
INDUSTRY OVERVIEW

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MACRO-ECONOMIC ENVIRONMENT IN THE PRC

The PRC economy has achieved substantial growth since the PRC Government introduced economic reforms and adopted an open door policy in the late 1970s. Such growth was further accelerated by the country’s accession to the World Trade Organization in 2001 as a result of increasing inflow of foreign investment across all sectors of the economy. In the past decade, China’s GDP has increased from RMB8,967.7 billion in 1999 to RMB30,067.0 billion in 2008, representing a compound annual growth rate, or CAGR, of approximately 14.4%, making the PRC one of the fastest growing economies in the world.

Over the same period, China’s GDP per capita grew at a CAGR of 13.6% from RMB7,159 in 1999 to RMB22,640 in 2008, demonstrating a significant increase in purchasing power of the PRC population.

In 2008, China’s GDP growth rate was affected by the global financial crisis and declined to 9% from 13% in 2007. The table below sets out selected economic statistics of the PRC for the years indicated:

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nominal GDP										
(RMB billion)	8,967.7	9,921.5	10,965.5	12,033.3	13,582.3	15,987.8	18,321.7	21,192.4	25,730.6	30,067.0
Real GDP growth rate (%)	7.6	8.4	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.0
Per capita GDP (RMB)	7,159	7,858	8,622	9,398	10,542	12,336	14,053	16,165	18,934	22,640
Fixed asset investment										
(RMB billion)	2,985.5	3,291.8	3,721.4	4,350.0	5,556.7	7,047.7	8,877.4	10,999.8	13,732.4	17,229.1

Main Source: China Statistical Yearbook and China Statistical Communique, 1999 to 2008

PRC PROPERTY MARKET OVERVIEW

Growth of the property market in the PRC

The favorable economic environment in the PRC has fuelled the growth of the PRC property market. From 2004 to 2008, investment in real estate development in residential properties grew at a CAGR of 25.7%, increasing from RMB883.7 billion in 2004 to RMB2,208.1 billion in 2008. According to the National Bureau of Statistics (國家統計局), a total of approximately 558.9 million sq.m. of residential GFA was sold in 2008, representing a substantial increase as compared to the 338.2 million sq.m. sold in 2004.

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Prices for real estate in the PRC also experienced remarkable growth between 2004 and 2008, with average prices of residential properties growing at a CAGR of 8.8% over the same period, increasing from RMB2,608 per sq.m. in 2004 to RMB3,655 per sq.m. in 2008.

The upward trend of the PRC property industry is also evidenced by the growth in revenue from the sale of properties, with the total real estate sales revenue leaping from RMB1,037.6 billion in 2004 to RMB2,407.1 billion in 2008. During the same period, total GFA sold increased from approximately 382.3 million sq.m. in 2004 to approximately 620.9 million sq.m. in 2008.

In line with the global recession, commodity properties sales revenue declined 19.5% in 2008, while average price of commodity properties remained stable.

The table below sets out selected data relating to the PRC property market for the years indicated:

	2004	2005	2006	2007	2008	CAGR (%) (2004-2008)
Real estate investment (RMB billion)	1,315.8	1,590.9	1,942.3	2,528.0	3,058.0	23.5
Total GFA of commodity properties sold (million sq.m.)	382.3	554.9	618.6	773.5	620.9	12.9
Total GFA of residential properties sold (million sq.m.)	338.2	495.9	554.2	701.4	558.9	13.4
Investment in real estate development in residential properties (RMB billion)	883.7	1,086.1	1,363.8	1,800.5	2,208.1	25.7
Average price of commodity properties (RMB per sq.m.)	2,778	3,168	3,367	3,864	3,877	14.2
Average price of residential properties (RMB per sq.m.)	2,608	2,937	3,119	3,645	3,655	8.8
Revenue from Properties Sale (RMB billion)	1,037.6	1,757.6	2,082.6	2,988.9	2,407.1	23.4

Main Source: China Statistical Yearbook and China Statistical Communique, 2004 to 2008

Key drivers of PRC property market

In addition to the strong sustainable growth of the PRC economy which has resulted in rising disposable income among the population in the PRC, the rapid pace of urbanization and real estate market reforms undertaken by the central government are other key factors contributing to the growing demand in the PRC property sector.

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Urbanization

In recent years, the pace of urbanization in the PRC has been tremendous. Urbanization rates rose from 41.8% in 2004 to 45.7% in 2008. Urban disposable income has also dramatically increased from RMB9,421.6 in 2004 to RMB15,781.0 in 2008. The China National Bureau of Statistics estimates PRC urbanization rates to reach 50% by 2020 and 70% by 2050. Should this materialize, there is expected to be further demand for urban properties. The table below sets out selected data relating to urbanization trends in the PRC for the years indicated:

	2004	2005	2006	2007	2008
Population (million)	1,299.90	1,307.60	1,314.50	1,321.3	1,328.0
Urban population (million)	542.8	562.1	577.1	593.8	606.7
Urbanization rate (%)	41.8	43.0	43.9	44.9	45.7
Per capita disposable income of urban households (RMB)	9,421.6	10,493.0	11,759.5	13,785.8	15,781.0

Main Source: China Statistical Yearbook and China Statistical Communique, 2005 to 2008

Real estate market reforms

Growth of the property market has been promoted and made possible by a series of reforms in the PRC real estate industry, which only commenced in the 1990s. Prior to the housing reform in 1998, real estate development in China was an integral part of the country’s planned economy with the PRC Government developing and supplying housing for its urban population under a welfare system. State-allocated housing policy was abolished in 1998, creating a market-based system for property transactions. Individuals were subsequently encouraged to purchase their own properties with mortgage financing, hence bolstering the growth of the property market. The following table summarizes the key policies introduced by the central government to transform the PRC property market:

