瑞安房地產
SHUI ON LAND

# Shui On Land Limited
# 瑞安房地產有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 272)

**Announcement of 2012 Annual Results**

## HIGHLIGHTS

- For the year ended 31 December 2012, the Group recorded turnover of RMB4,821 million, a decrease of 43% due to fewer properties being delivered and recognised as property sales during the year.
- Rental and related income rose 47% to RMB1,249 million for 2012, from RMB849 million in the year 2011, as contributions strengthened from new and recurrent income streams.
- Gross profit margin remained stable at 43%.
- The Group recorded a fair value gain of RMB2,698 million in its investment property portfolio for 2012.
- Profit attributable to shareholders decreased by 41% to RMB2,029 million in 2012.
- Contracted sales for 2012 were RMB5,732 million due to fewer *en-bloc* sales being concluded in 2012 compared to 2011.
- A total gross floor area (“GFA”) of 264,900 square meters (“sq.m.”) was sold and pre-sold with an average selling price (“ASP”) of RMB21,600 per sq.m..
- As of 31 December 2012, total locked-in sales for delivery in 2013 and beyond reached RMB6,305 million (including those of Dalian associates) with a GFA of 380,000 sq.m..
- With the planning and development in the Group’s first Three-Year Plan, it is expected approximately 606,900 sq.m. of residential GFA spanning six projects will be available for sale and pre-sale in 2013.
- Total carrying value of completed investment properties was recorded at RMB22,089 million as of 31 December 2012. Properties located in Shanghai accounted for 87% of the carrying value.
- As of 31 December 2012, total cash and bank deposits of the Group amounted to RMB8,633 million while the net gearing ratio stayed at 70%.

***Website: www.shuionland.com***

## BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded turnover of RMB4,821 million, with property sales and rental and related income from investment properties accounting for RMB3,541 million or 73% and RMB1,249 million or 26%, respectively, of total turnover. The remaining sum of RMB31 million or 1% was generated from other income. In comparison with turnover of RMB8,484 million for the year 2011, this was a drop of 43% due to fewer properties being delivered and recognised as property sales in 2012. Rental and related income increased by 47% to RMB1,249 million in 2012.

As of 31 December 2012, total locked-in sales for delivery in 2013 and beyond stood at RMB6,305 million (including the contributions of Dalian associates) with GFA of 380,000 sq.m..

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

### *Property Sales*

Recognised Property Sales

Recognised property sales decreased by 53% to RMB3,541 million, amounting to a total GFA of 199,700 sq.m. for the reporting year in which fewer properties were delivered and recognised as property sales. In particular, the contribution from property sales of Shanghai projects in 2012 decreased substantially by 84% to RMB489 million (including carparks and others), compared to RMB3,054 million in 2011 (including carparks and others).

Recognised property sales for Dalian Tiandi stood at RMB509 million, and its related profit was recorded in the share of results of associates.

The Group's developments reflected a stable average selling price ("ASP") in 2012. The ASP for Shanghai Taipingqiao rose by 6% to RMB158,100 per sq.m.. The ASP in Shanghai RHXC, Chongqing Tiandi, Foshan Lingnan Tiandi and Dalian Tiandi remained stable in 2012.

The 23% decrease in recognised ASP was mainly due to a change in product mix. In 2011, 40% of the property sales in turnover of the Group came from Shanghai where ASP was higher. In 2012, the difference was that 34% of property sales in turnover of the Group came from Chongqing Tiandi which commands a lower ASP.

The table below summarises by project the recognised sales (stated after the deduction of business tax of 5% and other surcharges/taxes) for 2012 and 2011:

| | 2012 | | | 2011 | | | ASP |
|---|---|---|---|---|---|---|---|
| **Project** | **Sales revenue** | **GFA sold** | **ASP** | **Sales revenue** | **GFA sold** | **ASP** | **Growth rate** |
| | RMB Million | sq.m. | RMB per sq.m. | RMB million | sq.m. | RMB per sq.m. | % |
| ***Shanghai Taipingqiao*** | 157 | 1,050 | 158,100 | 827 | 5,900 | 148,600 | 6% |
| ***Shanghai Rui Hong Xin Cheng (“RHXC”)*** | 200 | 5,350 | 39,600 | 2,133 | 57,700 | 39,200 | 1% |
| ***Shanghai Knowledge and Innovation Community (“KIC”)*** | | | | | | | |
| *Soho Office* | 53 | 2,700 | 20,800 | 47 | 2,300 | 21,700 | (4%) |
| *Office* | - | - | - | 528 | 14,400 | 38,900 | - |
| ***Wuhan Tiandi*** | | | | | | | |
| *Site B Residential* | 1,087 | 52,800 | 21,800 | - | - | - | - |
| *Site A Residential* | 151 | 4,700 | 34,100 | 1,491 | 49,100 | 32,200 | 6% |
| *Site A Office* | - | - | - | 858 | 58,800 | 15,500 | - |
| ***Chongqing Tiandi***[1] | 1,184 | 115,300 | 13,300 | 1,083 | 107,300 | 13,400 | (1%) |
| ***Foshan Lingnan Tiandi*** | | | | | | | |
| *Apartments & Retail* | 226 | 13,300 | 18,000 | 695 | 40,800 | 18,100 | (1%) |
| *Townhouses* | 211 | 5,500 | 40,700 | 366 | 9,800 | 39,600 | 3% |
| ***Subtotal*** | **3,269** | **200,700** | **17,300** | **8,028** | **346,100** | **24,600** | **(30%)** |
| ***Carparks and others*** | 294 | - | - | 166 | - | - | - |
| ***Dalian Tiandi*** | | | | | | | |
| *Mid/high-rises* | 414 | 38,000 | 11,600 | - | - | - | - |
| *Villas* | 95 | 4,200 | 24,000 | 332 | 18,700 | 18,800 | 28% |
| ***Total*** | **4,072** | **242,900** | | **8,526** | **364,800** | | |
| ***Recognised as:*** | | | | | | | |
| ***- property sales in turnover of the Group*** [2] | 3,541 | 199,700 | 18,800 | 7,581 | 329,400 | 24,400 | (23%) |
| ***- disposal of investment properties***[2] | 22 | 1,000 | | 613 | 16,700 | | |
| ***- turnover of associates*** | 509 | 42,200 | | 332 | 18,700 | | |
| ***Total*** | **4,072** | **242,900** | | **8,526** | **364,800** | | |

1 *ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.*

2 *Sales of commercial properties are recognized as “turnover” if the properties concerned are designated for sale prior to the commencement of development. Sales of commercial properties previously designated as held for capital appreciation or rental income are recognised as “disposal of investment properties”.*

Contracted Property Sales

In 2012, contracted property sales from general property sales and carparks (including those from Dalian associates) were RMB5,562 million, a decrease of 5% from RMB5,872 million in 2011. A total GFA of 260,300 sq.m. was sold and pre-sold, representing growth of 18% compared to 221,100 sq.m. in 2011. A change in product mix resulted in a 20% reduction in ASP, which stood at RMB21,400 per sq.m..

The ASPs of Shanghai Taipingqiao, Shanghai RHXC and Foshan Lingnan Tiandi townhouses remained stable in 2012.

In 2012, contracted property sales for Wuhan Tiandi came primarily from the pre-sale of a new development site - Wuhan Tiandi B9 and B11 in Site B - which is located north of No.2 Yangtze River Bridge. The ASP was RMB22,000 per sq.m. during the reporting period. The selling price was lower than the ASP of The Riverview Phase 3 located at Site A and already at a mature stage, with an advantageous waterfront position facing the Yangtze River in Wuhan Tiandi and providing immediate access to the Wuhan Tiandi entertainment hub area. By contrast, Wuhan Tiandi B9 and B11 are situated at the construction zone of Site B and in the initial stage of construction.

As more small units and apartments with garden and city views in Phase 3 of Chongqing Tiandi The Riviera were sold during 2012, the ASP decreased by 7% to RMB12,700 per sq.m..

In 2012, only one *en-bloc* commercial property sale was completed, for a total consideration of RMB170 million, providing a total GFA of 4,600 sq.m. for office and retail use at an ASP of RMB37,000 per sq.m.. The property is located at Shanghai KIC C2 Lot 5-5. *En-bloc* sales of a total GFA of 306,400 sq.m. for a total value of RMB4,795 million were contracted in 2011.

In addition to the contracted property sales outlined above, a total GFA of 80,200 sq.m. was subscribed and subject to formal sale and purchase agreements as of 31 December 2012, with a total value of RMB2,667 million. The Group achieved RMB2,524 million of contracted sales in the first two months of 2013.

The table below provides an analysis by project of contracted sales (stated before the deduction of business tax of 5% and other surcharges/taxes) for 2012 and 2011:

| | 2012 | | | 2011 | | | ASP |
|---|---|---|---|---|---|---|---|
| **Project** | **Contracted amount** | **GFA sold** | **ASP** | **Contracted amount** | **GFA sold** | **ASP** | **Growth rate** |
| | RMB million | sq.m. | RMB per sq.m. | RMB million | sq.m. | RMB per sq.m. | % |
| ***General property sales:*** | | | | | | | |
| ***Shanghai Taipingqiao*** | 166 | 1,050 | 158,100 | 877 | 5,900 | 148,600 | 6% |
| ***Shanghai RHXC*** | 14 | 350 | 40,000 | 1,434 | 36,200 | 39,600 | 1% |
| ***Shanghai KIC*** | | | | | | | |
| *Office* | 69 | 2,600 | 26,500 | 50 | 2,300 | 21,700 | 22% |
| *Residential* | 1,573 | 41,500 | 37,900 | - | - | - | - |
| ***Wuhan Tiandi*** | | | | | | | |
| *Site A Residential & Retail* | 123 | 3,300 | 37,300 | 1,618 | 50,500 | 32,000 | 17% |
| *Site B Residential* | 1,376 | 62,500 | 22,000 | - | - | - | - |
| ***Chongqing Tiandi***[1] | 792 | 75,800 | 12,700 | 903 | 79,900 | 13,700 | (7%) |
| ***Foshan Lingnan Tiandi*** | | | | | | | |
| *Low/mid-rises & Retail* | 493 | 25,400 | 19,400 | 47 | 2,400 | 19,500 | (1%) |
| *Townhouses* | 227 | 5,600 | 40,500 | 432 | 10,800 | 39,900 | 2% |
| ***Subtotal*** | **4,833** | **218,100** | **22,200** | **5,361** | **188,000** | **28,500** | **(22%)** |
| ***Dalian Tiandi*** | | | | | | | |
| *Villas* | 84 | 3,500 | 23,800 | 82 | 3,500 | 23,200 | 3% |
| *Mid/high-rises* | 387 | 38,700 | 10,000 | 341 | 29,600 | 11,500 | (13%) |
| ***Carparks and others*** | 258 | - | - | 88 | - | - | - |
| ***Subtotal for general property sales*** | **5,562** | **260,300** | **21,400** | **5,872** | **221,100** | **26,600** | (20%) |
| ***En-bloc commercial property sales:*** | | | | | | | |
| ***Wuhan Tiandi*** | | | | | | | |
| *A5 (Offices & Retail)* | - | - | - | 963 | 58,800 | 16,400 | - |
| ***Shanghai KIC*** | | | | | | | |
| *C2 Lot 5-5 (Offices & Retail)* | 170 | 4,600 | 37,000 | 600 | 14,400 | 41,700 | (11%) |
| ***Chongqing Tiandi*** | | | | | | | |
| *B12-3& B12-4 (Offices)* | - | - | - | 1,559 | 133,700 | 11,700 | - |
| *B12-1 (Offices & Retail)* | - | - | - | 1,673 | 99,500 | 16,800 | - |
| ***Subtotal for en-bloc commercial property sales*** | **170** | **4,600** | **37,000** | **4,795** | **306,400** | **15,600** | |
| ***Grand total*** | **5,732** | **264,900** | **21,600** | **10,667** | **527,500** | **20,200** | |

[1] *ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.*

Residential GFA Available for Sale and Pre-sale in 2013

The Group has approximately 606,900 sq.m. of residential GFA spanning six Group projects, available for sale and pre-sale during 2013 as summarised below:

| **Project** | | **Available for sale and pre-sale in 2013** |
|---|---|---|
| | | GFA in sq.m. |
| ***Shanghai RHXC*** | Jing Ting (High-rises) | 117,700 |
| ***Shanghai KIC*** | Jiangwan Regency (Lot 311 Mid-rises & townhouses) | 11,900 |
| ***Wuhan Tiandi*** | Wuhan Tiandi B9, B11 and B13 (Low/mid/high-rises) | 113,600 |
| ***Chongqing Tiandi*** | The Riviera Phases 2 - 5(Low/mid/high-rises) | 135,600 |
| ***Foshan Lingnan Tiandi*** | Regency Phases 1 - 3 (Low/mid/high-rises) | 71,200 |
| | Legendary Phases 1 - 3 (Townhouses) | 25,100 |
| ***Dalian Tiandi*** | Huangnichuan (Mid/high-rises) | 19,400 |
| | Huangnichuan (Villas) | 20,900 |
| | Hekou Bay (Mid/high-rises) | 91,500 |
| ***Total*** | | **606,900** |

By way of a cautionary note, the actual market launch dates depend on and will be affected by factors such as construction progress, changes in market environments, and changes in government regulations.

