

Analysis of Real Estate Market in China

Shimao China has demonstrated its particular proficiency in the development of quality properties. Utilising the edge of Hong Kong financial market, the Group will establish a strong foothold in China, so as to seize business opportunities in Shanghai and other developed cities.

- *Shanghai*

After accessing the World Trade Organisation (WTO), China has been experiencing persistent and rapid economic growth and has entered into a stage of long-wave upward trend. The China market will continue to be the hotspot of global capital and receive international recognition as the flagship for the economic development in Asia. Shanghai is China's economic and financial center and the gateway to other major business and trading regions in Central and Northern China. It maintains its leading position in economic development of China. With the high immigration rate in Shanghai, the increased income level of local residents and the introduction of tax relief by the Government, have resulted in the increase in the demand for high-end property.

The Shanghai property market has been experiencing significant growth in recent years. The annual sales area for commercial buildings in 2003 reached 255,740,000 sq. ft., while the sales area in second-hand property market reached 247,560,000 sq. ft., in which the proportion between the demand for high-end property (RMB650 per sq. ft.) and foreigners' purchase of property in the first half of 2003 were 18.7% and 24.4% respectively. With the promising future of Shanghai property market, the Shanghai Government has classified the property development, information technology, finance, trading, automobiles and machinery equipment as the six major businesses in Shanghai. It is believed that the Government is optimistic of the long-term development of Shanghai property market.

In 2003, the accumulated increase in the selling price of residential buildings in Shanghai reached approximately 25%, exceeding the total amount of Shanghai GDP. With the stable economic growth in China, the contracts entered with foreign enterprises in the first half of 2003 exceeded US\$6 billion. It is expected that the purchase of high-end property by foreigners in Shanghai will continue to increase.

According to Shanghai's Tenth Five Year Plan, the greening scheme in Shanghai will be completed in 2005. With the hosting of the World Expo and the infrastructure program for Shanghai Universal Studio, the environment of Shanghai will further improve, so as to attract those with strong academic background and striving for better life to stay in Shanghai. Under the current property market situation, there is a strong market demand and room for development for high-end properties, like Shimao Lakeside Garden.

- *Beijing*

Beijing is the political and economic center in China. As Beijing becomes more prosperous, the purchasing power of the residents has been enhanced. According to the statistics of Beijing Statistical Bureau, the annual average income of Beijing residents in 2002 increased to RMB12,464 from RMB2,040 in 1991, representing an increase by 5.1 times.

With reference to Beijing's Tenth Five Year Plan, Beijing Government has set numerous targets for economic and social development for the period from 2001 to 2005. During the period, the annual GDP growth rate was approximately 9%, which is expected to reach RMB370 billion by 2005. The annual growth rate for regional revenue, on the other hand, will exceed 10%.

Economic growth, sustainable increase in residents' income and the promising future all motivate the development of property industry. The sales of commercial buildings in Beijing for 2002 amounted to 4,172,690,000 sq. ft., representing an increase of 42.3%. Property investment accounted for 54.5% of the total investment.

On the other hand, the China Government has announced a series of favorable policies to standardise the property market, which stimulates the demand for properties. Moreover, individuals from other provinces purchasing brand new commercial buildings or second-hand residential properties are exempted from the application of "Approval for purchasing property by foreigners" and enjoyed a relief from 3% administrative fee. These policies substantially lower the barriers for foreigners in purchasing properties and further motivate the foreigners to purchase properties in Beijing.

Moreover, Beijing will develop a comprehensive public transportation system in the coming five years to get prepared for Beijing Olympic Games in 2008. Also, 700 km road structure will be added to the existing road system and RMB90 billion will be invested for the construction of a 150 km railway system before 2008. These will further improve the living environment in Beijing.

- *Nanjing*

Nanjing, with an area of 6,597.6 sq.km, is the capital of Jiangsu Province. According to the National Statistics Bureau, the GDP per capita of Nanjing reached RMB22,908 in 2002, where the disposable income per capita for residents in Nanjing increased from RMB7,018 in 1998 to RMB9,157 in 2002, representing an increase of approximately 30%. The per capita discretionary income of Nanjing residents increased to RMB10,195, which is the first time that reached more than RMB10,000, representing an increase of about 11.3% comparing with last year.

According to statistics from Nanjing Statistics Bureau, the demand and supply ratio of the Nanjing property market was between 0.6 and 0.8, the situation of excess demand has not been improved. The proportion of middle to high-end properties accounted for less than 10% of the overall property market in Nanjing. Moreover, the Nanjing Government will reduce the land supply in 2004, thereby further reducing the supply of properties. The purchasing power of Nanjing residents have risen along with the influx of population from regions outside Zhangjiang Delta. They will continue to pursue a prestige lifestyle, therefore luxury residential property projects with high quality will have a great room for development.

- *North-Eastern Region*

The North-Eastern Region has been playing an important role for the reform and development of the economy of China. The Chinese Government considers the economic development in the North-Eastern Region as important as the Central-Western Region. The Group expects that the North-Eastern Region will become the fourth growing region of the China economy chasing after Zhujiang Delta, Zhangjiang Delta and the "Jing-jin-tang" Region.

In 2004, the Chinese Government has implemented a plan of investing RMB61 billion in more than 100 development projects in the North-Eastern Region within 5 years, with the aim to boost the economic development and create a more attractive environment for investment. With the strong support of the Chinese Government, the economic growth in the North-Eastern provinces will become stable and the earning capacity of local residents and the influx of foreign investment will improve constantly. This will lead to the growth of property market in the North-Eastern Region.