

Market Outlook



Wuhan Tiandi

We believe that the drivers for housing demand, namely an increasing number of urban households, income growth and the entrenched Chinese cultural preference for home ownership, remain intact.

Global financial markets experienced heightened volatility late last year as the failure of several key financial institutions triggered fears of a domino-like collapse of the financial system. Market panic has eased following government intervention to stabilize banking systems and injections of liquidity. Nonetheless the process of deleveraging among financial institutions has resulted in extremely tight funding conditions, and globally bank lending activities have been slow to return to normal levels. This has hampered the ability of companies operating in China – including property developers – to obtain offshore financing. On the positive side, domestic funding conditions on the Chinese mainland are loosening.

In response to a worsening economic outlook, advanced economies have taken aggressive actions to repair the banking system, restore credit flows and strengthen economic activity. China has moved swiftly to stimulate domestic demand with some success, for instance, in inducing strong bank lending growth since December 2008. China has ample room to ease fiscal and monetary policies putting it in an enviable position to begin the road to recovery in advance of most other economies.

China's stimulus programme aims to provide comprehensive support for short-term growth while rebalancing the economy towards the domestic market and away from excessive dependence on exports. Mindful of the critical role housing plays within domestic demand, the government is encouraging home sales by reducing transaction and borrowing costs. To further support domestic demand, the government is implementing large spending plans that cover infrastructure, post-earthquake reconstruction and welfare housing, and has cut interest rates and loosened credit aggressively. We expect these rebalancing policies to facilitate a structural shift towards a domestic demand-led economic model. This more sustainable growth model will generate demand for increasingly sophisticated property products going forward.

The government, which views property as one of the pillar industries, put in place tax and lending incentives for home purchase and allowed local discretion to provide additional policy support if needed. In response, home buying sentiment is showing early signs of recovery. Since November 2008, home transaction volumes in major cities have continued to follow a rising trend. We believe that the drivers for housing demand, namely an increasing number of urban households, income growth and the entrenched Chinese cultural preference for home ownership, remain intact.

2009 will continue to be a tough year but all is not grim. Prospects remain good in the cities where our projects have passed beyond the incubation phase, namely Shanghai, Hangzhou, Wuhan and Chongqing. In Shanghai, the massive 2010 World Expo infrastructure investment programme will improve transport accessibility and the State Council's recent reaffirmation that Shanghai will be built into the international financial centre of China will provide support for land and property values of our projects. In Hangzhou, the government has acted swiftly to boost tourist spending and local consumption. Following a

successful launch in January 2009, the city has expanded its consumption voucher programme fivefold, covering a wide range of commercial outlets, which include the major tourist attractions, hotels, restaurants and entertainment venues. Xihu Tiandi is expected to benefit from this programme to encourage consumer spending.

Wuhan's prominent position within the "Rise of Central China" regional development programme and its function as a national transport hub. This is symbolized by the 1 April 2009 opening of the Wuhan-Hefei high-speed rail-line that has halved the travel time from Wuhan to Shanghai to four hours and 45 minutes. These factors, together with the upcoming Wuhan Tianhe International Airport expansion project, add to our confidence that our project will continue to develop well. Chongqing has been designated by the State Council as a pilot reform city, similar to Shanghai and Tianjin, and in February 2009, gained approval to undertake financial reforms in areas such as livestock commodity exchange, insurance, a centre for electronic bills transaction and foreign exchange management. These reforms will catalyze Chongqing's development as a commercial and financial hub for Western China. Our project is well positioned to capitalize upon Chongqing's strong economic and property market growth trajectory following a rebound of market transactions in 2009.

The property industry's fundamentals remain strong. We believe our unique business model and proven expertise in master planning will enable us to play a significant role in China's economic transformation and integration with the global economy. We hold a portfolio of income-generating properties that we have developed as strategic, long-term investments. We believe the long-term prospects of the projects undertaken by Shui On Land are all excellent. We will continue to pursue our aspiration to be the premier innovative property developer in the Chinese Mainland, the most exciting property market in the world.