***Investment Property***

Rental and related income from investment properties rose significantly by 47% to RMB1,249 million in 2012. The sum of RMB1,056 million was generated by rental and related income from the investment properties, representing an annual growth of 26%. The remaining sum of RMB193 million was generated from hotel operations.

The increase was mainly due to rental growth from the existing completed investment property portfolio and income from newly acquired, mature investment properties, namely Shanghai Shui On Plaza and Shanghai Langham Xintiandi Hotel. These acquisitions were completed on 16 March 2012.

For 2012, a total GFA of 149,000 sq.m. of investment properties including hotel properties was newly completed, of which 97,000 sq.m. was held by subsidiaries of the Group and 52,000 sq.m. was held by associate companies. The two major properties completed in 2012 were the Shanghai Langham Xintiandi Hotel with 33,000 sq.m. and Marco Polo Lingnan Tiandi Foshan Hotel with 38,000 sq.m.. The rental and related income generated from this portfolio of investment properties was recorded in the Group's turnover.

Rental income and the related profit of investment property located in Dalian Tiandi were recorded in the share of results of associates.

The table below provides an analysis of the rental and related income from investment properties for 2012, 2011 and 2010 and the percentage of leases in GFA by property that are slated to expire from 2013 to 2015:

| Project | Product | Leasable GFA | Rental & related income RMB'million | | | Year on year change | | Leases expire in % of GFA | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **sq.m.** | **2012** | **2011** | **2010** | **2012** | **2011** | **2013** | **2014** | **2015** |
| ***Shanghai Taipingqiao*** | | | | | | | | | | |
| Xintiandi, Xintiandi Style and Langham Xintiandi Hotel Retail Portion | **Offices/ Retail** | 80,000 | 361 | 342 | 277 | 6% | 23% | 29% | 22% | 23% |
| Corporate Avenue Phase 1 | **Offices/ Retail** | 83,000 | 240 | 232 | 231 | 3% | - | 31% | 19% | 41% |
| Shui On Plaza | **Offices/ Retail** | 50,000 | 101 | - | - | - | - | 20% | 15% | 8% |
| **Subtotal** | | **213,000** | **702** | **574** | **508** | **22%** | **13%** | **27%** | **19%** | **27%** |
| ***Shanghai RHXC*** | **Retail** | 47,000 | 54 | 41 | 45 | 32% | (9%) | 5% | 7% | 14% |
| ***Shanghai KIC*** | **Offices/ Retail** | 167,000 | 155 | 102 | 58 | 52% | 76% | 22% | 31% | 33% |
| ***Wuhan Tiandi*** | **Retail** | 46,000 | 58 | 48 | 34 | 21% | 41% | 19% | 27% | 23% |
| ***Chongqing Tiandi*** | **Retail** | 47,000 | 16 | 17 | 8 | (6%) | 113% | 6% | 8% | 36% |
| ***Foshan Lingnan Tiandi*** | **Retail** | 30,000 | 53 | 35 | 13 | 51% | 169% | 3% | 4% | 9% |
| ***Hangzhou Xihu Tiandi***[1] | **Retail** | - | 18 | 18 | 18 | - | - | 54% | 26% | 20% |
| **Total** | | **550,000**[2] | **1,056** | **835** | **684** | **26%** | **22%** | **21%** | **21%** | **27%** |

*[1] Hangzhou Xihu Tiandi has a leasable GFA of 6,000 sq.m. and features restaurants, cafes and other entertainment properties. The Group has the right to use the properties for a term of 20 years expiring in 2023 pursuant to the joint venture contract for the establishment of Hangzhou Xihu Tiandi Management Co., Ltd.*

*[2] A total GFA of 29,000 sq.m. was occupied as office use of the Group. They are located at Shanghai Shui On Plaza (8,000 sq.m.), Shanghai KIC (4,000 sq.m.) and Chongqing Tiandi (17,000 sq.m.). A total GFA of 76,000 sq.m. was developed as hotel properties, namely, Shanghai Langham Xintiandi Hotel (33,000 sq.m.), Shanghai 88 Xintiandi Hotel (5,000 sq.m.), and Marco Polo Lingnan Tiandi Foshan Hotel (38,000 sq.m.).*

As of 31 December 2012, a portfolio of completed investment properties with approximately 550,000 sq.m. in GFA (excluding hotel and self-use properties) was held by subsidiaries of the Group.

The carrying value of the completed investment properties (excluding hotel and self-use properties) with a total GFA of 550,000 sq.m., was RMB22,089 million. Of this sum, RMB750 million (representing 3% of the carrying value) arose from increased fair value during 2012. Contributing factors included an increase in rental and related income generated from the existing completed investment property portfolio, in particular for Shanghai KIC and Wuhan Tiandi, completion of new investment properties, and the completed acquisition of Shanghai Shui On Plaza. The properties located in Shanghai, Wuhan, Foshan and Chongqing, respectively contributed 87%, 5%, 5% and 3% of the carrying value.

The carrying value of the investment properties under development at valuation for a total GFA of 1,041,000 sq.m. was RMB14,746 million. Of this sum, RMB1,948 million (representing 13% of the carrying value) arose from increased fair value during 2012. The increase was mainly due to the accelerated construction works of Corporate Avenue Phase 2 located at the Taipingqiao project and THE HUB project in Shanghai, various office buildings and retail shopping centres in Chongqing, the retail and entertainment area in Foshan Lingnan Tiandi, and the retail podium at Wuhan Tiandi Lots A1/A2/A3. Except for the super-high-rise office buildings in Chongqing, the rest of the portfolio was planned for progressive completion between 2013 to 2015.

The carrying value of Shanghai Langham Xintiandi Hotel, Shanghai 88 Xintiandi Hotel as well as the newly completed Marco Polo Lingnan Tiandi Foshan Hotel was RMB2,435 million. These projects were carried at either the original acquisition cost or the construction cost, net of accumulated depreciation.

The carrying value of the remaining commercial-use landbank acquired on or before 2007, was stated at cost of RMB9,789 million.

The table below summarises the carrying value of the investment properties at valuation as of 31 December 2012 together with the change in fair value for 2012:

| Project | Leasable GFA | Increase /(decrease) in fair value for 2012 | Carrying value as of 31 December 2012 | Carrying value per GFA | Valuation gain /(loss) to carrying value |
|---|---|---|---|---|---|
| | sq.m. | RMB million | RMB million | RMB per sq.m. | % |
| **Completed investment properties at valuation** | | | | | |
| ***Shanghai Taipingqiao*** | | | | | |
| Xintiandi, Xintiandi Style and Langham Xintiandi Hotel Retail Portion | 80,000 | 125 | 6,191 | 77,400 | 2% |
| Corporate Avenue Phase 1 | 83,000 | 135 | 4,481 | 54,000 | 3% |
| Shui On Plaza | 50,000 | 65 | 2,741 | 54,800 | 2% |
| ***Shanghai RHXC*** | 47,000 | 21 | 1,001 | 21,300 | 2% |
| ***Shanghai KIC*** | 167,000 | 123 | 4,787 | 28,700 | 3% |
| ***Wuhan Tiandi*** | 46,000 | 193 | 1,152 | 25,000 | 17% |
| ***Chongqing Tiandi*** | 47,000 | 134 | 727 | 15,500 | 18% |
| ***Foshan Lingnan Tiandi*** | 30,000 | (46) | 1,009 | 33,600 | (5%) |
| **Subtotal** | **550,000** | **750**[1] | **22,089** | **40,200** | **3%** |
| **Investment properties under development at valuation** | | | | | |
| ***Shanghai Taipingqiao*** | 155,000 | 588 | 5,487 | 35,400 | 11% |
| ***Shanghai RHXC*** | 19,000 | 44 | 295 | 15,500 | 15% |
| ***Shanghai KIC*** | 5,000 | (3) | 25 | 5,000 | (12%) |
| ***THE HUB*** | 233,000 | 421 | 4,458 | 19,100 | 9% |
| ***Wuhan Tiandi*** | 110,000 | 323 | 889 | 8,100 | 36% |
| ***Chongqing Tiandi*** | 493,000 | 427 | 2,890 | 5,900 | 15% |
| ***Foshan Lingnan Tiandi*** | 26,000 | 148 | 702 | 27,000 | 21% |
| **Subtotal** | **1,041,000** | **1,948** | **14,746** | **14,200** | **13%** |
| **Total** | **1,591,000** | **2,698** | **36,835** | **23,200** | **7%** |

[1] *Valuation gain of RMB42 million from investment properties completed in 2012 was recognised during the development stage.*

The table below summarises the carrying value of the hotel properties as of 31 December 2012:

| Project | GFA | Carrying value as of 31 December 2012 | Carrying value per GFA |
|---|---|---|---|
| | sq.m. | RMB million | RMB per sq.m. |
| ***Shanghai Taipingqiao*** | | | |
| Shanghai Langham Xintiandi Hotel | 33,000 | 1,822 | 55,200 |
| Shanghai 88 Xintiandi Hotel | 5,000 | 70 | 14,000 |
| ***Foshan Lingnan Tiandi*** | | | |
| Marco Polo Lingnan Tiandi Foshan Hotel | 38,000 | 543 | 14,300 |
| **Total** | **76,000** | **2,435** | **32,000** |

The table below summarises the portfolio of completed investment properties together with their respective occupancy rates:

| | Leasable GFA (sq.m.) | | | | Occupancy rate | | | |
|---|---|---|---|---|---|---|---|---|
| **Project** | **Office** | **Retail** | **Hotel/ serviced apartments** | **Total** | **31 December 2012** | **31 December 2011** | **31 December 2010** | **Group's interest** |
| Completed before 2012 | | | | | | | | |
| ***Shanghai Taipingqiao*** | | | | | | | | |
| Shanghai Xintiandi | 5,000 | 47,000 | 5,000 | 57,000 | 100% | 100% | 93% | 97.0% |
| Shanghai Xintiandi Style | - | 27,000 | - | 27,000 | 100% | 96% | 89% | 99.0% |
| Shanghai Corporate Avenue | 76,000 | 7,000 | - | 83,000 | 100% | 100% | 99% | 99.0% |
| Shanghai Shui On Plaza | 30,000 | 28,000 | - | 58,000 | 100% | N/A | N/A | 80.0% |
| ***Shanghai RHXC*** | | | | | | | | |
| The Palette 1 | - | 5,000 | - | 5,000 | 100% | 100% | 100% | 79.8% |
| The Palette 3 | - | 28,000 | - | 28,000 | 98% | 100% | 100% | 79.0% |
| The Palette 5 | - | 2,000 | - | 2,000 | 53% | 39% | N/A | 79.0% |
| The Palette 2 | - | 12,000 | - | 12,000 | 86% | N/A | N/A | 79.0% |
| ***Shanghai KIC*** | | | - | | | | | |
| KIC Plaza Phase 1 | 29,000 | 21,000 | - | 50,000 | 84% | 77% | 81% | 86.8% |
| KIC Plaza Phase 2 | 39,000 | 10,000 | - | 49,000 | 77% | 79% | 17% | 86.8% |
| KIC Village R1 and R2 | 19,000 | 11,000 | - | 30,000 | 84% | 75% | 39% | 86.8% |
| KIC Plaza C2 | 30,000 | 12,000 | - | 42,000 | 54% | 33% | N/A | 86.8% |
| ***Hangzhou Xihu Tiandi*** | | | | | | | | |
| Phase 1 | - | 6,000 | - | 6,000 | 100% | 100% | 100% | 100.0% |
| ***Wuhan Tiandi*** | | | | | | | | |
| Wuhan Tiandi (Lot A4-1) | - | 16,000 | - | 16,000 | 91% | 98% | 94% | 75.0% |
| Wuhan Tiandi (Lots A4-2 and 3) | - | 30,000 | - | 30,000 | 84% | 91% | 70% | 75.0% |
| ***Chongqing Tiandi*** | | | | | | | | |
| The Riviera Phase 1 | - | 2,000 | - | 2,000 | 94% | 100% | 100% | 79.4% |
| The Riviera Phase 2 (Stage 1) | - | 2,000 | - | 2,000 | 91% | 96% | N/A | 79.4% |
| Chongqing Tiandi (Lot B3/01) | | | | | | | | |
| - Phase 1 | - | 10,000 | - | 10,000 | 97% | 100% | 98% | 79.4% |
| - Phase 2 | - | 39,000 | - | 39,000 | 69% | 59% | 45% | 79.4% |
| ***Foshan Lingnan Tiandi*** | | | | | | | | |
| Lot 1 Phase 1 | - | 16,000 | - | 16,000 | 87% | 22% | N/A | 100.0% |
| ***Dalian Tiandi*** | | | | | | | | |
| Software office buildings (D22) | 42,000 | - | - | 42,000 | 76% | 91% | 65% | 48.0% |
| Ambow training school | 113,000 | - | - | 113,000 | 100% | 100% | N/A | 48.0% |
| ***Subtotal*** | **383,000** | **331,000** | **5,000** | **719,000** | | | | |
| New completion in 2012 | | | | | | | | |
| ***Shanghai Taipingqiao*** | | | | | | | | |
| Langham Xintiandi Hotel | - | 1,000 | 33,000 | 34,000 | | | | 66.7% |
| ***Chongqing Tiandi*** | | | | | | | | |
| The Riviera Phase 2 (Stages 2 and 3) | - | 5,000 | - | 5,000 | | | | 79.4% |
| The Riviera Phase 3 | - | 6,000 | - | 6,000 | | | | 79.4% |
| ***Foshan Lingnan Tiandi*** | | | | | | | | |
| Marco Polo Lingnan Tiandi Foshan Hotel (Lot D) | - | 14,000 | 38,000 | 52,000 | | | | 100.0% |
| ***Dalian Tiandi*** | | | | | | | | |
| Software office buildings (D14 - SO2/SO4) | 52,000 | - | - | 52,000 | | | | 48.0% |
| ***Subtotal*** | **52,000** | **26,000** | **71,000** | **149,000** | | | | |
| ***Total leasable GFA*** | **435,000** | **357,000** | **76,000** | **868,000** | | | | |
| ***Investment property held by:*** | | | | | | | | |
| *- Subsidiaries of the Group* | 228,000 | 357,000 | 76,000 | 661,000 | | | | |
| *- Associated companies* | 207,000 | - | - | 207,000 | | | | |
| **As of 31 December 2012** | **435,000** | **357,000** | **76,000** | **868,000** | | | | |
| **As of 31 December 2011** | **356,000** | **303,000** | **5,000** | **664,000** | | | | |

*Note: Hotels and self-use properties are classified as property, plant and equipment in the consolidated financial statements.*

*Property Development - Accelerating Development*

**<u>Review of the First Three-Year Plan (2010 to 2012) - Accelerate Development and Target to Complete 1 million sq.m. in 2012</u>**

Set in late 2009, the first Three-Year Plan was designed to accelerate development and increase asset turnover of the Group on the back of the stringent property policy environment in China. Most of the Group's sites cleared for development were located at Chongqing, Wuhan, Foshan and Dalian; while relocation progress of the two city re-development projects in Shanghai was slow.

