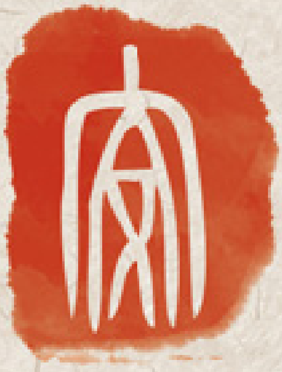
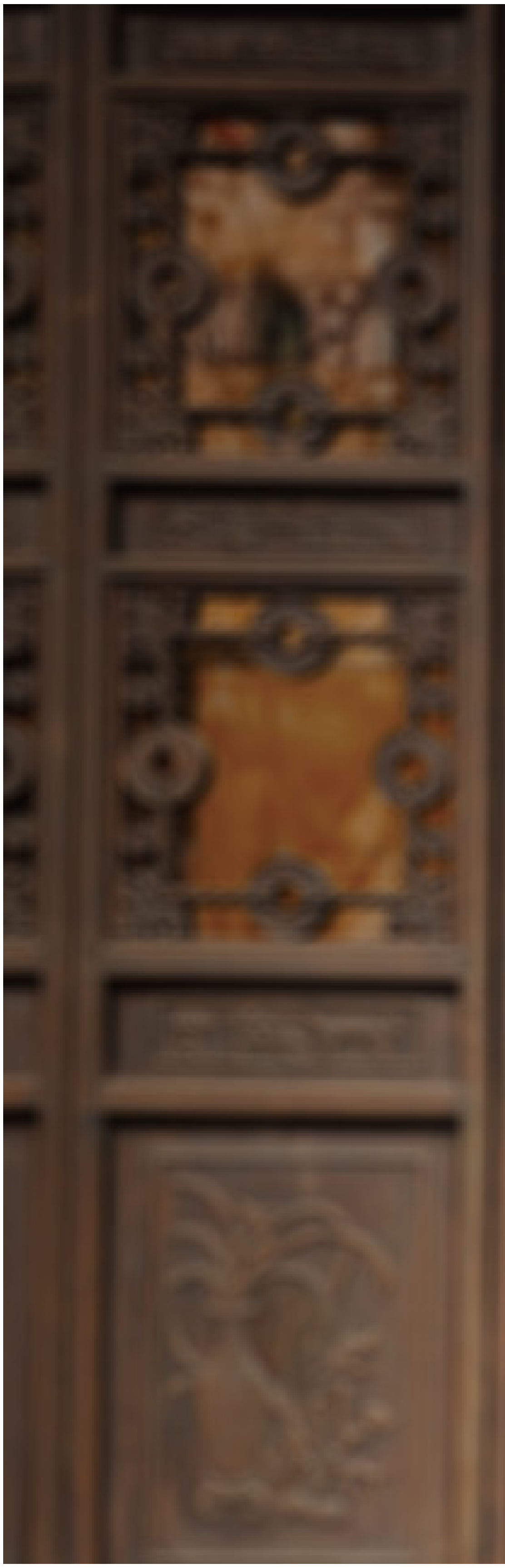


CEO Report



The year 2012 saw the conclusion of the Group's first Three-Year Plan. Designed to accelerate development, increase production and improve productivity, its implementation took place in a time of global recession and economic chaos, from the sub-prime problems in the United States to the Eurozone debt crisis, coupled with the Chinese Government's stringent policies to restrict property prices for home purchases. As such, 2012 proved to be a disappointing year – not only did the Group fall short of the target to deliver one million sq.m. of space, but fewer properties too were delivered in comparison to 2011.

Although we did not achieve the target established under the first Three-Year Plan, we have nonetheless witnessed, as the Chairman has noted, significant growth in our investment property assets and rental income during the period. This is a key objective in our strategy – the achievement of overall long-term growth underpinned by the delivery of solid results over the years.

Highlights

Despite the difficulties, 2012 proved to be a year of consolidation. Locked-in sales as of 31 December 2012 rose to RMB6,305 million, an increase of 29% against the figure of RMB4,877 million recorded at the end of December 2011.

In the first two months of 2013, the Group achieved a further RMB2,524 million in contracted sales. These sales are planned for delivery to customers, and will be recognised as turnover, in 2013 and beyond.

In 2012, contracted property sales from general property sales and car parks were RMB5,562 million, a decrease of 5% from the RMB5,872 million recorded in 2011. A total GFA of 260,300 sq.m. was sold and pre-sold, representing a growth of 18% compared to 221,100 sq.m. in 2011. There was less en-bloc sales contracted in 2012 compared to 2011.

"With the launch of the second Three-Year Plan in 2013, the focus is on repositioning with continuous consolidation to ensure future growth. I have no doubt that our reorganisation and consolidation will drive ongoing growth and future development."

Freddy C. K. LEE
Managing Director & CEO

“Although we did not achieve the target established under the first Three-Year Plan, we have nonetheless witnessed significant growth in our investment property assets and rental income during the period.”

The year also saw the delivery of projects launched in Shanghai at the Knowledge and Innovation Community and Rui Hong Xin Cheng, to highly positive responses. The former generated satisfactory sales with some 78% being sold within two months while the latter, riding the pick-up experienced towards the end of the year, achieved a strong take-up rate with over 96% of the 353 units being sold on the day of the launch. These activities achieved total sales of RMB2 billion.