1988	The national constitution was amended to permit the transfer of state-owned land use rights to private enterprises and individuals
1991	Employer/employee-funded housing provident funds commenced
1992	Public housing sales in major cities commenced
1994	Further implemented real estate reforms and established an all-round employer/employee-funded housing fund
1995	Regulations regarding the sales and pre-sales of real estate issued, establishing a regulatory framework for real estate sales
1998	State-allocated housing policy abolished
1999	Maximum mortgage term extended to 30 years, maximum mortgage financing increased from 70% to 80%, and procedures for the sale of real property in the secondary market formalized

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2000	Regulations to standardize quality of construction projects issued, establishing a framework for administering construction quality
2001	Regulations relating to the sales of commodity properties issued
2002	Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale issued requiring land use rights for commercial use, tourism, entertainment, commodity residential properties and other operational purposes to be granted only through public tender, auction or listing-for-sale; the dual system for domestic and overseas home buyers in the PRC eliminated
2003	Rules for administering real estate loans issued to help reduce the credit and systemic risks associated with such loans; Regulations regarding property management introduced, setting forth a framework for property management activities; State Council issued a notice for the sustainable and healthy development of the real estate market
2004	State Council issued a notice requiring that equity funds for real estate development projects (excluding affordable housing) be increased from 20% to 35%; The Ministry of Construction amended the Administrative Measures on the Pre-sale of Commercial Housing in Cities; The CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the ability of commercial bank to manage risks on real estate loans
2005	Notice issued by the State Council requiring municipal governments and relevant authorities to curb rapid growth in selling prices in an effort to sustain healthy development of the property market; Additional measures instituted to discourage speculation in certain regional markets, including increasing the minimum required down payment from 20% to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting resale of properties before they are completed
2006-2007	Additional measures implemented targeting, amongst other things, land supply, bank financing and foreign investment to discourage speculation in the residential property market and to slow the rapid increase in property prices, to encourage the development of middle- to low-end housing and to promote healthy development of the PRC real estate industry. In particular, the PRC Government took measures to control fixed assets investment by imposing tighter reins on land and lending, to discourage excessive growth of the PRC high-end residential property sector and stimulate the development of mass-market residential projects with a higher degree of affordability

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Various PRC Government bodies announced a number of specific directives, the key one being that banks are prohibited from providing loans to property developers whose total equity fund is less than 35% of the total investment amount in an intended development project. In addition, the PBOC raised its benchmark one-year lending rate and the lending rates for other various terms to further tighten the country’s credit policy, and the Ministry of State Land and Resources issued guidelines to restrict overall land supply for high-end residential property developments, including the discontinuation of new land supply for house projects specifically. Other measures taken include measures aimed at strengthening the collection of LAT which took effect from February 1, 2007 and measures to further strengthen the approval and supervision of foreign investment in the real estate sector in the PRC, such as restricting the ability of foreign invested real estate companies to raise funds offshore and then inject such funds into the companies

2008

On January 3, 2008, the State Council issued the Notice on Promoting the Saving and Intensification of Use of Land (Guo Fa [2008] No. 3) 《國務院關於促進節約集約用地的通知》國發[2008]3號). The notice reinforced the existing policy in respect of idle land. The notice stipulates, among other things, that the disposal policies for idle land shall be implemented strictly. If the land approved for development remains unused for more than two years, it shall be forfeited to the government without consideration and the government authorities shall impose LAT on the idle land, details of which are yet to be announced. The requirement that a GFA of less than 90 sq.m. (including affordable housing) must reach not less than 70% of the total GFA for development and construction of residential land is also reinforced in this notice.

On 31 December 2008, the State Council decided to abolish the urban real estate tax (城市房地產稅) applicable to foreign-invested enterprises, foreign individual and entities and since January 1, 2009, the urban real estate tax was substituted by the real estate tax (房產稅), which as a result applicable to both local and foreign entities and individuals.

Additional information on real estate reforms and recent regulatory developments is set out in the section headed “Appendix V — Summary of Principal PRC Legal and Regulatory Provisions” in this document.

Measures taken by the PRC Government in recent years in relation to the PRC property market

In recent years, the PRC Government has introduced policies in response to concerns over the scale of the increase in property investment, in order to restrict future development. Such policies include:

- limiting monthly residential mortgage payments to 50% of an individual borrower’s monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his monthly income;

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- tightening regulations governing mortgage lending and restricting approval of new development zones;
- for real estate development enterprises set up by foreign investors, if the total investment is US\$10 million or more, the registered equity fund shall not be less than 50% of the total investment; and
- further strengthening the approval and supervision of foreign investment in the real estate sector in the PRC.

On May 9, 2005, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Doing a Good Job of Stabilizing House Prices 《關於做好穩定住房價格工作的意見》, followed by a set of new measures. As a result:

- effective from June 1, 2005, business tax will be levied to an individual on residential property transfer proceeds based on the duration of the period for which the property has been held and type of property involved;
- a buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought, but is still under construction and which has not obtained property ownership rights;
- an “idle land fee” will be imposed in respect of land development of which has not commenced within one year from the commencement date set out in the land use right granting contract and the relevant land use right will be cancelled without compensation for the land which is idle for two years or more;
- residential projects that have not been commenced within two years must be examined again, and those that turn out to be not in compliance with the respective planning permits will be revoked; and
- land provision for villa construction shall continue to be suspended and land provision for high-end residential property construction shall be strictly restricted.