The Group adopted a system of project-based decentralisation to foster timely decision-making by the project management teams, and simultaneously initiated standardisation through strategic partnerships with suppliers and advisers, and customisation of the luxury and premium products segment for better sales.

**Target to Complete 1 million sq.m. of GFA in 2012**

The Group did not achieve the development goal to deliver 1 million sq.m. in 2012 due to the changed market conditions. Various phases of developments in different projects have been deferred to rationalise the inventory level and capital expenditure.

**Increased Production and Improved Productivity**

Compared to the completion of a total GFA of 409,000 sq.m. of property from 2007 to 2009, the Group completed a total GFA of 1,612,000 sq.m. of property during the first Three-Year Plan (from 2010 to 2012), a nearly three-fold increase. As most of the sites available for development were located in Chongqing, Wuhan, Foshan and Dalian, 81% of the completed property in the past three years was in these cities. Only 19% of the completed property was contributed by projects located in Shanghai. As of 31 December 2012, a total of 772,000 sq.m. was delivered to customers and recognised as turnover and disposal of investment properties, 477,000 sq.m. were completed and held for investment, 71,000 sq.m. were completed and held as hotel properties, and 292,000 sq.m. were completed for delivery to customers in 2013 and beyond.

**New Initiative on *en-bloc* Sales of Commercial Property to Increase Saleable Resources and Asset Churn to Enhance Cash Flow Management**

With a total GFA landbank of 6.5 million sq.m. for commercial use as of 31 December 2009 the Group set a new initiative to sell selected non-core commercial property under development on an *en-bloc* basis during the first Three-Year Plan. The customers were primarily large financial institutions purchasing property for self-use and investment purposes.

In 2011, the Group completed four *en-bloc* sales transactions with a total GFA of 306,000 sq.m. for a total consideration of RMB4.8 billion. The sum of 73,000 sq.m. of the office area located in Shanghai KIC and Wuhan, was delivered to customers. Delivery to customers of the remaining 233,000 sq.m. of GFA located in Chongqing is planned for 2013 and beyond.

The transactions concluded in 2011 increased asset churn and enhanced cash flow management of the Group. Additionally, maintaining single ownership of the office buildings allowed for better asset management. Introducing new tenants was also beneficial to the value of sites in the vicinity owned by the Group.

**More Cleared Sites for Development in Shanghai**

For the year 2012, a total of RMB489 million in recognised property sales stemmed from projects in Shanghai compared to RMB3,054 million in 2011 and RMB2,261 million in 2010, respectively. The gap widened in 2012 due to fewer cleared sites being available for development in Shanghai during the first Three-Year Plan. Therefore, 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 acquisition.

In 2010, the Group acquired Lot 311 in Shanghai KIC at Yangpu District and THE HUB at Shanghai Hongqiao transportation hub, comprising a total GFA of 437,000 sq.m. for a total consideration of RMB4,452 million. The full amount of land premium was paid. Phase 1 residential of Lot 311 at Shanghai KIC, named as Jiangwan Regency, was launched for pre-sale in October 2012. By late 2012, RMB1,573 million in contracted sales had been achieved. The remaining area is to be developed into offices for sale and hotel property for investment purposes. These developments are planned to be completed in phases from 2013 to 2015. THE HUB at Shanghai Hongqiao transportation hub is currently under construction and is planned for completion progressively between 2013 and 2014.

Details of new sites acquired in Shanghai in 2010 are provided below:

| **Project** | **Product type** | **GFA** | **Land Cost** |
|---|---|---|---|
| | | sq.m. | RMB'million |
| **Shanghai KIC Lot 311** | Residential, offices, retail & hotel | 159,000 | 1,264 |
| **Shanghai THE HUB** | Offices, retail & hotel | 278,000 | 3,188 |
| **Total** | | **437,000** | **4,452** |

Sites Cleared During the first Three-Year Plan

In addition, relocation of Lot 6 of Shanghai Rui Hong Xin Cheng and Lots 126 & 127 of Shanghai Taipingqiao for a total GFA of 292,000 sq.m., which commenced since 2005 under the previous relocation method of one-on-one negotiation, was completed during the first Three-Year Plan. A total relocation cost of 4,705 million had been paid as of 31 December 2012.

The site located at Rui Hong Xin Cheng (Lot 6) was cleared in late 2011 and is being developed into Phase 5 residential and retail for a total GFA of 137,000 sq.m.. The first batch launch for pre-sale was held in December 2012 for delivery to customers in 2014. The ASP achieved was RMB 44,500 per sq.m..

Two sites, namely Lots 126 & 127 located at Shanghai Taipingqiao were cleared in 2011 and late 2012. They are being developed into two office buildings and a retail shopping centre with a total GFA of 155,000 sq.m.. Lots 126 and 127 are planned for completion in 2013 and 2014, respectively. They are estimated to contribute RMB700 million in annual rental income when fully leased.

Sites Where Relocation Commenced During the first Three-Year Plan

Thanks to the introduction by the City Government of Shanghai in 2010 of the "Sunshine Relocation Method" (two rounds of consultations and a transparent compensation package), the Group took the opportunity to accelerate the relocation process. The relocation of Lots 2, 3, 9 and 10 in Shanghai Rui Hong Xin Cheng and Lot 116 in Shanghai Taipingqiao proceeded by phases from late 2009 through 2012, yielding a total GFA of 659,000 sq.m.. As of 31 December 2012, 80% of the residents had agreed to be relocated. It is estimated that relocation at the aforementioned sites should be completed by phases from 2013 to 2014. The Group had invested a total of RMB8,851 million for these sites as of 31 December 2012.

The Group believes that the capital investment in relocation at the sites in Shanghai in the first Three-Year Plan, is likely to contribute significant business growth in the coming years. In the core city centre of Shanghai, there is very limited land supply available by public land auction. Advantageously, the Group holds the re-development rights for Taipingqiao and Rui Hong Xin Cheng, two core city projects. They provide a strong pipeline for the Group in both residential and commercial property developments in Shanghai in the future.

Details of the relocation progress for the respective lots are provided below:

| Project | Percentage of relocation as of 31 December 2012 | Leasable and saleable GFA | Relocation cost paid as of 31 December 2012 | Relocation completion year |
|---|---|---|---|---|
| | | sq.m. | RMB'million | |
| **Sites cleared during First Three-Year Plan** | | | | |
| Taipingqiao Lot 126 (Corporate Avenue Phase 2 No. 5 office building & shopping centre) | 100% | 73,000 | 1,109 | 2011 |
| Taipingqiao Lot 127 (Corporate Avenue Phase 2 No. 3 office building & shopping centre) | 100% | 82,000 | 1,502 | 2012 |
| Rui Hong Xin Cheng Lot 6 (Jing Ting residential and retail) | 100% | 137,000 | 2,094 | 2011 |
| **Total** | | **292,000** | **4,705** | |

| Project | Percentage of relocation as of 31 December 2012 | Leasable and saleable GFA | Relocation cost paid as of 31 December 2012 | Estimated outstanding relocation cost as of 31 December 2012 | Estimated relocation completion year |
|---|---|---|---|---|---|
| | | sq.m. | RMB'million | RMB'million | |
| **Sites where relocation commenced during First Three-Year Plan** | | | | | |
| Taipingqiao Lot 116 (Phase 4 Residential) | 85% | 90,000 | 3,073 | 900 | 2013 |
| RHXC Lot 3 (Rui Hong Tiandi – Hall of The Moon) | 92% | 72,000 | 1,477 | 279 | 2013 |
| RHXC Lot 9 (Phase 6 residential) | 83% | 84,000 | 1,439 | 500 | 2013 |
| RHXC Lot 2 (Phase 7 residential) | 76% | 105,000 | 1,314 | 545 | 2013 |
| RHXC Lot 10 (Rui Hong Tiandi – Hall of The Sun and office buildings) | 77% | 308,000 | 1,548 | 1,691 | 2014 |
| **Total** | **80%** | **659,000** | **8,851** | **3,915** | |

**Rental Growth, Asset Appreciation and Completion of New Investment Property Portfolio**

A total GFA of 319,000 sq.m. of investment property and hotel properties, excluding investment property held by Dalian associates, was completed during the first Three-Year Plan. In 2012, the Group completed the acquisition of Shanghai Shui On Plaza and Langham Xintiandi Hotel located adjacent to Xintiandi at the Taipingqiao project, further enriching the investment property portfolio of the Group. Including the hotel properties, the total completed investment property portfolio held by the Group's subsidiaries, grew substantially, from 310,000 sq.m. at the end of 2009 to 661,000 sq.m. in 2012.

Rental and related income increased from RMB643 million in 2009 to RMB1,249 million in 2012. The aggregated carrying value of the completed investment property grew from RMB9,384 million as of 31 December 2009 to RMB22,089 million as of 31 December 2012.

The Group estimates that the total GFA of 1,041,000 sq.m. of investment property under construction at valuation should yield a gross development value of RMB40 billion upon completion, thereby contributing significant growth to the new investment property portfolio in the years ahead.

**Volatile Turnover and Reported Earnings**

The turnover and the reported earnings of the Group in the past three years were volatile, being subject to a variance of contributions from high margin projects in Shanghai in the year of reporting. In particular, for 2012, only RMB489 million in property sales came from projects located in Shanghai, compared to RMB3,054 million in property sales in 2011.

In addition, as mentioned above, there was a total GFA of 191,000 sq.m. of residential property and a GFA of 102,000 sq.m. of office and ancillary retail space located at various projects that were pending delivery and being recognized as turnover. Of these pending items, 153,000 sq.m. had been pre-sold subject to certain formal handover procedures for being recognised as turnover. The Group anticipates the sale and delivery of these properties during 2013.

During the first Three-Year Plan, the Group recorded RMB9 billion in reported earnings, with RMB2.5 billion classified as core earnings. Although fair value gain in the valuable investment properties is not classified as core earnings according to accounting standards, such gain is reflected in the balance sheet. The asset value is yet to be realised.

**The Second Three-Year Plan (2013 to 2015) – Sustainable and Balanced Growth**

The implementation of the first Three-Year Plan laid the groundwork for the pursuit of sustainable long-term growth of the Group. While the Group's operating performance inevitably saw some volatility as a result of challenges in the business environment, Shui On Land remains firmly on the path of growth. Gearing, while high, remained relatively stable as the Group grew its investment property portfolio and allocated capital for relocating sites in Shanghai during the review period.

For the second Three-Year Plan, which will progressively unfold from 2013 to 2015, the Group has established overarching targets to accelerate the development of the cleared sites in Shanghai and other cities; realise the value of its investment property portfolio for sustainable earnings growth and deleverage the balance sheet.

**Re-organization of the Group**

**Establishment of China Xintiandi ("CXTD")**

To unlock the underlying asset value of the Group's portfolios, CXTD began operations as a separately managed, wholly-owned subsidiary of the Group on 1 March 2013, as part of the process for the proposed separate listing of CXTD (the "Proposed Spin-off") on the Hong Kong Stock Exchange. Shui On Land, from an operational point of view, will become a developer focusing on property development and property sales to increase the asset turnover of the Group, leaving the asset management role to CXTD. CXTD will focus principally on managing, designing, leasing, marketing, enhancing and redeveloping premium retail, office, entertainment and hotel properties in affluent urban areas in China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan. This arrangement will ensure clearer focus on the two distinct and separate businesses.

