212,300 sq.m. to 329,400 sq.m.. Details of property sales during the year ended 31 December 2011 are contained in the paragraph headed "Property Sales" in the Business Review Section.

Rental and related income from investment properties of the Group rose by 20% to RMB849 million (2010: RMB706 million), due primarily to more leasable area available as a result of more investment properties completed during the year together with an improved general occupancy rate for those projects newly completed in 2011.

Gross profit for 2011 increased to RMB3,701 million (2010: RMB2,010 million) with a gross profit margin of 44% (2010: 41%), due largely to the increased ASP across all the projects being recognised in 2011.

Other income rose by 8% to RMB244 million (2010: RMB226 million), resulting mainly from an increase in interest income from banks to RMB84 million (2010: RMB75 million).

The Commercial Cluster at Chongqing Tiandi boosts the city internationalisation

Selling and marketing expenses increased by 37% to RMB195 million (2010: RMB142 million) stemming mainly from the increase in contracted sales of the Group from RMB4,606 million in 2010 to RMB10,244 million in 2011 (excluding sales by associates). The increase in selling and marketing expenses represented a lower proportion of the total contracted sales of which the RMB4,795 million were *en-bloc* sales that incurred fewer marketing and promotion expenses.

General and administrative expenses increased slightly by 13% to RMB634 million (2010: RMB561 million) as more operating expenses were incurred from the increase of new investment properties completed in recent years.

Operating profit more than doubled to RMB3,116 million (2010: RMB1,533 million), a result of various factors mentioned above.

With the communities around our investment properties becoming more mature and well developed, the rental and occupancy rates have been on a rising trend. As a result, *increase in fair value of investment properties* reached RMB2,696 million (2010: RMB2,711 million), of which RMB1,648 million (2010: RMB1,140 million) was derived from completed investment properties and RMB1,048 million (2010: RMB1,571 million) from investment properties under construction or development. Details of the investment properties are contained in the paragraph headed "Investment Properties" in the Business Review Section.

Gain on disposal of investment properties of RMB17 million (2010: RMB23 million) for the year ended 31 December 2011 represented the disposal of office and retail spaces at a consideration of RMB613 million (2010: RMB185 million), less their respective revalued carrying amount of RMB596 million (2010: RMB162 million) as calculated when these properties were sold.

Share of results of associates was RMB137 million (2010: RMB58 million), which included a revaluation gain on the investment properties under development or construction (net of related taxes) amounting to RMB95 million (2010: RMB96 million) attributable to the Group.

Finance costs, net of exchange gain amounted to a net income of RMB94 million (2010: RMB42 million), mainly due to an exchange gain on bank and other borrowings of RMB311 million (2010: RMB200 million). With the issue of RMB2,720 million of convertible bonds and RMB3,000 million of notes in the second half of 2010 and RMB3,500 million of notes in early 2011, interest expenses increased to RMB1,800 million (2010: RMB888 million). Capitalised borrowing costs increased proportionally to RMB1,608 million (2010: RMB796 million).

Profit before taxation increased by 39% to RMB6,060 million (2010: RMB4,367 million), as a result of the various factors mentioned above.

Taxation increased by 52% to RMB2,062 million (2010: RMB1,357 million). Excluding the land appreciation tax of RMB641 million (which was assessed based on the appreciation value of properties disposed of) together with its corresponding enterprise income tax effect of RMB160 million, the effective tax rate for the year 2011 was 26.0% (2010: 27.4%).

Profit attributable to shareholders of the Company for 2011 was RMB3,428 million, an increase of 22% when compared to 2010 (2010: RMB2,809 million). Return on equity for 2011 was 14% (2010: 13%), which was calculated based on profit attributable to shareholders for the year divided by the shareholders' equity at the beginning of the year.

Profit attributable to shareholders excluding the increase in fair value of investment properties is as follows:

	Year ended 31 December		
	2011 RMB'million	**2010 RMB'million**	**Change %**
Profit attributable to shareholders of the Company	**3,428**	2,809	+22%
Less:			
Increase in fair value of investment properties of the Group (net of deferred tax effect and share of non-controlling interests)	**(1,761)**	(1,957)	
Share of increase in fair value of investment properties of associates (net of tax effect)	**(95)**	(96)	
Profit attributable to shareholders of the Company before revaluation of investment properties	**1,572**	756	+108%

Earnings per share was RMB0.66 calculated based on a weighted average of approximately 5,212 million shares in issue during the year ended 31 December 2011 (2010: RMB0.55 calculated based on a weighted average of approximately 5,091 million shares in issue).

Capital Structure, Gearing Ratio and Funding

In January 2011, the Group issued RMB3,500 million senior notes with a maturity of four years due in January 2015 (the "2015 RMB Notes"). The 2015 RMB Notes are denominated in RMB and settled in US dollars ("US$"), with coupon rate of 7.625% per annum payable semi-annually.