On May 24, 2006, the State Council issued the Opinion on Adjusting the Housing Supply Structure and Stabilizing Property Prices 《關於調整住房供應結構穩定住房價格的意見》 (the “Opinion”) jointly prepared by the Ministry of Construction and other Chinese government authorities. The Opinion was aimed at guiding and promoting sustainable and healthy development of the PRC real estate industry by adjusting the housing supply structure and curbing increasing housing prices. Pursuant to the Opinion:

- effective from June 1, 2006, newly approved and newly commenced commercial building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or less (including economically affordable apartments). Construction projects that have been approved but have not yet obtained a Permit for Commencement of Construction Works (施工許可證) must follow the prescribed ratio;

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- effective from June 1, 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, the business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price. On May 30, 2006, the State Administration of Taxation issued the Circular on Issues of Strengthening Levy of Business Tax on Residential Housing(Guoshuifa [2006] 74) 《關於加強住房營業稅徵收管理有關問題的通知》, which further confirms the policies provided for under the Opinion with respect to the levy of business tax on the transfer of residential housing;
- commercial banks shall not be allowed to advance loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects as capital fund. The commercial banks should be prudent in granting period expansion loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity apartments. Banks shall not accept mortgages of commodity properties remaining unsold for three years or more; and
- effective from June 1, 2006, individual purchasers need to pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers buy apartments of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged.

The Opinion calls for sustainable land supplies for small-to-medium-sized low-cost public housing, as well as a continuous restriction of land supplies for housing projects such as villas and other low-density and large-area housing.

The Opinion also requires land and planning administrative authorities to strengthen supervision of land development. The relevant authorities will levy a higher level of idle land fee against those real estate developers who have not commenced the construction work for longer than one year from the commencement date stipulated in the Grant of State-owned Land Use Right contract and will order them to set a date for commencing the construction work and a date of completion. The relevant authorities will confiscate without compensation the Grant of State-owned Land Use Rights from those real estate developers who have not commenced the construction work beyond two years from the commencement date stipulated in the Grant of State-owned Land Use Right granting contract without proper reasons. The relevant authorities will dispose of the idle land of those real estate developers who have suspended the construction work continuously for one year without an approval, have invested less than one-fourth of the total proposed investment or have developed less than one-third of the total proposed construction area.

On July 6, 2006, the Ministry of Construction promulgated the Opinions on Carrying Out the Residential Property Size Ratio in Newly Built Residential Buildings 《關於落實新建住房結構比例要求的若干意見》 to clarify the scope of application of the restriction contained in the Opinion. Based on that supplemental opinion, the restriction relates to all new residential projects within a city taken as a whole. This means that for any given city, at least 70% of the total GFA for development and construction of that city should comprise residential housing with a GFA of less than 90 sq.m. Unlike any project specific requirement, the implications of such city-wide restrictions will vary from city to city.

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On September 30, 2007, the Ministry of Land and Resources issued the Notice On Implementation of the Several Opinions of the State Council of the PRC on Solving Housings Shortage with respect to Urban Low-Income Household and Further Strengthening Control on Land Supply《關於認真貫徹〈國務院關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知》 for strictly strengthening disposal of idle land. The land resources administrative bureau at the city or county level shall give priority to the construction of low rental houses, affordable houses and low-to-medium sized ordinary residences at low-to-medium prices when drafting the Annual Land Supply Plan, and the annual supply amount of such houses shall not be less than 70% of the total amount of annual land supply. The local authorities shall control the land supply amount, and shorten the development period. In principle, the development period of a parcel of land shall not be more than three years, in order to ensure the efficiency of land development.

On July 11, 2006, the MOC, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly enacted the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market《關於規範房地產市場外資准入和管理的意見》(Jianzhufang [2006] 171). According to this Circular, the admittance and administration of foreign capital in the property market must comply with the following requirements:

- foreign institutions or individuals purchasing property in China not for their own use shall follow the principle of commercial existence and apply for the establishment of foreign investment enterprises under the regulations of foreign investment in property;
- if the total investment of a foreign-invested real estate enterprise equals or exceeds USD10 million, its registered capital must not be less than 50% of the total investment; and
- transfers of projects or shares in foreign-invested real estate enterprises, and the acquisitions of domestic real estate enterprises by foreign investors, should be in accordance with the relevant laws, regulations and policies to obtain the approvals.

On May 23, 2007, the MOFCOM and the SAFE jointly issued the Notice Concerning Further Strengthening and Regulating the Examination, Approval and Supervision on Direct Foreign Investment in Real Estate《關於進一步加強、規範外商直接投資房地產審批和監管的通知》, which provides that:

- foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled;
- the approval authority shall not approve an application for the establishment of a foreign invested real estate enterprise, unless the Grant of State-owned Land Use Right and the ownership of the property have been obtained, or the pre-granting/purchase agreement has already been concluded with the land administration authority, land developer or owner of the property;
- foreign-invested enterprises that engage in real estate development or operation businesses and foreign-invested real estate enterprises that engage in new real estate project development and/or operations must apply to the relevant examination and approval authorities for their expansion of scope of business or scale of operation in accordance with the laws and regulations related to foreign investments;

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- acquisitions of and investments in domestic real estate enterprises by way of round trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons of the domestic real estate enterprises;
- parties to a foreign invested real estate enterprise shall not in any way guarantee a fixed investment return;
- local examination and approval authorities must report to MOFCOM to record their approvals of the establishment of foreign-invested real estate enterprises;
- foreign exchange administration authorities and banks authorized to conduct foreign exchange businesses should not affect foreign exchange purchase and settlements of capital account items for those foreign invested real estate enterprises who fail to satisfy the MOFCOM filing requirements or annual review procedures; and
- with regard to the foreign invested real estate enterprises examined and approved by local authority hereof against the law, the MOFCOM shall investigate and rectify it, the authority of foreign exchange administration shall not handle such procedures as foreign exchange registration hereto.