The Group is building and operating a prime investment property portfolio that pinpoints advantageous locations in Shanghai and other first-to-second-tier Chinese cities, thereby boosting its premium brand recognition in China. The newly established and separately operated CXTD will continue to leverage its experience in running Xintiandi, Grade A office, high-end retail and shopping malls as well as five-star hotels. CXTD aims to provide better service and expertise to cater to increasing domestic and international demand.

As of 31 December 2012, the Group held a portfolio of completed investment properties at valuation and hotel properties with approximately 626,000 sq.m. in GFA, at the carrying value of RMB24,524 million.

In addition, among the investment properties under development at valuation with approximate total GFA of 1,041,000 sq.m., major investment projects include Corporate Avenue Phase 2 in Taipingqiao project, THE HUB connecting to Shanghai Hongqiao airport, various office buildings and retail shopping centres in Chongqing, the retail and entertainment area in Foshan Lingnan Tiandi, and the retail podium at Wuhan Tiandi Lots A1/A2/A3. With the exception of the super- high-rise office buildings in Chongqing, the rest of the portfolio is planned for progressive completion between 2013 and 2015. The estimated gross development value of the portfolio is approximately RMB40 billion upon completion. The underlying value of the portfolio is yet to be realised.

CXTD's portfolio is yet to be finalised. Further information will be released upon the approval for the Proposed Spin-off on the Hong Kong Stock Exchange.

There is no assurance that the Proposed Spin-off will take place or as to when it may take place. The Proposed Spin-off is subject to, among other factors, the approval by the Listing Committee of the Hong Kong Stock Exchange, the prevailing market conditions, the final decisions of the board of directors of Shui On Land, the final decisions of the board of directors of CXTD, the approval from the shareholders and bondholders of Shui On Land and ultimately its timing will be dependent on prevailing market conditions.

## Property Development Business

During the first Three-Year Plan, decentralisation and project-based management allowed for timely and market driven decisions, in particular, on pricing and on timing launch schedules to coincide with favourable market conditions.

While production and productivity increased during the first Three-Year Plan, the Group's project teams experienced challenges in aligning planned completion schedule and budgets. This was largely due to the nature of the projects, which are typically large-scale developments offering a full range of property types from low to high-rise residential properties, Five-star hotels, software offices to grade A office towers, Xintiandi entertainment hubs to large-scale shopping malls. These properties have very different development cycles and economic returns, cash flow and capital management.

In addition, during the first Three-Year Plan, strategic partnerships with suppliers and advisers were the focus of the Group's standardisation strategy. The strategy was designed to ensure that product quality could be maintained when production was accelerated. The Group believes there is room for further improvement in shortening the development cycle as well as in streamlining the construction costs for different types of products across different projects.

In the second Three-Year Plan, the decentralised organization structure will be further optimised by tightening Group level control and active monitoring of the development progress to ensure timely completion. The Group has established three cross-function and cross-project task forces to achieve the goals set for the second Three-Year Plan as well as to reinforce performance management.

### Development Cost and Schedule Control

The Product Line Standardisation & Development task force and the Cost Control task force are focusing on optimising the development cycle through achieving better time and process management when carrying out market research, project positioning and architectural design so as to reduce repetitive or abortive work, and to ensure timely completion. The teams are working with different project companies to establish a company standard for development costs and scheduling for each building type and geographical location. The teams are working on enhancing the cost and progress control system on both the operations and management levels; expanding the materials library to incorporate related cost data and establish the centralised procurement system; as well as building up a regular review system.

### Broaden Product Lines for Wider Market Catchment

To better position the Group against changes in the macroeconomic policy environment, the Group plans to broaden its residential product lines to cater to the preferences and needs of a wider buyers' market. The Production Standardisation & Development task force is also working with individual project teams to further explore product segmentation and positioning. Construction cost budgets and delivery criteria are to be better standardised for timely completion.

The Customisation and One Stop Services task force is tasked with the goal of exceeding customer expectations by developing a premier value proposition which will be achieved through the implementation of innovative, customised products and one stop services. This task force consists of principally management-level staff from the Group's project development, sales and marketing, construction and property management offices.

*Property Completed in 2012 and Development Plan for 2013 and 2014*

The table below summarises the projects that were completed in 2012 and are planned for completion in 2013 and 2014:

| **Project** | **Residential** | **Office** | **Retail** | **Hotel/ serviced apartments** | **Subtotal** | **Clubhouse, carpark and other facilities** | **Total** |
|---|---|---|---|---|---|---|---|
| | sq.m. | sq.m. | sq.m. | sq.m. | sq.m. | sq.m. | sq.m. |
| **Actual delivery in 2012** | | | | | | | |
| **Shanghai Taipingqiao** | - | - | 1,000 | 33,000 | 34,000 | 19,000 | 53,000 |
| **Shanghai RHXC** | - | - | - | - | - | - | - |
| **Shanghai KIC** | - | - | - | - | - | - | - |
| **Shanghai –THE HUB** | - | - | - | - | - | - | - |
| **Wuhan Tiandi** | 66,000 | - | 1,000 | - | 67,000 | 18,000 | 85,000 |
| **Chongqing Tiandi** | 174,000 | 98,000 | 13,000 | - | 285,000 | 69,000 | 354,000 |
| **Foshan Lingnan Tiandi** | 67,000 | - | 15,000 | 38,000 | 120,000 | 54,000 | 174,000 |
| **Dalian Tiandi**[1] | 96,000 | 52,000 | - | - | 148,000 | 82,000 | 230,000 |
| **Total** | **403,000** | **150,000** | **30,000** | **71,000** | **654,000** | **242,000** | **896,000** |
| **Plan for delivery in 2013** | | | | | | | |
| **Shanghai Taipingqiao** | - | 50,000 | 23,000 | - | 73,000 | 35,000 | 108,000 |
| **Shanghai RHXC** | - | - | - | - | - | - | - |
| **Shanghai KIC** | 53,000 | - | - | - | 53,000 | 20,000 | 73,000 |
| **Shanghai –THE HUB** | - | 59,000 | 16,000 | - | 75,000 | 43,000 | 118,000 |
| **Wuhan Tiandi** | 54,000 | - | 1,000 | - | 55,000 | 13,000 | 68,000 |
| **Chongqing Tiandi** | 77,000 | 252,000 | 84,000 | - | 413,000 | 131,000 | 544,000 |
| **Foshan Lingnan Tiandi** | 12,000 | - | 28,000 | 10,000 | 50,000 | 12,000 | 62,000 |
| **Dalian Tiandi**[1] | 33,000 | - | 41,000 | - | 74,000 | 24,000 | 98,000 |
| **Total** | **229,000** | **361,000** | **193,000** | **10,000** | **793,000** | **278,000** | **1,071,000** |
| **Plan for delivery in 2014** | | | | | | | |
| **Shanghai Taipingqiao** | - | 55,000 | 27,000 | - | 82,000 | 37,000 | 119,000 |
| **Shanghai RHXC** | 118,000 | - | 19,000 | - | 137,000 | 50,000 | 187,000 |
| **Shanghai KIC** | - | 95,000 | 6,000 | - | 101,000 | 46,000 | 147,000 |
| **Shanghai –THE HUB** | - | 46,000 | 112,000 | 44,000 | 202,000 | 68,000 | 270,000 |
| **Wuhan Tiandi** | 56,000 | 32,000 | 110,000 | 7,000 | 205,000 | 140,000 | 345,000 |
| **Chongqing Tiandi** | 124,000 | - | 10,000 | - | 134,000 | 43,000 | 177,000 |
| **Foshan Lingnan Tiandi** | 44,000 | - | 9,000 | - | 53,000 | 29,000 | 82,000 |
| **Dalian Tiandi**[1] | 91,000 | - | 1,000 | - | 92,000 | 43,000 | 135,000 |
| **Total** | **433,000** | **228,000** | **294,000** | **51,000** | **1,006,000** | **456,000** | **1,462,000** |

[1] *Dalian Tiandi is a project developed by associates of the Group.*

As a cautionary note, the actual completion date depends on and will be affected by construction progress, changes in the market environments, changes in government regulations and other factors.

*Landbank*

As of 31 December 2012, the Group's landbank, including the contribution of its Dalian associates, stood at a GFA of 13.2 million (a total of 11.0 million sq.m. of leasable and saleable area, and a total GFA of 2.2 million sq.m. for clubhouses, car parking spaces and other facilities) spread across nine development projects located in the prime areas of six major PRC cities: Shanghai, Hangzhou, Wuhan, Chongqing, Foshan and Dalian.

Of the total leasable and saleable GFA of 11.0 million sq.m., the sum of 1.2 million sq.m. was completed, and held for sale and/or investment. Approximately 3.8 million sq.m. were under development, and the remaining 6.0 million sq.m. were held for future development.

Relocation is underway on a total leasable and saleable GFA of 659,000 million sq.m., with 80% of residents having agreed to relocation terms. Relocation costs of RMB8.8 billion have already been paid, while the costs of the remaining relocation works will be subject to actual relocation progress. Relocation at these sites is planned for completion from 2013 to 2014. Relocation plans and the timetable for the remaining 1 million sq.m. of GFA located at Shanghai Taipingqiao and Rui Hong Xin Cheng have yet to be determined. The relocation plans of these sites are subject to final proposal and agreement terms among relevant parties.

The Group's total landbank as of 31 December 2012, including that of its associates, is summarised below:

| Project | Approximate/Estimated leasable and saleable GFA Residential | Office | Retail | Hotel/ serviced apartments | Subtotal | Clubhouse, carpark and other facilities | Total | Group's interest |
|---|---|---|---|---|---|---|---|---|
| | sq.m. | sq.m. | sq.m. | sq.m. | sq.m. | sq.m. | sq.m. | % |
| ***Completed properties:*** | | | | | | | | |
| **Shanghai Taipingqiao** | - | 111,000 | 110,000 | 38,000 | **259,000** | 105,000 | **364,000** | 99.0%[1] |
| **Shanghai RHXC** | - | - | 47,000 | - | **47,000** | 60,000 | **107,000** | 79.0%[2] |
| **Shanghai KIC** | - | 117,000 | 54,000 | - | **171,000** | 105,000 | **276,000** | 86.8% |
| **Hangzhou Xihu Tiandi** | - | - | 6,000 | - | **6,000** | - | **6,000** | 100.0% |
| **Wuhan Tiandi** | 13,000 | - | 47,000 | - | **60,000** | 43,000 | **103,000** | 75.0% |
| **Chongqing Tiandi** | 82,000 | 98,000 | 66,000 | - | **246,000** | 146,000 | **392,000** | 79.4% |
| **Foshan Lingnan Tiandi** | 53,000 | - | 31,000 | 38,000 | **122,000** | 65,000 | **187,000** | 100.0% |
| **Dalian Tiandi** | 81,000 | 207,000 | - | - | **288,000** | 101,000 | **389,000** | 48.0%[3] |
| ***Subtotal*** | 229,000 | 533,000 | 361,000 | 76,000 | **1,199,000** | 625,000 | **1,824,000** | |
| ***Properties under development:*** | | | | | | | | |
| **Shanghai Taipingqiao** | 90,000 | 105,000 | 50,000 | - | **245,000** | 72,000 | **317,000** | 99.0%[1] |
| **Shanghai RHXC** | 118,000 | - | 19,000 | - | **137,000** | 51,000 | **188,000** | 79.0%[2] |
| **Shanghai KIC** | 53,000 | 95,000 | 6,000 | 22,000 | **176,000** | 66,000 | **242,000** | 99.0%[4] |
| **THE HUB** | - | 105,000 | 128,000 | 44,000 | **277,000** | 110,000 | **387,000** | 100.0% |
| **Wuhan Tiandi** | 110,000 | 252,000 | 111,000 | 40,000 | **513,000** | 153,000 | **666,000** | 75.0% |
| **Chongqing Tiandi** | 248,000 | 663,000 | 273,000 | 25,000 | **1,209,000** | 342,000 | **1,551,000** | 79.4%[5] |
| **Foshan Lingnan Tiandi** | 173,000 | - | 102,000 | 10,000 | **285,000** | 153,000 | **438,000** | 100.0%[6] |
| **Dalian Tiandi** | 511,000 | 189,000 | 242,000 | 33,000 | **975,000** | 342,000 | **1,317,000** | 48.0%[3] |
| ***Subtotal*** | 1,303,000 | 1,409,000 | 931,000 | 174,000 | **3,817,000** | 1,289,000 | **5,106,000** | |
| ***Properties for future development:*** | | | | | | | | |
| **Shanghai Taipingqiao** | 166,000 | 174,000 | 118,000 | 38,000 | **496,000** | 44,000 | **540,000** | 99.0% |
| **Shanghai RHXC** | 535,000 | 272,000 | 252,000 | 10,000 | **1,069,000** | 12,000 | **1,081,000** | 79.0%[2] |
| **Wuhan Tiandi** | 368,000 | 35,000 | 92,000 | 10,000 | **505,000** | 4,000 | **509,000** | 75.0% |
| **Chongqing Tiandi** | 780,000 | 25,000 | 91,000 | 78,000 | **974,000** | 218,000 | **1,192,000** | 79.4% |
| **Foshan Lingnan Tiandi** | 379,000 | 450,000 | 125,000 | 80,000 | **1,034,000** | 28,000 | **1,062,000** | 100.0% |
| **Dalian Tiandi** | 529,000 | 936,000 | 362,000 | 49,000 | **1,876,000** | 8,000 | **1,884,000** | 48.0%[3] |
| ***Subtotal*** | 2,757,000 | 1,892,000 | 1,040,000 | 265,000 | **5,954,000** | 314,000 | **6,268,000** | |
| **Total landbank GFA** | **4,289,000** | **3,834,000** | **2,332,000** | **515,000** | **10,970,000** | **2,228,000** | **13,198,000** | |