Together with bank and other borrowings, the RMB2,720 million 4.5% convertible bonds and the RMB3,000 million 6.875% notes due in December 2013, the structure of the Group's borrowings as of 31 December 2011 is summarised below:

	Total (in RMB equivalent) RMB'million	Due within one year RMB'million	Due in more than one year but not exceeding two years RMB'million	Due in more than two years but not exceeding five years RMB'million	Due in more than five years RMB'million
Bank borrowings – RMB	**6,760**	1,687	1,477	2,458	1,138
Bank borrowings – HK$	**9,166**	6,585	2,013	568	–
Other borrowings – US$	**817**	502	315	–	–
	16,743	8,774	3,805	3,026	1,138
Convertible bonds – RMB	**2,225**	–	2,225	–	–
Notes – RMB	**6,520**	–	2,962	3,558	–
Total	**25,488**	8,774	8,992	6,584	1,138

In January and February 2012 respectively, the Group issued SGD250 million 8% senior notes and US$475 million 9.75% notes, each with a maturity of three years. The proceeds from notes issues will be used to finance the land relocations of existing projects and for working capital purposes.

Total cash and bank deposits amounted to RMB6,370 million as of 31 December 2011 (31 December 2010: RMB6,790 million), which included RMB2,512 million (31 December 2010: RMB1,885 million) of deposits pledged to banks and RMB335 million (31 December 2010: RMB243 million) of restricted bank deposits which can only be applied to designated property development projects of the Group.

As of 31 December 2011, the Group's net debt balance was RMB19,118 million (31 December 2010: RMB11,455 million) and its total equity was RMB29,471 million (31 December 2010: RMB26,028 million). The Group's net gearing ratio was 65% as of 31 December 2011 (31 December 2010: 44%), calculated on the basis of the excess of the sum of convertible bonds, notes, bank and other borrowings net of bank balances and cash (including pledged bank deposits and restricted bank deposits) over the total equity.

Pledged Assets

As of 31 December 2011, 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 RMB28,963 million (31 December 2010: RMB25,275 million) to secure our borrowings of RMB13,981 million (31 December 2010: RMB11,186 million).

Capital and Other Development Related Commitments

As of 31 December 2011, the Group had contracted commitments for development costs and capital expenditure in the amount of RMB11,967 million (31 December 2010: RMB14,579 million).

Future Plans for Material Investments and Sources of Funding

On 9 September 2011, the Group entered into a sales and purchase agreement with certain subsidiaries of Shui On Company Limited (a substantial shareholder) to acquire 80% interest in Shui On Plaza and 66.7% interest in Langham Xintiandi Hotel in an initial consideration of HK$2,086 million (equivalent to RMB1,694 million).

On 16 March 2012, these acquisitions were completed and 613,529,412 new and fully paid ordinary shares of the Company were issued on the same date as consideration to the sellers. These new shares ranked pari passu to the existing shares of the Company.

The Group shall continue to focus on the development of the existing landbank which is spread throughout prime locations. We shall, at appropriate times, consider other opportunities to participate in projects of various sizes where we can leverage our competitive strengths. The Group may also pursue other plans, including different ways to acquire land development rights for the purpose of undertaking property projects or to increase the scale of current operations by leveraging on our master planning expertise.

Cash Flow Management and Liquidity Risk

Management of the Group's cash flow is the responsibility of the Group's treasury function at the corporate level.

The Group's 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. The Group is comfortable with the 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 times.

Exchange Rate and Interest Rate Risks

The revenue of the Group is denominated in RMB. The convertible bonds and notes issued during the year were also denominated in RMB. As a result, the coupon payments and the repayment of the principal amounts of the convertible bonds and notes do not expose the Group to any exchange rate risks. A portion of the revenue, however, is converted into other currencies to meet our foreign currency denominated debt obligations, such as bank and other borrowings denominated in HK$ and US$. As a result, to the extent that we have a net currency exposure, the Group is exposed to fluctuations in foreign exchange rates.

Wuhan Tiandi bird's view

Considering the relatively stable currency regime with regard to the RMB as it is maintained by the PRC Central Government, which only allows the exchange rate to fluctuate within a narrow range, and the Group's view that it is more probable that the value of RMB will appreciate rather than depreciate relative to the HK$/US$ in the short to medium term; the Group does not expect any adverse effects of the exchange rate fluctuation between the RMB and HK$/US$ to be significant.

The Group's exposure to interest rate risk results from fluctuation in interest rates. Most of the Group's bank borrowings 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. Increases in interest rates would raise 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 2011, the Group had various outstanding loans that bear variable interests linked to Hong Kong Inter-bank Borrowing Rates ("HIBOR"). The Group has hedged against the variability of cash flow arising from interest rate fluctuations by entering into interest rate swaps in which the Group would receive interest at variable rates at HIBOR and pay interest at fixed rates ranging from 0.69% to 3.58% based on the notional amount of HK$8,210 million in aggregate.

Save as disclosed above, the Group did not hold any other derivative financial instruments as of 31 December 2011. The Group continues to monitor its exposure to interest rate and exchange rate risks closely, and may employ derivative financial instruments to hedge against risk when necessary.