On July 10, 2007, the SAFE issued the Notice of the List of First Batch of Foreign-Invested Real Estate Projects that have been filed with the MOFCOM 《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》. This notice restricts the ability of foreign invested real estate enterprises to raise funds offshore and then inject funds into the companies by way of shareholder loans. The notice provides that, among other things:

- for a foreign-invested real estate enterprise (both newly established and through capital increase, same below) which has obtained the approval certificate from the competent commercial department and filed with the MOFCOM on or after June 1, 2007, the local Administration of Foreign Exchange will not conduct the foreign debt registration and foreign debts settlement approval process; and
- for a foreign-invested real estate enterprise which has obtained the approval certificate from the local competent commercial department but failed to file with the MOFCOM on or after June 1, 2007, the local Administration of Foreign Exchange will not conduct foreign exchange (or change the registration) and the settlement and sales process for capital projects.

On October 31, 2007, MOFCOM and NDRC jointly enacted the new Foreign Investment Industrial Guidance Catalogue (2007 Revision) (the "2007 Catalogue") 《外商投資產業指導目錄(2007年修訂)》, which repealed the 2004 Industrial Guidance Catalogue and removed the development and construction of ordinary residential houses from the encouraged category to the permitted category; the restricted category has been adjusted as follows: (i) the development of land lots which shall be operated only by equity joint ventures or co-operative joint ventures; (ii) the construction and operation of high-end hotels, villas, premium office buildings, international conference centers; (iii) housing agents, brokerages and the second-tier real estate market.

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Stimulus package announced by the PRC Government following the global financial crisis

In November 2008, the PRC Government announced a RMB4.0 trillion stimulus package to stimulate the PRC domestic economy. The stimulus package is expected to be spent over the next two years to finance programs in several major areas, including low-rent housing, rural infrastructure, transportation, water and electricity infrastructure, medical and sanitation, educational, cultural and other social development initiatives, energy saving and environmental protection construction, technological innovation, industry adjustments towards value-added services, and disaster recovery (mainly in relation to the May 2008 earthquake in Sichuan Province). The package also includes a tax reform mainly allowing for a value-added tax deduction for purchases of fixed assets, such as machinery, to reduce operational costs for companies. In addition, the stimulus package aims to increase rural workers' income by implementing certain measures such as increasing minimum grain bulk purchase prices and various government grants.

Also, the PRC Government announced several policies concerning the decline in the real-estate market following the global financial crisis. Such policies include:

- reduction of the proportion of registered capital in fixed asset investment projects;
- reduction of the taxation on purchases of ordinary residential properties under certain conditions; and
- reduction of interest rates for loans for residential premises of a commercial nature for individuals.

In October 2008, the Ministry of Finance and State Administration of Taxation issued the Notice on the Adjustments to Taxation on Real Estate Transactions (《財政部國家稅務總局關於調整房地產交易環節稅收政策的通知》) to encourage the first-time purchases of ordinary residential properties, which provides that:

- temporarily lowering property deed tax to 1% for first-time purchases by individuals of ordinary residential properties with a GFA of 90 sq.m. or less;
- suspending stamp duty on residential properties sold or purchased by individuals; and
- suspending LAT on residential properties sold by individuals.

In October 2008, the PBOC issued the Notice on Extending the Downward Movement of Interest Rates for Loans for Residential Premises of a Commercial Nature for Individuals in Support of First-time Purchase of Ordinary Residential Premises by Residents (中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知), which:

- reduces the down payment requirements to 20% from 30%; and
- adjusts the lower limit of the lending rate for residential properties of a commercial nature for individuals to 70% of the benchmark lending rate.

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In December 2008, to strengthen the real estate market, the State Council General Affairs Office issued Several Opinions on Promoting the Sound Development of the Real Estate Market (《國務院辦公廳關於促進房地產市場健康發展的若干意見》) to intensify the development of social security housing, encourage property purchases for self-use and upgrade purposes, and support property developers in dealing with the changing market, which provides for:

- granting second-time buyers the same favorable mortgage terms as first time buyers, rather than the risk-adjusted benchmark rate usually applicable to repeat buyers, if the average living area per person of the first property is below the local average level;
- temporarily providing business tax relief until December 31, 2009 for the transfer of ordinary and non-ordinary residential properties: (i) individuals who transfer their ordinary residential properties held for two years or more (instead of the previous five-year requirement) are exempt from business tax. Also, if the property has been held for less than two years when it is transferred, the business tax due is now calculated based on net profit (i.e., the difference between the original price and the sales price), rather than on the full sales price; and (ii) individuals who transfer their non-ordinary residential property held for two years or more (instead of the previous five-year requirement) must still pay business tax on the property based on net profit, but if the property has been held for less than two years when it is transferred, the business tax is calculated on the full sales price;
- enhancing the development of social security housing to solve the housing problem for 7.5 million poor urban families and 2.4 million rural families within three years;
- increasing construction of economically affordable housing for low-income families and the renovation of rural homes that are in dangerous condition;
- increasing credit financing services to ordinary residential housing developments with low to medium level prices or of small to medium sizes, particularly those under construction;
- providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities;
- conducting real estate investment trust’s trial test and provide various funding channels;
- supporting bond issuance by property developers with good credit and financial positions; and
- eliminating urban real estate tax, and unifying the real estate tax applicable to domestic and foreign-funded enterprises and individuals, who will all be subject to the PRC Tentative Regulations on Real Estate Tax.