1 *The Group has a 99.0% interest in all the remaining lots, except for Shanghai Xintiandi, Lot 116, Shui On Plaza and Langham Xintiandi Hotel, in which the Group has 97.0%, 50.0%, 80.0% and 66.7% effective interests, respectively.*

2 *The Group has a 79.8% interest in Phase 1, Lot 167A and Lot 167B of Shanghai Rui Hong Xin Cheng project, a 99.0% interest in the non-retail portion of Lot 6 (Phase 5) and a 79.0% interest in all remaining phases.*

3 *Dalian Tiandi is expected to have a landbank of 3.6 million sq.m. in GFA. As of 31 December 2012, approximately 3.3 million sq.m. had been acquired. The remaining GFA of approximately 0.3 million sq.m. is expected to be acquired through public bidding in due course.*

4 *The Group has a 99.0% and an 86.8% interest respectively in KIC Lot 311 and KIC Lot 12-8.*

5 *The Group has a 79.4% interest in Chongqing Tiandi, except for Lot B11-1/02 in which the Group has a 59.5% effective interest. The development of super high-rise office towers is planned for Lot B11-1/02.*

6 *The Group has a 100.0% interest in Foshan Lingnan Tiandi, except for Lot 6, Lot 16, and Lot 18. For Lots 6 and 16, the Group has 55.9% effective interest and the joint venture partner, Mitsui Fudosan Residential Co., Ltd. ("Mitsui") has 44.1% effective interest. Pursuant to another sale and purchase agreement, the Group sold 45.08% effective interest in Lot 18 to Mitsui. The transaction was completed on 4 February 2013.*

## MARKET OUTLOOK

2013 marks the start of a new stage in economic reform under China's fifth generation of political leaders. The new leadership team has demonstrated its desire to sustain the country's strong economic performance while retooling the economy to achieve more balanced growth. Encouragingly, growth momentum has gradually, if slowly, strengthened since 4Q 2012, despite lingering external risks which could flare up to disrupt this nascent recovery – the Euro-area debt crisis could worsen, mis-handling of the US debt ceiling problem could dampen economic growth, and geopolitical conflicts could spin out of control and impact local, regional and international markets. Against this backdrop of risks and uncertainties, the Chinese authorities have stated as their policy goal to achieve economic growth at an annual rate of around 7.5%, with promises of fiscal measures to combat any worsening of the fragile global economy. At the same time, with reform providing the key thrust in the government's policy initiatives, efforts are being made to address a number of long-standing issues in China's economic system.

The residential property market stands to benefit from the improving economic outlook this year, though such benefit would have to be balanced against various property tightening measures. Housing prices have stabilised and sales transactions picked up strongly in early 2013. Although housing policy was further tightened in March, which will negatively influence buyers' expectations and lead to a reduction in demand from upgraders in the short term, we expect the impact shall not last long. As with previous control measures to restrain demand, it is likely the current policy may result in a further accumulation of pent-up demand and thus the resumption of price growth momentum after a temporary short period of adjustment. Recent trends indicate that a moderation of housing supply this year in most Tier-1 and 2 cities will be a key factor in support of housing prices, which should help to mitigate the policy impact on developers' financial position.

The commercial property market sector outperformed market expectation in 2012, and the outlook for this market remains generally positive as China continues her economic re-balancing using domestic consumption and services sector as the major engines of growth. The goal to double per-capita income and achieve a moderately prosperous society by 2020 points to the rapid emergence of a sizable middle-class consumer group, with various policies being implemented to boost urban household incomes. Our projects, strategically located in the urban centre of key economic hubs with outstanding growth prospects throughout China - Shanghai, Chongqing, Wuhan, Foshan and Dalian, stand to benefit from this important trend.

Benefiting from the financial liberalisation of the government's reform agenda, Shanghai is well on course to becoming an international financial centre by 2020. Its commercial office and retail property sectors thus offer promising development and investment prospects. In 2012, a further 50 multinationals moved their regional headquarters to Shanghai, bringing the total to 403. In recent years, many major international retailers have also opened new stores at a steady rate in the city, reflecting their optimism with regard to the market's prospects. According to Savills, Shanghai Grade A office and retail rentals increased by 10.3% and 4.5% respectively in 2012. The commercial property market is thus expected to maintain strong growth momentum into 2013, riding on the rapidly rising purchasing power of consumers.

Chongqing and Wuhan are emerging as the regional economic hubs of Western and Central China respectively. Chongqing's GDP growth reached 13.6% in 2012, 5.8% higher than the national average. Foreign direct investment (FDI) remained robust, with the number of top-500 global companies in Chongqing rising from 200 in 2011 to 225 in 2012. Propelled by the strong demand, average rents for Grade A offices grew by 12.0% in 2012, according to Jones Lang LaSalle. Yuzhong District, along with Liangjiang New Area, were also selected for fast-track development by the "national services industry comprehensive reform pilot programme" last year. This special status means that Yuzhong District, where our Chongqing Tiandi project is located, will experience accelerated development of tertiary sector activities. This should benefit Chongqing's Grade A office market, not only helping to raise our project profile but also making Chongqing Tiandi an integral part of Chongqing's new financial core.

Wuhan's role as a transportation hub in central China was further boosted with the commencement of the Beijing-Guangzhou high-speed rail line. Completed at the end of 2012, this new line makes it possible to travel from Wuhan to either Beijing or Guangzhou within four hours. Supported by solid economic fundamentals, Wuhan's GDP grew by a robust 11.9% in 2012. Its consumer market has also expanded rapidly. Retail sales rose 15.8% in 2012 to RMB343 billion, putting Wuhan among the top ten Chinese Mainland cities ranked by retail sales value. The city's commercial property market also remained buoyant in 2012. According to DTZ, Grade A offices in Wuhan enjoyed an impressive 22.4% in rental growth while average prime retail rentals increased by 4.3%.

Foshan and Dalian possess enormous yet underdeveloped potential as leisure and retail hubs for China's economic hinterland. Despite the slowdown in GDP growth to 8.0% in 2012 in view of external headwinds, Foshan remains one of China's richest cities, with total household savings increasing by 10.8% to RMB521 billion. In February 2012, Foshan rolled out a three-year urban renewal plan aiming to significantly improve the city's image, infrastructure and industrial facilities. The city has also launched a series of policies supporting innovation and industrial reform among business enterprises, with investment funds of up to RMB10 billion over the next five years to support these activities.

Dalian, a major port city in China, has the advantage of being located on the coast and having world-class infrastructure. In 2012, Dalian recorded GDP growth of 11.0%. It also continued to be one of the leading destinations for incoming investment, attracting more than USD12.3 billion in FDI. This strong economic momentum has also driven speedy growth in its consumer markets. As the major gateway city to China's Northeast region, Dalian is in a favourable position to attract visitors from its outlying provinces. In 2012, Dalian's retail sales increased 16% to RMB223 billion, making it one of the top-three retailing centres in China's Northeastern region.

We believe that our mixed-use property development model gives us a major competitive strength that offers risk diversification and flexibility in China's frequently changing real estate market. The value of our commercial properties, including our Tiandi-style and Transport Hub developments, will benefit from the improved regional integration resulting from the high-speed rail network, growing middle-class affluence as well as the government's policies to increase household consumption and service sector development. At the same time, in view of the fragility of the global economic environment, and the constant changes in government policies that may affect our business, we will strive to strengthen our cash flow management with the raising of revenue contributions from both our residential and commercial real estate portfolio.

The Board of Directors (the "Board") of Shui On Land Limited (the "Company" or "Shui On Land") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012 as follows:

## CONSOLIDATED INCOME STATEMENT

| | *Notes* | **2012** | | 2011 | |
|---|---|---|---|---|---|
| | | **HK$'million** *(Note 2)* | **RMB'million** | HK$'million *(Note 2)* | RMB'million |
| Turnover | | | | | |
| - The Company and its subsidiaries (“the Group”) | *4* | **5,926** | **4,821** | 10,249 | 8,484 |
| - Share of associates | | **333** | **271** | 216 | 179 |
| | | **6,259** | **5,092** | 10,465 | 8,663 |
| Turnover of the Group | *4* | **5,926** | **4,821** | 10,249 | 8,484 |
| Cost of sales | | **(3,394)** | **(2,761)** | (5,778) | (4,783) |
| Gross profit | | **2,532** | **2,060** | 4,471 | 3,701 |
| Other income | | **347** | **282** | 295 | 244 |
| Selling and marketing expenses | | **(254)** | **(207)** | (236) | (195) |
| General and administrative expenses | | **(907)** | **(738)** | (766) | (634) |
| Operating profit | *5* | **1,718** | **1,397** | 3,764 | 3,116 |
| Increase in fair value of investment properties | | **3,316** | **2,698** | 3,257 | 2,696 |
| Gain on disposal of investment properties | | **-** | **-** | 21 | 17 |
| Share of results of associates | | **100** | **82** | 165 | 137 |
| Finance costs, inclusive of exchange differences | *6* | **(564)** | **(459)** | 114 | 94 |
| Profit before taxation | | **4,570** | **3,718** | 7,321 | 6,060 |
| Taxation | *7* | **(1,675)** | **(1,363)** | (2,491) | (2,062) |
| Profit for the year | | **2,895** | **2,355** | 4,830 | 3,998 |
| **Attributable to:** | | | | | |
| Shareholders of the Company | | **2,494** | **2,029** | 4,141 | 3,428 |
| Owners of perpetual capital securities | | **23** | **19** | - | - |
| Other non-controlling shareholders of subsidiaries | | **378** | **307** | 689 | 570 |
| | | **401** | **326** | 689 | 570 |
| | | **2,895** | **2,355** | 4,830 | 3,998 |
| **Earnings per share** | *9* | | | | |
| Basic | | **HK$0.43** | **RMB0.35** | HK$0.80 | RMB0.66 |
| Diluted | | **HK$0.38** | **RMB0.31** | HK$0.70 | RMB0.58 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **HK$'million** *(Note 2)* | **RMB'million** | HK$'million *(Note 2)* | RMB'million |
| Profit for the year | **2,895** | **2,355** | 4,830 | 3,998 |
| **Other comprehensive (expense) income** | | | | |
| Exchange difference arising on translation of foreign operations | **(64)** | **(52)** | 6 | 5 |
| Fair value adjustments on interest rate swaps designated as cash flow hedges | **66** | **54** | 82 | 68 |
| Net adjustment of hedge reserve reclassified to profit or loss upon early termination of interest rate swaps | **(58)** | **(47)** | - | - |
| Other comprehensive (expense) income for the year | **(56)** | **(45)** | 88 | 73 |
| Total comprehensive income for the year | **2,839** | **2,310** | 4,918 | 4,071 |
| **Total comprehensive income attributable to:** | | | | |
| Shareholders of the Company | **2,438** | **1,984** | 4,229 | 3,501 |
| Owners of perpetual capital securities | **23** | **19** | - | - |
| Other non-controlling shareholders of subsidiaries | **378** | **307** | 689 | 570 |
| | **401** | **326** | 689 | 570 |
| | **2,839** | **2,310** | 4,918 | 4,071 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| | *Notes* | **2012 RMB'million** | 2011 RMB'million |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **46,624** | 36,395 |
| Property, plant and equipment | | **3,782** | 1,079 |
| Prepaid lease payments | | **671** | 500 |
| Interests in associates | | **1,264** | 1,057 |
| Loans to associates | | **1,659** | 1,366 |
| Accounts receivable | *10* | **102** | 86 |
| Pledged bank deposits | | **1,720** | 1,143 |
| Deferred tax assets | | **93** | 154 |
| | | **55,915** | 41,780 |
| **Current assets** | | | |
| Properties under development for sale | | **20,150** | 17,247 |
| Properties held for sale | | **3,274** | 987 |
| Accounts receivable, deposits and prepayments | *10* | **2,606** | 2,503 |
| Loans receivable | | **-** | 152 |
| Amounts due from associates | | **484** | 446 |
| Amounts due from related companies | | **210** | 212 |
| Amounts due from non-controlling shareholders of subsidiaries | | **65** | 50 |
| Pledged bank deposits | | **443** | 1,369 |
| Restricted bank deposits | | **183** | 335 |
| Bank balances and cash | | **6,287** | 3,523 |
| | | **33,702** | 26,824 |
| **Current liabilities** | | | |
| Accounts payable, deposits received and accrued charges | *11* | **7,903** | 5,068 |
| Amounts due to related companies | | **782** | 368 |
| Amounts due to associates | | **11** | 5 |
| Amounts due to non-controlling shareholders of subsidiaries | | **530** | 404 |
| Tax liabilities | | **908** | 1,855 |
| Bank borrowings – due within one year | | **5,103** | 8,774 |
| Convertible bonds | | **2,346** | - |
| Notes | | **2,980** | - |
| | | **20,563** | 16,474 |
| **Net current assets** | | **13,139** | 10,350 |
| **Total assets less current liabilities** | | **69,054** | 52,130 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED**

| | *Notes* | **2012 RMB'million** | 2011 RMB'million |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *12* | **114** | 102 |
| Reserves | | **31,367** | 27,843 |
| Equity attributable to shareholders of the Company | | **31,481** | 27,945 |
| Perpetual capital securities | | **3,093** | - |
| Other non-controlling shareholders of subsidiaries | | **2,694** | 1,526 |
| | | **5,787** | 1,526 |
| **Total equity** | | **37,268** | 29,471 |
| **Non-current liabilities** | | | |
| Bank and other borrowings – due after one year | | **13,700** | 7,969 |
| Convertible bonds | | **-** | 2,225 |
| Notes | | **10,539** | 6,520 |
| Derivative financial instruments designated as hedging instruments | | **23** | 150 |
| Loans from non-controlling shareholders of subsidiaries | | **2,484** | 2,078 |
| Deferred tax liabilities | | **5,028** | 3,710 |
| Defined benefit liabilities | | **12** | 7 |
| | | **31,786** | 22,659 |
| **Total equity and non-current liabilities** | | **69,054** | 52,130 |

*Notes to the consolidated financial statements:*

## 1. General

The consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Financial Reporting Standards.