The high point was the launch of Foshan Lingnan Tiandi, which has since emerged as a showcase for the region, with numerous visits from government dignitaries and other interested parties. Developed in line with our highly acclaimed “Tiandi” brand, the project has taken off. With over 53 tenants, the retail and entertainment hub currently enjoys an occupancy rate of 87% while sales were brisk with all the smaller apartments selling out. By the end of the year, the project’s contracted sales had reached over RMB720 million. The strategic partnership with Mitsui Fudosan Co., Ltd. (Mitsui Fudosan) to co-develop Lot 18 of the project, which will mainly be residential apart from some community retail facilities on the podium, also expanded, with the addition of two more sites, Lots 6 and 16, during the year.

While proving to be a complex and drawn-out process, several land parcels in Shanghai Taipingqiao and Rui Hong Xin Cheng are now complete and construction has begun.

The Group strove to increase the number of cleared sites for development in Shanghai and invested a total of RMB13,556 million in relocation costs and RMB4,452 million for land acquisitions during the year.

We believe that the capital investment in relocation at the sites in Shanghai in the first Three-Year Plan will contribute significant business growth in the years to come. The development of Corporate Avenue Phase II, Tower 5 and Tower 3 in our Taipingqiao project, for example, will add a further value of approximately RMB12 billion to the Group’s total commercial portfolio when they are completed at the end of 2013 and 2014 respectively.

A revised master-plan was unveiled for Rui Hong Xin Cheng during the year. An integrated and sustainable city redevelopment comprising office, retail, hotel, entertainment and cultural facilities in addition to its residential positioning, Ruihong Tiandi is set to become a new lifestyle hub for Shanghai. This one-stop retail and entertainment complex will include the Hall of the Sun, accommodating China’s largest international gourmet market; the Hall of the Moon, an entertainment hub; as well as the Hall of the Stars, catering to young shoppers with a range of sports, technology and electronic gadgets.

Development of THE HUB, located at Hongqiao Commercial Zone right next to Shanghai’s second airport and high-speed rail station, is also progressing smoothly. With its first phase scheduled for a soft opening in 2014, a number of buildings were topped out during the year and pre-leasing activities have commenced to a strong market response.

Chongqing Tiandi is also developing apace. The completion and occupation of office buildings with approximately 336,000 sq.m. of space at the end of 2013 will round out the comprehensiveness of its master-plan, while creating greater synergies for its retail and residential facilities.

Strategy and Development – the Second Three-Year Plan

A major target under the Group's first Three-Year Plan was the decentralisation of activities coupled with the improvement of overall efficiencies. I am delighted to report that this has been achieved – despite the increase in productivity, the total number of staff fell from 1,400 to 1,265, while the number of departments also reduced from 37 to 13. The Group completed a total GFA of 1,612,000 sq.m. of property during the first Three-Year Plan (from 2010 to 2012), compared to the completion of a total GFA of 409,000 sq.m. of property from 2007 to 2009, the three years immediately preceding the first Three-Year Plan, a nearly three-fold increase.

With the launch of the second Three-Year Plan in 2013, the focus is on repositioning with continuous consolidation to ensure future growth. We will thus be optimising the decentralisation of the organisation structure through tighter corporate level controls and by active monitoring of progress to achieve timely completion. To actualise these goals and reinforce performance management, three cross-function task forces, viz, "Standardised Product Lines", "Customisation and One-Stop Service", and "Cost Control and Development Schedule" have been established. Their dedicated focus and activities are set to pave the way for the success of the second Three-Year Plan.

A further target is to accelerate the development of cleared sites to hasten the realisation of value in our investment property portfolio and drive further growth. Hand-in-hand with this aim to expedite delivery and returns to investors, we are also seeking to balance our property mix. As such, the Group's strategy into the future is not to just focus on large-scale projects, but also to actively look for and participate in small-to-medium-sized residential projects in the cites in which we have a presence.

A key aspect of this reorganisation is the establishment and proposed spin-off of China Xintiandi. With the new company focusing on the management and enhancement of our investment property portfolio, Shui On Land in turn will concentrate on its core role as a leading property developer.

These activities have continued to be supported by the Group's commitment to care for the environment. Fully committed to sustainability in every aspect of our projects, Shui On Land hosted our first sustainable development forum, "Sustainable Community • Cultural Continuity", in June 2012 to share green experiences and explore the industry's latest developments. Many of the Group's developments have also received certification from the U.S. Green Building Council under their LEED (Leadership in Energy and Environmental Design) – Neighbourhood Development (ND) Gold level (stage 2) over the years. In line with this commitment, Foshan Lingnan Tiandi became the first property in the world to gain its LEED – ND Pre-certification Gold level under the Council's LEED – ND 2009 Version.

Looking ahead, I have no doubt that our reorganisation and consolidation will drive ongoing growth and future development – from the launch of China Xintiandi to improving cost controls, accelerating delivery to enhance shareholder value, closing the gap between strategy and implementation and ensuring best quality services for customers.

Appreciation

In conclusion, I would like to thank the Chairman and the Board for unfailing support during this challenging year. My thanks also go to our staff for their loyalty and hard work – their ongoing dedication will provide an invaluable contribution to the Group's future success.

Freddy C. K. LEE
Managing Director & CEO

Hong Kong, 28 March 2013