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In May 2009, the State Counsel issued the Notice on Adjusting the Proportions of Registered Capital in Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) to stimulate the development of the PRC real estate industry, which provides for:

- lowering the minimum capital ratio for ordinary residential property development projects and social security housing development projects from 35% to 20%; and
- lowering the minimum capital ratio for any other project development projects (e.g., commercial property and high-end housing projects) from 35% to 30%.

For further information on PRC legal restrictions imposed by the PRC Government on the property development industry and the detailed impact of such restrictions on our Group, please refer to the section headed “Risk Factors — Risks Relating to the PRC Real Estate Industry — The PRC property market is highly regulated and subject to frequent legislation which may adversely affect property developers” and the section headed “Appendix V — Summary of Principal PRC Legal and Regulatory Provisions — Legal Framework Regulating the PRC Property Market — Foreign-invested property development enterprises” in this document.

KEY REAL ESTATE MARKETS

While the first-tier cities in the PRC including Beijing and Shanghai have continuously attracted significant amounts of real estate investment from both homebuyers and investors, property markets in other big cities in China have experienced remarkable growth in recent years. To fully capitalize on the tremendous real estate development and investment opportunities across the PRC, the Group has established a portfolio of projects in cities which are ranked amongst the top in China by their respective real estate investment amount. Besides the core coastal cities of Beijing and Shanghai, the Group has strategically selected project sites in cities which have become part of the targeted areas for promoting continued development under the PRC Government’s development plans.

BEIJING

Overview

As the nation’s capital, Beijing is a municipality that covers an area of approximately 16,807.8 square kilometers and had a total permanent population of approximately 17.0 million in 2008, representing a growth of approximately 14.1% as compared to 2004.

Beijing’s economy has developed significantly over the years and this is primarily due to robust growth of the national economy as well as the increasing inflow of foreign direct investment. From 2004 to 2008, Beijing’s nominal GDP grew from RMB606.0 billion to RMB1,048.8 billion, representing a CAGR of approximately 14.7% over the same period. Per capita GDP also increased significantly from RMB37,058 in 2004 to RMB63,029 in 2008. Since August 2008, Beijing has further enhanced its international profile with

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the successful hosting of the Olympic Games as well as improved environment and transportation systems, which is anticipated to further attract direct investment and new demand of residential properties in the city. The table below sets out selected data relating to economic development in Beijing for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	606.0	688.6	786.1	935.3	1,048.8
Per capita GDP (RMB)	37,058	45,444	50,467	58,204	63,029
GDP growth rate (%)	14.1	11.8	12.8	13.3	9.0
Per capita disposable income of urban households (RMB)	15,638	17,653	19,978	21,989	24,725

Main Source: China Statistical Yearbook and Beijing Statistical Communique 2005 to 2008

Beijing property market

Despite the series of austerity measures implemented by the PRC Government in cooling the real estate market, Beijing's property market has attracted substantial investment in the recent years. From 2004 to 2008, total investment in Beijing's real estate grew at a CAGR of approximately 6.7% to RMB 190.9 billion in 2008. The city's average selling price of commodity properties also rose significantly to RMB12,651 per sq.m. in 2008, representing a CAGR of 25.8% over the same period. On the other hand, GFA sold remained stagnant over the past years and declined sharply in 2008 due to the global recession. According to the National Bureau of Statistics, 10.3 million sq.m. of residential GFA was sold in 2008, as compared to 22.9 million sq.m. in 2004. The table below sets out selected data relating to real estate development in Beijing for the years indicated:

	2004	2005	2006	2007	2008
Total GFA completed (million sq.m.) . . .	30.7	37.7	31.9	28.9	25.6
Total GFA of commodity properties sold (million sq.m.)	24.7	31.2	26.1	21.8	13.4
Total GFA of residential properties sold (million sq.m.)	22.9	28.2	22.1	17.3	10.3
Average price of commodity properties (RMB per sq.m.)	5,053	6,788	8,280	11,553	12,651
Sales revenue (RMB billion)	124.9	212.0	215.9	251.5	169.5

Main Source: China Statistical Yearbook and Beijing Statistical Communique 2005 to 2008

SHANGHAI

Overview

Shanghai has long been established as one of the most important financial and trading centers of the PRC and the location of choice for a vast number of multinational corporations seeking to establish headquarters in China. The municipality covers an area of approximately 6,340.5 square kilometers and had a total permanent population of approximately 18.9 million in 2008.

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The Shanghai economy has been growing rapidly since the 1990s. Shanghai's GDP increased from RMB807.3 billion in 2004 to RMB 1,369.8 billion in 2008, representing a CAGR of approximately 14.1% over the same period. Per capita GDP grew from RMB55,307 in 2004 to RMB73,124 in 2008, representing a CAGR of 7.2% over the same period. As the host of the World Expo in 2010, Shanghai is expected to continue to benefit from foreign investment, further strengthening its position as the leading economic and financial center of the nation.