## 2. Presentation

The Hong Kong dollar figures presented in the consolidated income statement and consolidated statement of comprehensive income are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK$1.229 for 2012 and RMB1.000 to HK$1.208 for 2011, being the average exchange rates that prevailed during the respective years.

## 3. Application of New and Revised International Financial Reporting Standards ("IFRSs")

In the current year, the Group has applied the following amendments to IFRSs, which are effective for the Group's financial year beginning on 1 January 2012.

| | |
|---|---|
| Amendments to IFRS 7 | Financial Instruments: Disclosures - Transfers of Financial Assets |
| Amendments to IAS 12 | Deferred Tax: Recovery of Underlying Assets |

The Group has applied for the first time the amendments to International Accounting Standard ("IAS") 12 Deferred Tax: Recovery of Underlying Assets. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the investment properties held by the Group at the end of the reporting period, which are located in the People's Republic of China ("PRC"), are under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to IAS 12 is rebutted. Accordingly, the application of the amendments to IAS 12 does not have significant impact on the results and financial positions of the Group.

Other than the above, the application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**New and revised IFRSs issued but not yet effective**

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009 - 2011 Cycle[1] |
| Amendments to IFRS 7 | Disclosures - Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 19 (as revised in 2011) | Employee Benefits[1] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[1] |

## 3. Application of New and Revised International Financial Reporting Standards ("IFRSs") - continued

**New and revised IFRSs issued but not yet effective - continued**

| | |
|---|---|
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 July 2012

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments was issued in November 2009 and revised in October 2010. It introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting period. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting period. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Directors of the Company anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2015 and that the application of this new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

**IFRS 10 Consolidated Financial Statements**

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. The Standing Intepretations Committee ("SIC") 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extension guidance has been added in IFRS 10 to deal with complex scenarios.

The Directors of the Company anticipate that the application of IFRS 10 may have significant impact on the amounts reported in the consolidated financial statements. Specifically, the application of IFRS 10 may affect the accounting for the Group's ownership interest in Richcoast Group Limited ("Richcoast") that is currently classified as the Group's associate. Taking into account the new definition of control and the additional guidance on control set out in IFRS 10, the application of IFRS 10 may result in significant impact if Richcoast is considered as a subsidiary of the Group under the new accounting standard. If Richcoast is consolidated as the Group's subsidiary, the assets and liabilities as well as income and expenses of Richcoast will be presented as separate line items in the consolidated statement of financial position and in the consolidated statement of comprehensive income, respectively, rather than being presented as one line item in the Group's consolidated financial statements. A detailed review is being performed by the Directors to determine and quantify the impact of the application of IFRS 10.

## 3. Application of New and Revised International Financial Reporting Standards ("IFRSs") - continued

### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the valuation of the investment properties of the Group, which are measured at fair value at the end of each reporting period, and result in more extensive disclosures in the consolidated financial statements.

### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012.The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The Directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

## 4. Turnover and Segmental Information

An analysis of the turnover of the Group and share of turnover of associates for the year is as follows:

| | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | | **Share of** | | | Share of | |
| | **Group** | **associates** | **Total** | Group | associates | Total |
| | RMB'million | RMB'million | RMB'million | RMB'million | RMB'million | RMB'million |
| **Property development**: | | | | | | |
| Property sales | **3,541** | **244** | **3,785** | 7,581 | 160 | 7,741 |
| **Property investment:** | | | | | | |
| Rental income received from investment properties | **952** | **27** | **979** | 744 | 19 | 763 |
| Income from hotel operations | **193** | **-** | **193** | 14 | - | 14 |
| Property management fee income | **36** | **-** | **36** | 38 | - | 38 |
| Rental related income | **68** | **-** | **68** | 53 | - | 53 |
| | **1,249** | **27** | **1,276** | 849 | 19 | 868 |
| **Others** | **31** | **-** | **31** | 54 | - | 54 |
| **Total** | **4,821** | **271** | **5,092** | 8,484 | 179 | 8,663 |

For management purposes, the Group is organised based on its business activities, which are broadly categorised into property development and property investment.

Principal activities of the two major reportable and operating segments are as follows:

Property development - development and sale of properties, mainly residential units
Property investment - offices and retail shops letting, property management and hotel operations

For the year ended 31 December 2012

| | **Reportable segment** | | | | |
|---|---|---|---|---|---|
| | **Property development** | **Property investment** | **Total** | **Others** | **Consolidated** |
| | **RMB'million** | **RMB'million** | **RMB'million** | **RMB'million** | **RMB'million** |
| SEGMENT REVENUE | | | | | |
| Turnover of the Group | **3,541** | **1,249** | **4,790** | **31** | **4,821** |
| Share of turnover of associates | **244** | **27** | **271** | **-** | **271** |
| Total segment revenue | **3,785** | **1,276** | **5,061** | **31** | **5,092** |
| RESULTS | | | | | |
| Segment results of the Group | **928** | **3,301** | **4,229** | **19** | **4,248** |
| Interest income | | | | | **181** |
| Gain on acquisition of subsidiaries | | | | | **50** |
| Share of results of associates | | | | | **82** |
| Finance costs, inclusive of exchange differences | | | | | **(459)** |
| Net unallocated expenses | | | | | **(384)** |
| Profit before taxation | | | | | **3,718** |
| Taxation | | | | | **(1,363)** |
| Profit for the year | | | | | **2,355** |

## 4. Turnover and Segmental Information - continued

For the year ended 31 December 2011

| | Reportable segment | | | | |
|---|---|---|---|---|---|
| | **Property development RMB'million** | **Property investment RMB'million** | **Total RMB'million** | **Others RMB'million** | **Consolidated RMB'million** |
| SEGMENT REVENUE | | | | | |
| Turnover of the Group | **7,581** | **849** | **8,430** | **54** | **8,484** |
| Share of turnover of associates | **160** | **19** | **179** | **-** | **179** |
| Total segment revenue | **7,741** | **868** | **8,609** | **54** | **8,663** |
| RESULTS | | | | | |
| Segment results of the Group | **2,781** | **3,190** | **5,971** | **43** | **6,014** |
| Interest income | | | | | **152** |
| Share of results of associates | | | | | **137** |
| Finance costs, inclusive of exchange differences | | | | | **94** |
| Net unallocated expenses | | | | | **(337)** |
| Profit before taxation | | | | | **6,060** |
| Taxation | | | | | **(2,062)** |
| Profit for the year | | | | | **3,998** |

Segment revenue represents the turnover of the Group and the share of turnover of associates.

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries, interest income, gain on acquisition of subsidiaries, share of results of associates, finance costs and exchange differences. This is the measure reported to the chief operating decision makers who are the Executive Directors of the Company for the purpose of resource allocation and performance assessment.

## 5. Operating Profit

| | **2012 RMB'million** | 2011 RMB'million |
|---|---|---|
| Operating profit has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **5** | 5 |
| Depreciation of property, plant and equipment | **177** | 69 |
| Less: Amount capitalised to properties under development for sale | **(1)** | (2) |
| | **176** | 67 |
| Release of prepaid lease payments | **14** | 7 |
| Less: Amount capitalised to property, plant and equipment | **(12)** | (5) |
| | **2** | 2 |
| Loss on disposal of property, plant and equipment | **1** | - |
| Employee benefits expenses | | |
| Directors' emoluments | | |
| Fees | **2** | 2 |
| Salaries, bonuses and allowances | **29** | 21 |
| Retirement benefits costs | **2** | 2 |
| Share-based payment expenses | **6** | (4) |
| | **39** | 21 |
| Other staff costs | | |
| Salaries, bonuses and allowances | **404** | 346 |
| Retirement benefits costs | **27** | 23 |
| Share-based payment expenses | **12** | 19 |
| | **443** | 388 |
| Total employee benefits expenses | **482** | 409 |
| Less: Amount capitalised to investment properties under construction or development and properties under development for sale | **(146)** | (106) |
| | **336** | 303 |
| Cost of properties sold recognised as an expense | **2,178** | 4,485 |
| Minimum lease payment under operating leases | **43** | 40 |

## 6. Finance Costs, Inclusive of Exchange Differences

| | **2012 RMB'million** | 2011 RMB'million |
|---|---|---|
| Interest on bank loans | | |
| - wholly repayable within five years | **910** | 669 |
| - not wholly repayable within five years | **153** | 121 |
| Interest on loans from non-controlling shareholders of subsidiaries wholly repayable within five years | **151** | 151 |
| Imputed interest on loan from a non-controlling shareholder of a subsidiary | **15** | - |
| Interest on amount due to a related company | **5** | - |
| Interest on convertible bonds | **243** | 230 |
| Interest on notes | **972** | 485 |
| Net interest expenses from interest rate swaps designated as cash flow hedges | **38** | 144 |
| Total interest costs | **2,487** | 1,800 |
| Less: Amount capitalised to investment properties under construction or development and properties under development for sale | **(2,002)** | (1,608) |
| Interest expense charged to consolidated income statement | **485** | 192 |
| Net exchange gain on bank borrowings and other financing activities | **(54)** | (311) |
| Others | **28** | 25 |
| | **459** | (94) |

Borrowing costs capitalised during the year ended 31 December 2012 arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of approximately 7.6% (2011: 7.2%) per annum to expenditure on the qualifying assets.

## 7. Taxation

| | **2012 RMB'million** | 2011 RMB'million |
|---|---|---|
| PRC Enterprise Income Tax | | |
| - Current provision | **419** | 704 |
| Deferred taxation | | |
| - Provision for the year | **610** | 717 |
| PRC Land Appreciation Tax | | |
| - Provision for the year | **334** | 641 |
| | **1,363** | 2,062 |

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided for at the applicable income tax rate of 25% (2011: 25%) on the assessable profits of the companies in the Group during the year.

The PRC Enterprise Income Tax Law requires withholding tax to be levied on distribution of profits earned by a PRC entity to a Hong Kong resident company (which is the beneficial owner of the dividend received) for profits generated after 1 January 2008 at the rate of 5%. As at 31 December 2012 and 31 December 2011, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

## 7. Taxation - continued

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

## 8. Dividends

| | **2012** **RMB'million** | 2011 RMB'million |
|---|---|---|
| Interim dividend paid in respect of 2012 of HK$0.025 per share (2011: HK$0.025 per share) | **122** | 107 |
| Final dividend proposed in respect of 2012 of HK$0.035 per share (2011: HK$0.10 per share) | **170** | 473 |
| | **292** | 580 |

A final dividend for the year ended 31 December 2012 of HK$0.035 (equivalent to RMB0.028) per share, amounting to HK$210 million (equivalent to RMB170 million) in aggregate, was proposed by the Directors on 28 March 2013 and is subject to the approval of the shareholders at the forthcoming annual general meeting.

On 28 March 2013, the Company announced a proposed rights issue of rights shares on the basis of 1 rights share for every 3 existing shares (note 12). If the rights shares (in their fully-paid form) are allotted and issued on or before the record date for the 2012 final dividend and shareholders approve the 2012 final dividend at the forthcoming annual general meeting, then holders of fully-paid rights shares whose names appear on the register of members of the Company on the record date for the 2012 final dividend will be entitled to receive the 2012 final dividend of HK$0.035 per share on the same basis as holders of existing shares in issue. In such case the aggregate amount of the 2012 final dividend will be HK$280 million (equivalent to RMB226 million).

In October 2012, an interim dividend in respect of 2012 of HK$0.025 (equivalent to RMB0.021) per share was paid to the shareholders. The 2012 interim dividend was paid in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. 65.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK$2.932 per share and accordingly, 33,360,452 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

In June 2012, a final dividend in respect of 2011 of HK$0.10 (equivalent to RMB0.08) per share was approved by the shareholders of the Company at the annual general meeting on 7 June 2012. The 2011 final dividend was paid in July 2012 in the form of cash and/or shares of the Company as the shareholders were given the option to elect to receive their dividend in new, fully paid shares in lieu of all or part of cash. 70.5% of the shareholdings elected to receive shares in lieu of cash dividends at share price of HK$3.176 per share and accordingly, 129,436,566 new and fully paid ordinary shares of the Company were issued. These new ordinary shares rank pari passu to the existing shares of the Company.

In October 2011, an interim dividend in respect of 2011 of HK$0.025 (equivalent to RMB0.021) per share was paid to the shareholders of the Company.

A final dividend in respect of 2010 of HK$0.05 (equivalent to RMB0.042) per share was approved by the shareholders of the Company at the annual general meeting on 19 May 2011 and was paid to the shareholders of the Company in June 2011.

162,797,018 ordinary shares of the Company in aggregate were issued during the year ended 31 December 2012 on the shareholders' election to receive shares.

## 9. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

| | **2012** | 2011 |
|---|---|---|
| | **RMB'million** | RMB'million |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share and diluted earnings per share, being profit for the year attributable to shareholders of the Company | **2,029** | 3,428 |

| | **2012** | 2011 |
|---|---|---|
| | **'million** | 'million |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **5,773** | 5,212 |
| Effect of dilutive potential shares: | | |
| Convertible bonds | **696** | 669 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **6,469** | 5,881 |

| | **2012** | 2011 |
|---|---|---|
| **Basic earnings per share** *(note (b))* | **RMB0.35** | RMB0.66 |
| | **HK$0.43** | HK$0.80 |
| **Diluted earnings per share** *(note (b))* | **RMB0.31** | RMB0.58 |
| | **HK$0.38** | HK$0.70 |

*Notes:*

(a) There are no dilution effects for share options granted as the exercise prices of these share options granted were higher than the average market price for 2012 and 2011.

(b) The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK$1.229 for 2012 and RMB1.000 to HK$1.208 for 2011, being the average exchange rates that prevailed during the respective years.

## 10. Accounts Receivable, Deposits and Prepayments

| | **2012** **RMB'million** | 2011 RMB'million |
|---|---|---|
| Non-current accounts receivable comprise: | | |
| Rental receivables in respect of rent-free periods | **102** | 86 |
| Current accounts receivable comprise: | | |
| Not yet due | **303** | 401 |
| Past due within 30 days | **2** | 32 |
| Past due 31 - 60 days | **3** | 23 |
| Past due 61 - 90 days | **2** | 1 |
| Past due over 90 days | **6** | 1 |
| Trade receivables | **316** | 458 |
| Prepayments of relocation costs (*note*) | **1,695** | 1,815 |
| Other deposits, prepayments and receivables | **595** | 230 |
| | **2,606** | 2,503 |

*Note*:

The balance represents the amounts that will be capitalised to properties under development for sale as soon as the relocation has been completed, and such relocation progress is in accordance with the Group's normal operating cycle. The balance is not expected to be realised within twelve months from the end of the reporting period.

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sales and purchase agreements; and

(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants.

## 11. Accounts Payable, Deposits Received and Accrued Charges

| | **2012** **RMB'million** | 2011 RMB'million |
|---|---|---|
| Trade payables with aging analysis (based on invoice date): | | |
| 0 - 30 days | **2,443** | 2,519 |
| 31 - 60 days | **29** | 4 |
| 61 - 90 days | **16** | 5 |
| Over 90 days | **80** | 11 |
| | **2,568** | 2,539 |
| Retention payables *(note (a))* | **448** | 224 |
| Deed tax, business tax and other tax payables | **325** | 397 |
| Deposits received and receipt in advance from property sales | **3,551** | 860 |
| Deposits received and receipt in advance in respect of rental of investment properties | **324** | 259 |
| Deposit received in respect of partial disposal of equity interests in subsidiaries *(note (b))* | **352** | 352 |
| Accrued charges | **335** | 437 |
| | **7,903** | 5,068 |

*Notes*:

(a) Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

(b) Pursuant to a sales and purchase agreement dated 29 November 2011, entered into between Shui On Development (Holding) Limited ("SOD", a wholly owned subsidiary of the Company) and Mitsui Fudosan Residential Co., Ltd. ("Mitsui", a non-controlling shareholder of an associate's subsidiary), SOD agreed to dispose of, and Mitsui agreed to acquire from SOD, SOD's 49% equity interests in relation to Value Land Limited ("Value Land", an indirect wholly owned subsidiary of the Company which engages in the property development in Foshan, the PRC), for a consideration of RMB391 million. An amount of RMB352 million was received in December 2011 and the remaining balance of RMB39 million would be received upon completion of the transaction pursuant to the terms of the sales and purchase agreement. The transaction was completed on 4 February 2013. The Group holds 51% equity interest in Value Land and still has control over Value Land subsequent to the completion of this transaction.

**12. Share Capital**

| Ordinary shares of US$0.0025 each | Authorised Number of shares | Authorised US$'000 | Issued and fully paid Number of shares | Issued and fully paid US$'000 |
|---|---|---|---|---|
| At 1 January 2011 and 31 December 2011 | 12,000,000,000 | 30,000 | 5,211,587,981 | 13,029 |
| Issue of shares in lieu of cash dividends (note 8) | - | - | 162,797,018 | 407 |
| Issue of new shares for the acquisition of equity interests in subsidiaries | - | - | 626,909,643 | 1,567 |
| **At 31 December 2012** | **12,000,000,000** | **30,000** | **6,001,294,642** | **15,003** |

| | **2012 RMB'million** | 2011 RMB'million |
|---|---|---|
| Shown in the consolidated statement of financial position as | **114** | 102 |

On 28 March 2013, the Company announced a proposed rights issue of rights shares on the basis of 1 rights share for every 3 existing shares. Details of the proposed rights issue are set out in the Company's announcement on 28 March 2013.

**Financial Review**

*Turnover of the Group* dropped by 43% to RMB4,821 million (2011: RMB8,484 million), primarily due to the decrease in recognised property sales in 2012.

*Property sales* declined by 53% to RMB3,541 million (2011: RMB7,581 million) as a result of the decreased in area handed over in 2012 from 329,400 sq.m. to 199,700 sq.m. Details of property sales during the year ended 31 December 2012 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 47% to RMB1,249 million (2011: RMB849 million), principally due to additional income of RMB101 million and RMB169 million contributed through the acquisitions of Shanghai Shui On Plaza and Shanghai Langham Xintiandi Hotel. These acquisitions were completed in March 2012. Other than the revenue contributed by these newly acquired properties, rental income grew by 15% in the year 2012. Details of the business performance of investment properties are contained in the paragraph headed "Investment Property" in the Business Review Section.

*Gross profit* for 2012 declined to RMB2,060 million (2011: RMB3,701 million) with gross profit margin maintained at 43% (2011: 44%).

*Other income* increased by 16% to RMB282 million (2011: RMB244 million). It consisted of interest income of RMB181 million (2011: RMB152 million), accounting gain from acquisition of Shanghai Langham Xintiandi Hotel of RMB50 million (2011: nil) together with grants received from local government and sundry income of RMB51 million (2011: RMB92 million).

*Selling and marketing expenses* increased by 6% to RMB207 million (2011: RMB195 million) mainly due to the increase in contracted sales achieved by the Group (excluding sales by associates) by 16% to 218,100 sq.m. (2011: 188,000 sq.m. omitting *en-bloc* sales that incurred fewer marketing and promotional expenses).

*General and administrative expenses* increased by 16% to RMB738 million (2011: RMB634 million) mainly due to the increase in depreciation expense by RMB109 million to RMB176 million (2011: RMB67 million). This increase resulted from the acquisition of Shanghai Langham Xintiandi Hotel in March 2012 and the completion of Marco Polo Lingnan Tiandi Foshan Hotel in May 2012.

The various factors described above brought about a reduction in *Operating profit* by 55% to RMB1,397 million (2011: RMB3,116 million).

I*ncrease in fair value of investment properties* reached RMB2,698 million (2011: RMB2,696 million), of which RMB708 million (2011: RMB1,648 million) was derived from completed investment properties and RMB1,990 million (2011: RMB1,048 million) from investment properties under development or construction. Details of the investment properties are contained in the paragraph headed "Investment Property" in the Business Review Section.

*Share of results of associates* was RMB82 million (2011: RMB137 million), which included a revaluation gain on the investment properties under development or construction (net of related taxes) amounting to RMB88 million (2011: RMB95 million) attributable to the Group.

*Finance costs* after netting off exchange gain of RMB54 million (2011: RMB311 million) was RMB459 million (2011: net gain of RMB94 million). With the new issues of notes in 2012 that amounted to RMB6,952 million, total interest costs increased to RMB2,487 million (2011: RMB1,800 million). Of these interest costs, 80% (2011: 89%) or RMB2,002 million (2011: RMB1,608 million) were capitalised as cost of property development, with the remaining 20% (2011: 11%) interest relating to mortgage loans on completed properties and borrowings for general working capital purposes were expensed.

*Profit before taxation* decreased by 39% to RMB3,718 million (2011: RMB6,060 million), as a result of the various factors outlined above.

*Taxation* decreased by 34% to RMB1,363 million (2011: RMB2,062 million). The effective tax rate for the year 2012 was 29.9% (2011: 26.0%), after excluding the land appreciation tax of RMB334 million (2011: RMB641 million) (which was assessed based on the appreciation value of the sold properties) together with its corresponding enterprise income tax effect of RMB83 million (2011: RMB160 million). The increase in effective tax rate resulted from the increase in interest from offshore borrowings that are not deductible in the PRC.

*Profit attributable to shareholders of the Company* for 2012 was RMB2,029 million, a decrease of 41% when compared to 2011 (2011: RMB3,428 million). Return on equity for 2012 was 7.3% (2011: 14%), which was calculated based on profit attributable to shareholders for the year divided by shareholders' equity at the beginning of the year.

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

| | **2012 RMB'million** | 2011 RMB'million | Change % |
|---|---|---|---|
| Profit attributable to shareholders of the Company | **2,029** | 3,428 | -41% |
| Less: | | | |
| Increase in fair value of investment properties of the Group (net of deferred tax effect and share of non-controlling interests) | **(1,740)** | (1,761) | |
| Share of increase in fair value of investment properties of associates (net of tax effect) | **(88)** | (95) | |
| Profit attributable to shareholders of the Company before revaluation of investment properties | **201** | 1,572 | -87% |

*Earnings per share* RMB0.35 (2011: RMB0.66) was calculated based on a weighted average of approximately 5,773 million shares (2011: 5,212 million shares) in issue during the year ended 31 December 2012.

*Dividend* payable to shareholders of the Company has to comply with certain covenants under the senior notes and perpetual capital securities as follows:

- Dividend payable to the shareholders of the Company (together with any redemption, repurchase or acquisition of the Company's shares) should not exceed 20% of the Company's consolidated net income (which approximates profit attribute to shareholders of the Company but adjust for, among others, exchange differences, gain/loss from non-ordinary course asset disposals and extraordinary or non-recurring gains based on the terms of the senior notes) for any two semi-annual periods unless certain conditions pursuant to the terms of the senior notes have been met.
- In the case where the Company opts for deferring the payment of coupons to the owners of perpetual capital securities, no dividend payments should be made to the shareholders of the Company unless all coupons so deferred has been paid in full.

The Board has resolved to recommend the payment of 2012 final dividend of HK$0.035 per share (2011: HK$0.10 per share) to shareholders of the Company. On 28 March 2013, the Company announced a proposed rights issue of rights shares on the basis of 1 rights share for every 3 existing shares. If the rights shares (in their fully-paid form) are allotted and issued on or before the record date for the 2012 final dividend and shareholders approve the 2012 final dividend at the forthcoming annual general meeting, then holders of fully-paid rights shares whose names appear on the register of members of the Company on the record date for the 2012 final dividend will be entitled to receive the 2012 final dividend of HK$0.035 per share on the same basis as holders of existing shares in issue. In such case the aggregate amount of the 2012 final dividend will be HK$280 million (equivalent to RMB226 million).

Together with the 2012 interim dividend of HK$0.025 (2011: HK$0.025) paid in October 2012 amounted to RMB122 million, the total dividend for 2012 was RMB348 million (2011: RMB580 million). This represents a dividend payout ratio of 17% (2011: 17%).

In addition, the Company has RMB2,720 million convertible bonds in issue with conversion price of HK$4.47 at a fixed rate of RMB1.00 to HK$1.1439 and share options exercisable with exercise price ranged from HK$2.61 to HK$11.78. If all these convertible bonds and share options are to be converted into new ordinary shares of the Company on or before the record date for the 2012 final dividend, then holders of convertible bonds and share options whose names appear on the register of members of the Company on the record date for the 2012 final dividend will be entitled to receive the 2012 final dividend of HK$ 0.035 per share on the same basis as holders of existing shares in issue and holders of fully-paid rights shares. In such case the aggregate amount of the 2012 final dividend will be HK$315 million (equivalent to RMB255 million).

*Capital Structure, Gearing Ratio and Funding*

In January and February 2012 respectively, the Group issued SG$250 million 8% senior notes and US$475 million 9.75% senior notes, each with a maturity of three years.