The table below sets out selected data relating to economic development in Shanghai for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	807.3	916.4	1,036.6	1,218.9	1,369.8
Per capita GDP (RMB)	55,307	51,474	57,695	66,367	73,124
GDP growth rate (%)	14.2	11.1	12.0	14.3	9.7
Per capita disposable income of urban households (RMB)	16,683	18,645	20,668	23,623	26,675

Main Source: Shanghai Statistical Yearbook 2005 to 2009

Shanghai property market

The Shanghai property market was rather stagnant over the past few years, especially in 2008, when the global financial crisis exerted huge pressure on the whole real estate industry. The level of speculation was greatly reduced since the crisis and the introduction of austerity measures, which have squeezed out weaker developers, creating a healthier property market as a result of industry consolidation. This is expected to lay down stronger fundamentals for steady and sustainable growth in the Shanghai property market. In addition, Shanghai World Expo 2010 is expected to be a positive catalyst for the Shanghai property market given the improved infrastructure system and revitalization of the expo venue.

According to the National Bureau of Statistics, 19.7 million sq.m. of residential properties were sold in Shanghai in 2008, representing a 40.0% decline over 2007, while the average selling price remained stable at RMB8,182 per sq.m. The table below sets out selected data relating to real estate development in Shanghai for the years indicated:

	2004	2005	2006	2007	2008
Total GFA completed (million sq.m.) . . .	34.4	31.0	32.7	33.8	24.8
Total GFA of commodity properties sold (million sq.m.)	34.9	31.6	30.3	36.9	23.0
Total GFA of residential properties sold (million sq.m.)	32.3	28.5	26.2	32.8	19.7
Average price of commodity properties (RMB per sq.m.)	5,855	6,842	7,196	8,361	8,255
Sales revenue (RMB billion)	226.4	216.1	217.7	308.9	189.5

Main Source: Shanghai Statistical Yearbook 2005 to 2009

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CHONGQING

Overview

As a PRC Government designated pilot reform city under the West Development Strategy, Chongqing is one of the most important economic hubs and transportation hubs of western China, which has witnessed sharp increase in investors' interests. Chongqing is also the fourth self-administered municipality in China, after Beijing, Shanghai and Tianjin, covering an area of approximately 82,400 square kilometers. It recorded a total permanent population of approximately 28.4 million in 2008, making Chongqing the most populous city in the PRC.

As a result of recent policy initiatives, the Chongqing economy has experienced a remarkable growth in the past five years. GDP increased from RMB269.3 billion in 2004 to RMB509.7 billion in 2008, representing a CAGR of approximately 17.3% over the same period. Per capita GDP grew from RMB9,608 in 2004 to RMB18,025 in 2008, representing a CAGR of approximately 17.0%. The table below sets out selected data relating to economic development in Chongqing for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	269.3	306.7	345.2	412.3	509.7
Per capita GDP (RMB)	9,608	10,982	12,457	14,660	18,025
GDP growth rate (%)	12.2	11.5	12.2	15.6	14.3
Per capita disposable income of urban households (RMB)	9,221	10,244	11,570	12,591	14,368

_____ *Main Source: Chongqing Statistical Yearbook 2005 to 2009*

Chongqing property market

According to the 11th Five-Year Plan, the urbanization rate of greater Chongqing is targeted at 52% by the end of 2010, as compared to 50% in 2008. This, together with the expected population growth of Chongqing, presents solid growth potential for its property market.

In line with its positive economic sentiment and growing housing demand, Chongqing's real estate market experienced considerable growth in recent years. Average commodity property prices grew at a CAGR of approximately 12.1% from RMB1,766 per sq.m. in 2004 to RMB2,786 per sq.m. in 2008. Commodity property trading volume grew at an even more impressive pace at a CAGR of approximately

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36.1% over the same period, more than tripling sales revenue for the Chongqing property market in five years. The table below sets out selected data relating to real estate development in Chongqing for the years indicated:

	2004	2005	2006	2007	2008
Total GFA completed (million sq.m.)	15.9	22.1	22.3	22.5	23.7
Total GFA of commodity properties sold (million sq.m.)	13.3	20.2	22.3	35.5	28.7
Total GFA of residential properties sold (million sq.m.)	11.6	17.9	20.1	33.1	26.7
Average price of commodity properties (RMB per sq.m.)	1,766	2,135	2,270	2,723	2,786
Sales revenue (RMB billion)	23.3	43.1	50.6	96.7	80.0

Main Source: Chongqing Statistical Yearbook 2005 to 2009

CHENGDU

Overview

Chengdu is the provincial capital of the Sichuan Province and has emerged as an important manufacturing hub of southwest China following the entry of a number of large multinational companies. Covering an area of approximately 12,390.0 square kilometers, Chengdu’s total permanent population was approximately 12.7 million in 2008.

Having benefited from the PRC Government’s West Development Strategy, Chengdu has experienced substantial economic growth, with nominal GDP increasing at a CAGR of approximately 17.7% from RMB 203.1 billion in 2004 to RMB390.1 billion in 2008. Per capita disposable income in Chengdu also grew significantly from RMB10,394 in 2004 to RMB16,943 in 2008, indicating the increasing purchase power of the Chengdu population. The table below sets out selected data relating to economic development in Chengdu for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	203.1	237.1	275	332.4	390.1
Per capita GDP (RMB)	18,856	19,627	22,269	26,526	30,855
GDP growth rate (%)	13.6	13.5	13.8	15.3	12.1
Per capita disposable income of urban households (RMB)	10,394	11,359	12,789	14,849	16,943

Main Source: Sichuan Statistical Yearbook and Chengdu Statistical Communique 2005 to 2008

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Chengdu property market

Chengdu’s property market has also experienced a robust upward trend in recent years, with the total investment in the real estate sector amounting to RMB91.3 billion in 2008, representing a CAGR of approximately 33.1% from RMB29.1 billion in 2004. According to the National Bureau of Statistics, the average price of residential properties grew at a CAGR of approximately 19.6% from RMB2,377 per sq.m. in 2004 to RMB4,869 per sq.m. in 2008 and residential GFA sold more than doubled to 20.8 million sq.m. in 2007 from 10.2 million sq.m. in 2004. However, residential GFA sold dropped sharply to 11.9 million sq.m. in 2008 due to the global recession. The table below sets out selected data relating to real estate development in Chengdu for the years indicated:

	2004	2005	2006	2007	2008
Total GFA completed (million sq.m.)	8.6	7.6	12	10.9	9.6
Total GFA of commodity properties sold (million sq.m.)	11.3	12.3	16.0	22.3	12.7
Total GFA of residential properties sold (million sq.m.)	10.2	11.1	14.9	20.8	11.9
Average price of residential properties (RMB per sq.m.)	2,377	2,866	3,493	4,198	4,869
Sales revenue of commodity properties (RMB billion)	30.6	39.6	58.2	95.2	62.7

Main Source: Sichuan Statistical Yearbook and Chengdu Statistical Communique 2005 to 2008

XI’AN

Overview

As the capital city of Shaanxi Province, Xi’an is a historical city and an important tourist destination being the home to China’s terracotta warriors. It is the core political, economic and cultural center of northwest China and a significant high-tech manufacturing hub designated by the PRC Government as one of five “China Outsourcing Bases”. Xi’an covers an area of approximately 10,108 square kilometers and had a total permanent population of approximately 8.4 million in 2008.

The table below sets out selected data relating to economic development in Xi’an for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	110.2	127.0	147.4	176.4	219.0
Per capita GDP (RMB)	15,294	15,859	18,085	21,339	26,259
GDP growth rate (%)	13.5	13.1	13.1	14.7	15.6
Per capita disposable income of urban households (RMB)	8,544	9,628	10,905	12,662	15,207

Main Source: Xi’an Statistical Yearbook and Xi’an Statistical Communique 2005 to 2008

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Xi'an property market

According to the National Bureau of Statistics, the average price of residential properties grew from RMB2,546 per sq.m. in 2004 to RMB4,455 per sq.m. in 2008, representing a CAGR of 15.0%. Residential GFA sold more than doubled to 6.0 million sq.m. over the same period, resulting in an unprecedented growth in property sales revenue. The table below sets out selected data relating to real estate development in Xi'an for the years indicated:

	2004	2005	2006	2007	2008
Total GFA completed (million sq.m.) . . .	3.8	3.6	4.0	4.8	4.7
Total GFA of commodity properties sold (million sq.m.)	3.1	5	6.2	8.3	7.6
Total GFA of residential properties sold (million sq.m.)	2.8	4.8	5.8	7.8	6.0
Average price of residential properties . . (RMB per sq.m.)	2,546	3,317	3,073	3,216	4,455
Sales revenue of commodity properties . . (RMB billion)	8.1	17.1	20.6	28.2	31.8

Main Source: Xi'an Statistical Yearbook and Xi'an Statistical Communique 2005 to 2008

The West Development Strategy has made inland cities, such as Chongqing, Chengdu and Xi'an important economic centers and real estate markets of the PRC

In January 2000, the PRC Government implemented the West Development Strategy under which favorable policies and specific regulations were implied to attract and encourage investments to the Western regions, thus accelerating the economic growth in the area. This West Development Strategy covering Chongqing, Sichuan and Shaanxi was officially launched under the 10th Five Year Plan of 2001 and further emphasized in the 11th Five Year Plan of 2006.

The West Development Strategy has four main goals for the western area of China: (1) to accelerate the construction of infrastructure (such as roads, energy and communications); (2) to further protect and develop the ecological environment; (3) to adjust and rationalize the industrial structure, strengthen and expand the agricultural sector and to develop the tourism industry; and (4) to continue to develop areas of science and technology and education. Xi'an, the capital city of Shaanxi Province, Chengdu, the capital city of Sichuan Province, and Chongqing, the fourth self-administered municipality in China, have been designated by the PRC Government as the three core municipal economic zones to promote development across the whole western region of the PRC.

The strategy is estimated to take approximately 50 years, and from 1999 to 2008, investment in western regions totaled to approximately RMB1.5 trillion. Since the commencement of the strategy, western China has recorded an annual average economic growth of approximately 11.4% with the combined GDP reaching approximately RMB5.8 trillion in 2008. In addition, following the destructive Sichuan Earthquake, approximately RMB1 trillion will be spent on recovering and reconstruction, which is anticipated to further support the economic growth of the region.

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WUXI

Overview

Wuxi is a historical commercial center and the second largest economy in Jiangsu Province in terms of GDP, one of the most prosperous regions in China. It covers an area of approximately 4,788 square kilometers and had a total permanent population of approximately 6.11 million in 2008.

Propelled by private economy and foreign investment, Wuxi has achieved robust economic growth with nominal GDP increasing at a CAGR of approximately 17.1% from RMB235.0 billion in 2004 to RMB442.0 billion in 2008, and its per capita GDP surpassed USD10,000 to RMB73,053 in 2008.

The table below sets out selected data relating to economic development in Wuxi for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	235.0	280.5	330.0	385.8	442.0
Per capita GDP (RMB)	42,419	50,958	57,709	65,203	73,053
GDP growth rate (%)	17.4	15.1	15.3	15.3	12.4
Per capita disposable income of urban households (RMB)	13,588	16,005	18,189	20,898	23,605

Main Source: Jiangsu Statistical Yearbook and Wuxi Statistical Communique 2005 to 2008

Wuxi property market

Situated beside the Taihu Lake and in line with the substantial growth in per capita GDP, Wuxi's real estate market experienced significant growth in recent years. Sales revenue of commodity properties increased at a CAGR of 29.1% from RMB10.4 billion in 2004 to RMB28.9 billion in 2008 while the average commodity property price grew from RMB2,534.3 per sq.m. to RMB5,375.5 per sq.m. over the same period.