On 6 August 2012, the Group issued a further US$400 million in 9.75% senior notes at 102.785% of the principal amount plus accrued interest from 16 February 2012 to 6 August 2012. The effective finance cost on this notes issue was 8.5% per annum (excluding direct expenses incurred). These additional notes will mature in February 2015, and were consolidated and formed a single class with the US$ notes issued in February 2012.

The proceeds from these notes issues were used to finance the land relocations of existing projects and for working capital purposes.

The structure of the Group's borrowings as of 31 December 2012 is summarised below:

| | **Total (in RMB equivalent)** | **Due within one year** | **Due in more than one year but not exceeding two years** | **Due in more than two years but not exceeding five years** | **Due in more than five years** |
|---|---|---|---|---|---|
| | RMB'million | RMB'million | RMB'million | RMB'million | RMB'million |
| Bank borrowings – RMB | 9,735 | 2,084 | 2,529 | 3,912 | 1,210 |
| Bank borrowings – HK$ | 6,561 | 2,643 | 1,059 | 2,859 | - |
| Other borrowings – US$ | 2,507 | 376 | 279 | 1,852 | - |
| | 18,803 | 5,103 | 3,867 | 8,623 | 1,210 |
| Convertible bonds – RMB | 2,346 | 2,346 | - | - | - |
| Notes – RMB | 6,554 | 2,980 | - | 3,574 | - |
| Notes – SG$ | 1,298 | - | - | 1,298 | - |
| Notes – US$ | 5,667 | - | - | 5,667 | - |
| **Total** | 34,668 | 10,429 | 3,867 | 19,162 | 1,210 |

In addition, on 4 December 2012, the Group issued US$500 million perpetual capital securities guaranteed by the Company with an annual coupon of 10.125% ("Perpetual Capital Securities"). These Perpetual Capital Securities have no fixed maturity and are redeemable at the Group's option on or after 10 December 2017 at their principal amounts together with any accrued, unpaid or deferred coupon payments. The coupon payments on the Perpetual Capital Securities are payable semi-annually in arrears and may be deferred at the discretion of the Group. The Perpetual Capital Securities are classified as equity instruments in the financial statements as there are no fixed maturity terms and the Group does not have a contractual obligation to make the coupon payments.

Total cash and bank deposits amounted to RMB8,633 million as of 31 December 2012 (31 December 2011: RMB6,370 million), which included RMB2,163 million (31 December 2011: RMB2,512 million) of deposits pledged to banks and RMB183 million (31 December 2011: RMB335 million) of restricted bank deposits which can only be applied to designated property development projects of the Group.

As of 31 December 2012, the Group's net debt balance was RMB26,035 million (31 December 2011: RMB19,118 million) and its total equity was RMB37,268 million (31 December 2011: RMB29,471 million). The Group's net gearing ratio was 70% as of 31 December 2012 (31 December 2011: 65%), calculated on the basis of the excess of the sum of convertible bonds, notes, bank borrowings net of bank balances and cash (including pledged bank deposits and restricted bank deposits) over the total equity.

Total undrawn banking facilities available to the Group were approximately RMB7,578 million as of 31 December 2012 (31 December 2011: RMB6,406 million).

### *Pledged Assets*

As of 31 December 2012, 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 RMB43,203 million (31 December 2011: RMB28,963 million) to secure its borrowings of RMB16,692,million (31 December 2011: RMB13,981 million).

### *Capital and Other Development Related Commitments*

As of 31 December 2012, the Group had contracted commitments for development costs and capital expenditure in the amount of RMB14,442 million (31 December 2011: RMB11,967 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 Shanghai Shui On Plaza and 66.7% interest in Shanghai Langham Xintiandi Hotel. These acquisitions were completed on 16 March 2012 at a final consideration of RMB1,766 million. An aggregate of 626,909,643 new and fully paid ordinary shares of the Company was issued as consideration to the sellers. These new shares ranked pari passu with 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. As appropriate opportunities arise, the Group may participate in projects of various sizes wherein its competitive strengths provide advantages. The Group may also pursue other plans, including different ways to acquire land development rights for the purpose of undertaking property projects or to leverage its master planning expertise towards increasing the scale of current operations.

### *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 debt or equity securities, as 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 the notes issued in 2010 and 2011 were also denominated in RMB. As a result, the coupon payments and the repayment of the principal amounts of the convertible bonds and notes issued in 2010 and 2011 do not expose the Group to any exchange rate risk. A portion of the revenue, however, is converted into other currencies to meet our foreign-currency-denominated debt obligations, such as bank borrowings denominated in HK$ and US$, and senior notes denominated in SG$ and US$ issued in 2012. As a result, to the extent that the Group may have a net currency exposure, this exposure would be subject to fluctuations in foreign exchange rates.

The relatively stable currency regime of the RMB is maintained by the PRC Central Government, which permits the exchange rate to fluctuate only within a predefined range to a portfolio of various currencies. Given these defined circumstances, the Group does not expect any material adverse effects of the exchange rate fluctuation between the RMB and US$/HK$/SG$. Nevertheless, the Group continues to monitor closely its exposure to exchange rate risk, and is prepared to employ derivative financial instruments to hedge against its exchange rate risk, if necessary.

The Group's exposure to interest rate risk results from fluctuations 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 2012, the Group had various outstanding loans that bear variable interests linked to Hong Kong Inter-bank Borrowing Rates (“HIBOR”), London Inter-bank Borrowing Rates (“LIBOR”) and Singapore Inter-bank Borrowing Rates (“SIBOR”). 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 or LIBOR and pay interest at fixed rates ranging from 0.63% to 1.45% based on the notional amount of HK$3,530 million and US$150 million, in aggregate. The Group continues to monitor closely its exposure to interest rate risk, and may further consider additional derivative financial instruments to hedge against its remaining exposure to interest rate risk, if necessary.

Save as disclosed above, as of 31 December 2012, the Group did not hold any other derivative financial instruments which were linked to exchange rate or interest rates. The Group continues to monitor closely its exposure to exchange rate and interest rate risks, and may employ derivative financial instruments to hedge against risk when necessary.

## FINAL DIVIDEND

The Board has resolved to recommend to shareholders of the Company at the forthcoming annual general meeting (the “AGM”) the payment of a final dividend of HK$0.035 per share for the year ended 31 December 2012 (2011: HK$0.10 per share) to shareholders whose names appear on the register of members of the Company on 4 June 2013.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the year ended 31 December 2012.

## CORPORATE GOVERNANCE

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing its corporate governance practices from time to time to ensure they comply with Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “CG Code”) and align with its latest developments.

### *Model Code for Securities Transactions*

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code regarding securities transactions by the Directors and relevant employees.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2012.

To comply with the code provision A.6.4 of the CG Code, the Company has established and adopted a Code for Securities Transactions by Relevant Employees, on terms no less exacting than the Model Code, to regulate dealings in the shares of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its shares because of their offices or employments.

No incident of non-compliance with these written guidelines by the relevant employees was noted by the Company.

***Board Composition***
During the year ended 31 December 2012, the members of the Board of Directors of the Company (the "Board") were as follows:

<u>Executive Directors</u>
Mr. Vincent H. S. LO (Chairman)
Mr. Freddy C. K. LEE (Managing Director and Chief Executive Officer)
Mr. Daniel Y. K. WAN (Managing Director and Chief Financial Officer)

<u>Non-executive Director</u>
Mr. Frankie Y. L. WONG

<u>Independent Non-executive Directors ("INEDs")</u>
Sir John R. H. BOND
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Dr. Roger L. McCARTHY
Mr. David J. SHAW

During the year ended 31 December 2012, the majority of the members of the Board were INEDs. The Board is currently made up of nine members in total, with three Executive Directors, one Non-executive Director and five INEDs.

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision-making.

***Audit Committee***
During the year ended 31 December 2012, the Audit Committee consisted of three members. The members of the Audit Committee during the year were:

Professor Gary C. BIDDLE ("Professor BIDDLE")
Dr. Roger L. McCARTHY ("Dr. McCARTHY")
Mr. Frankie Y. L. WONG

Professor BIDDLE and Dr. McCARTHY are INEDs. The chairman of the Audit Committee is Professor BIDDLE.

The Audit Committee has reviewed the Group's interim and annual results for the year ended 31 December 2012, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors.

In January 2012, the Audit Committee was also assigned with the duties to assist the Board and its Chairman in performing the corporate governance duties as required under the current CG Code.

***Remuneration Committee***
During the year ended 31 December 2012, the Remuneration Committee consisted of three members, namely Dr. William K. L. FUNG ("Dr. FUNG"), Mr. Vincent H. S. LO ("Mr. LO") and Professor BIDDLE. Dr. FUNG and Professor BIDDLE are INEDs. The chairman of the Remuneration Committee is Dr. FUNG.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration packages of the Directors and senior management, and to evaluate and make recommendations on employee benefit arrangements.

***Nomination Committee***
The Nomination Committee currently comprises three members, Mr. LO, Sir John R. H. BOND and Professor BIDDLE. Sir John R. H. BOND and Professor BIDDLE are INEDs. The chairman of the Nomination Committee is Mr. LO.

The primary functions of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become members of the Board, and assess the independence of INEDs.

***Finance Committee***

During the year ended 31 December 2012, the directors who were members of the Finance Committee were Mr. LO, Sir John R. H. BOND, Dr. FUNG, Professor BIDDLE, Mr. Freddy C. K. LEE, Mr. Daniel Y. K. WAN and Mr. Frankie Y. L. WONG. Sir John R. H. BOND, Dr. FUNG and Professor BIDDLE are INEDs. The chairman of the Finance Committee is Mr. LO.

The primary functions of the Finance Committee are to stipulate and monitor the financial strategies, policies and guidelines of the Group.

***Compliance with the CG Code***

During the year ended 31 December 2012, the Company has fully complied with the code provisions of the CG Code.

Further information on the Company's corporate governance practices during the year under review will be set out in the corporate governance report to be contained in the Company's 2012 annual report which will be sent to the shareholders of the Company by the end of April 2013.

## EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2012, the number of employees in the Group was 1,318 (31 December 2011: 1,262); the headcount of the property management business was 1,438 (31 December 2011: 1,322). In addition to the above, the Group has recently incorporated an asset management team with 117 employees which focuses on the managing, designing, leasing, marketing, enhancing premium retail, office, entertainment and hotel properties.

The Group provides a comprehensive benefits package for all employees as well as career development opportunities. This includes retirement schemes, share option scheme, medical insurance, other insurances, in-house training, on-the-job training, external seminars, and programs organized by professional bodies and educational institutes.

The Group strongly believes in the principle of equality of opportunity. The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competency displayed in achieving our corporate goals.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position as of 31 December 2012, and consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year then ended as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## APPRECIATION

In conclusion, I would like to thank every one of you who has contributed to our achievements. To our shareholders and business partners, thank you for your loyalty and support. To my fellow Directors, management and all staff, thank you for your sound advice, dedication and hard work.

As we look forward to 2013, I have no doubt that with your ongoing help and support we will continue to build a bright and successful future for Shui On Land.

By Order of the Board
**Shui On Land Limited**
**Vincent H. S. LO**
*Chairman*

Hong Kong, 28 March 2013

*At the date of this announcement, the executive directors of the Company are Mr. Vincent H. S. LO (Chairman), Mr. Freddy C.K. LEE (Chief Executive Officer) and Mr. Daniel Y. K. WAN; the non-executive director of the Company is Mr. Frankie Y.L. WONG; and the independent non-executive directors of the Company are Sir John R. H. BOND, Dr. William K. L. FUNG, Professor Gary C. BIDDLE, Dr. Roger L. McCARTHY and Mr. David J. SHAW.*

*This announcement contains forward-looking statements, including, without limitation, words and expressions such as "expect," "believe," "plan," "intend," "aim," "estimate," "project," "anticipate," "seek," "predict," "may," "should," "will," "would" and "could" or similar words or statements, in particularly statements in relation to future events, our future financial, business or other performance and development, strategy, plans, objectives, goals and targets, the future development of our industry and the future development of the general economy of our key markets and globally.*

*These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflect our current views with respect to future events, are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including with respect to the following:*

- *changes in laws and PRC governmental regulations, policies and approval processes in the regions where we develop or manage our projects;*
- *changes in economic, political and social conditions and competition in the cities we operate in, including a downturn in the property markets;*
- *our business and operating strategies;*
- *our capital expenditure plans;*
- *various business opportunities that we may pursue;*
- *our dividend policy;*
- *our operations and business prospects;*
- *our financial condition and results of operations;*
- *the industry outlook generally;*
- *our proposed completion and delivery dates for our projects;*
- *changes in competitive conditions and our ability to compete under these conditions;*
- *catastrophic losses from fires, floods, windstorms, earthquakes, or other adverse weather conditions, diseases or natural disasters;*
- *our ability to further acquire suitable sites and develop and manage our projects as planned;*
- *availability and changes of loans and other forms of financing;*
- *departure of key management personnel;*
- *performance of the obligations and undertakings of the independent contractors under various construction, building, interior decoration and installation contracts;*
- *exchange rate fluctuations;*
- *currency exchange restrictions; and*
- *other factors beyond our control.*

*This list of important factors is not exhaustive. Additional factors could cause the actual results, performance or achievements to differ materially. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements, which speak only as of the date of this announcement, will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise any forward-looking statements. You should not place undue reliance on any forward-looking information.*

** For identification purposes only*