The table below sets out selected data relating to real estate development in Wuxi for the years indicated:

	2004	2005	2006	2007	2008
Real-estate investment (RMB billion) . . .	19.6	22.8	27.7	37.8	45.0
Total GFA of commodity properties completed (million sq.m.)	4.8	5.7	6.6	6.1	7.1
Total GFA of commodity properties sold (million sq.m.)	4.1	6.0	6.5	7.4	5.4
Average price of commodity properties (RMB per sq.m.)	2,534.3	2,161.5	3,807	4,578.7	5,375.5
Sales revenue of commodity properties (RMB billion)	10.4	12.9	24.7	33.7	28.9

Main Source: Jiangsu Statistical Yearbook and Wuxi Statistical Communique 2005 to 2008

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SHENYANG

Overview

As the capital city of Liaoning Province, Shenyang has long been the economic and industrial center of north eastern China. Covering an area of approximately 12,980 square kilometers, Shenyang's total permanent population was approximately 7.8 million in 2008.

Benefiting from its strategic position in north eastern China, especially the rejuvenation strategy of old industrial bases in the 11th Five-Year Plan, Shenyang has witnessed substantial economic growth with its nominal GDP growing from RMB177.3 billion in 2004 to RMB386.1 billion in 2008, representing a CAGR of approximately 21.5% over the same period. Per capita disposable income also grew from RMB8,924 in 2004 to RMB17,295 in 2008.

The table below sets out selected data relating to economic development in Shenyang for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	177.3	208.4	252.0	322.1	386.1
Per capita GDP (RMB)	25,640	29,935	35,940	45,561	54,106
GDP growth rate (%)	15.5	16.0	16.5	17.7	16.3
Per capita disposable income of urban households (RMB)	8,924	10,098	11,651	14,607	17,295

Main Source: Liaoning Statistical Yearbook and Shenyang Statistical Communique 2005 to 2008

Shenyang property market

Compared with the city's substantial GDP growth, Shenyang's property price has been relatively stagnant, with the average price of residential properties growing at a CAGR of approximately 6.8% from RMB2,965 per sq.m. in 2004 to RMB3,856 per sq.m. in 2008, largely reflecting ample property supply in the local market. On the other hand, sales revenue of commodity properties sold more than tripled to RMB60.5 billion in 2008 from RMB17.0 billion in 2004. The table below sets out selected data relating to real estate development in Shenyang for the years indicated:

	2004	2005	2006	2007	2008
Total GFA completed (million sq.m.) . . .	8.2	10.6	11.9	12.9	12.9
Total GFA of commodity properties sold (million sq.m.)	5.9	10.0	12.4	14.6	14.7
Total GFA of residential properties sold (million sq.m.)	5.5	9.3	11.5	13.6	13.1
Average price of residential properties (RMB per sq.m.)	2,965	3,027	3,184	3,536	3,856
Sales revenue of commodity properties (RMB billion)	17.0	31.7	42.0	54.1	60.5

Main Source: Liaoning Statistical Yearbook and Shenyang Statistical Communique 2005 to 2008

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CHANGZHOU

Overview

Situated in the center of the Yangtze River Delta, Changzhou is an important modern manufacturing base in the region, forming a metropolitan region with Suzhou and Wuxi. The city covers an area of approximately 4,385 square kilometers and had a total permanent population of approximately 4.41 million in 2008.

Changzhou has achieved double-digit economic growth in the recent years with nominal GDP doubled from RMB110.1 billion in 2004 to RMB220.2 billion in 2008, and its per capita GDP increased at a CAGR of 12.3% from RMB 31,665 to RMB50,283.

The table below sets out selected data relating to economic development in Changzhou for the years indicated:

	2004	2005	2006	2007	2008
Nominal GDP (RMB billion)	110.1	130.2	156.9	188.0	220.2
Per capita GDP (RMB)	31,665	37,174	37,210	43,674	50,283
GDP growth rate (%)	15.5	15.1	15.2	15.6	12.4
Per capita disposable income of urban households (RMB)	11,867	14,589	16,649	19,089	21,592

Main Source: Changzhou Statistical Yearbook and Changzhou Statistical Communiqué, 2004 to 2008

Changzhou property market

In line with the rapid economic growth, Changzhou's real estate market also grew significantly in recent years. Sales revenue of commodity properties increased at a CAGR of 40.7% from RMB5.9 billion in 2004 to RMB23.1 billion in 2008 while the average commodity property price grew from RMB2,477 per sq.m. to RMB4,629 per sq.m. over the same period.

The table below sets out selected data relating to real estate development in Changzhou for the years indicated:

	2004	2005	2006	2007	2008
Total GFA of commodity properties completed (million sq.m.)	2.5	5.2	4.0	6.0	6.9
Total GFA of commodity properties sold (million sq.m.)	2.4	3.0	4.8	5.8	5.0
Total GFA of residential properties sold (million sq.m.)	2.0	2.6	4.1	5.1	4.3
Average price of commodity properties (RMB per sq.m.)	2,477	3,683	3,992	4,292	4,629
Sales revenue of commodity properties (RMB billion)	5.9	11.0	19.1	22.9	23.1

Main Source: Changzhou Statistical Yearbook and Changzhou Statistical Communiqué, 2004 to 2008