

Business Analysis

Real estate

In 2005, the real estate market in Mainland China and Shanghai experienced the process from rapid surge to gradually reasonable development. In order to curb overheated housing price, suppress speculation activities, adjust the structure of supply and demand so as to optimize and protect the system, the State government and the local government of Shanghai issued a series of powerful macroeconomic measures to promote the sustained, healthy and stable development of the real estate industry.

Since the second quarter of 2005, although the trend index for property enterprises in the real estate market in Mainland China remained at "relativity positive", there had been a remarkable fall comparing with "considerably positive" in 2004. It is worth to note that in the fourth quarter of 2005, the trend index for property enterprises in Shanghai was 125.5, slightly higher than 124.6 of the third quarter.

According to the Statistics Bulletin of Shanghai's Chinese National Economic and Social Development of 2005 (二零零五年上海市國民經濟和社會發展統計公報) issued by the Bureau of Statistics of Shanghai, Shanghai achieved added value in the real estate industry of RMB67.023 billion during the year, representing a decrease of 4.1% from the previous year.. Completed investment in real estate for the year amounted to RMB124.868 billion, representing a 6.1% increase compared to the previous year. Total floor area of commodity housing under construction was 104.6239 million square meters, an increase of 10.3% compared to last year. Completed commodity housing was 30.9574 million square meters, a decrease of 10.1% compared to last year. Area sold of commodity housing was 31.5887 million square meters, a 9.5% decrease over last year, of which the sales of commodity housing decreased by 12% over last year at 28.457 million square meters. Total sales of commodity housing for the year was RMB216.13 billion, a decrease of 4.5% compared to the previous year, of which the sales of commodity housing was RMB 190.605 billion, a decrease of 7.7% over last year. Area of housing available for sale and sold for the year was 19.7155 million square meters, a decrease of 27.7% over last year.

Comparing the year of 2005 with 2004, the growth in price of real estate demonstrated signs of slowing down. In the middle of December, the Shanghai composite index of CREI was 1351, which was decreased by 166 points from July to December accumulatively, representing a decrease of 10.9%. The Shanghai index of CREI was 1286 points, which was decreased by 170 points from July to December accumulatively, representing a decrease of 11.7%. The sales price of housing for the year increased by 9.7% over the last year, the growth rate of which decreased by 6.2 percentage points from the previous year. Of which, the sales price of commodity housing increased by 9.2%, the growth rate of which decreased by 6.6% over the last year. The leasing price of housing for the year increased by 3.6%, the growth rate of which decreased by 1.9 percentage points from the previous year. The trading land price level for the year increased by 6.9%, the growth rate of which decreased by 13.4% percentage points from the previous year.

According to the most recent information being surveyed by the Office of Shanghai index of China Real Estate Index (CREI), the Shanghai index of CREI just decreased 1% in January 2006, comparing with the monthly average decrease rate of 1.95% in the second half of 2005, decreased by 0.95 percentage points. The downward moving trend in housing price continued to slow down, and confidence in the market resumed. It was evidenced that macroeconomic adjustment have reached a remarkable effect, and its positive effects on the industry as a whole will be reflected gradually.

Apartment

It was shown in the Statistics Bulletin of Shanghai's Chinese National Economic and Social Development of 2005 published by Shanghai Statistics Bureau that the completed housing construction investment in Shanghai amounted to RMB92.973 billion, representing an increase of 1.7% over the last year. The public facilities completed to complement residential housing were over 2,644,000 million square meters. There were 8,518,500 square meters of gross floor area being demolished for the year, representing an increase of 91.1% over the last year. Relocated residents amounted to 74,500 households, representing an increase of 34.5% over the last year. As at the end of 2005, the usable area of housing per capita in urban and rural areas was 21.3 square meters, which was increased by 0.9 square meters over the end of last year. The housing residential area per capita was 15.5 square meters, which was increased by 0.7 square meters. The rate of residential housing constructed reached 93%.

Although of the living standard of Shanghai citizens continued to increase, there was still a great gap when compared with the living standard of the developed countries (in 2004 the usable area of housing per capita in Shanghai, Hong Kong and Singapore was 14.8 square meters, 17.5 square meters; and 23 square meters respectively). To the year of 2010, the usable area of housing per capita in Shanghai will be over 20 square meters. There will be about 7% increase in the number of residents domiciled in Shanghai. As a result, the demand for the new commodity housing will remain above 20,000,000 square meters per annum.

Cedar Oasis Garden (Long Island Oasis Garden Phase III), Lakefront Oasis Garden, Albany Oasis Garden, Rich-Gate Oasis Garden, Skyway Oasis Garden developed by the Group, were grouped under top-end or medium housing. These projects placed emphasis on their own specific target market. With its superior planning and construction as well as leveraging on the premium branding effect from "Oasis Garden", trend of sales remained good since it commenced sales.

Villas

In 2005, the competent government authority restated its policies about ceasing to grant permission on the sales of land for the construction of villas. The availability of land for the construction of villas became limited. Meanwhile, the government also tightened the supply of credit to villa buyers. The percentage of down-payment was increased from 20% to 30%. Shanghai began to levy land value-added tax on the transaction of stand-alone villas, with the tax rate ranging from 30% to 60%.

Subject to the positive and negative factors as described above, in 2005, the entire villa market in Shanghai was less affected by the macroeconomic adjustment of the State. Although the volume transacted for the year decreased, the traded price still remains stable. Pursuant to the statistics from the "Real Estate Website" in Shanghai, in respect of the transaction volume, 1,580,000 square meters of villas in different types were transacted between January to December of 2005, and was reduced by 430,000 square meters when compared with the volume transacted on villa of 2,010,000 square meters for the year of 2004. According to the transaction volume, the top five areas were Songjiang District, Minhang District, Pudong District, Qingpu District and Nanhui District. According to the information as monitored by the Office of Shanghai Villa Index of China Chinese real estate index system, the Shanghai villa index was 2626 in December 2005, which almost the same as 2656 in December 2004.

Beverly Oasis Garden, Jiangnan Oasis Garden and Thousand Island Oasis Garden, which were developed by the subsidiaries of the Company and located in Songjiang District, Qingpu District and Nanhui District respectively, the three major international villa districts, fully realized the potential of villa land value. Much efforts were devoted in the planning of layout, concept, design products, landscaping, materials selection and integration of culture and scene, so that sophisticated units that can endure the essence of time can be delivered and fully achieved the value of stand-alone villa.

Commercial real estate

With the ongoing steady development in the economy of Shanghai, the increasingly open and mature commercial environment have attracted more and more multi-international enterprises and entities to Shanghai for investment and development. Throughout the year of 2005, 4,091 foreign-investment contracts were approved in Shanghai, which attracted funds for foreign-investment amounted to US\$13.833 billion, representing an increase of 18.3% over the last year. The quality of foreign-investment attracted to Shanghai also enhanced continuously.

With the establishment of Shanghai Headquarter of People's Bank of China, there were 73 financial entities created. As at the end of the year, there were 123 foreign financial institutions operating in Shanghai, with 14 entities created. There were 29 foreign owned banks in Shanghai with their head office being designated as the principal reporting bank with businesses in Mainland China.

According to the report of Savills, the rentals of Grade A office in Shanghai Puxi raised 22.4%, representing a new high over the previous years, whilst the vacancy rate was only 5%. The Shanghai office index of CREI was 1,458 in December 2005, which was increased by 169 points or 13.1%.

In 2006, pursuant to the commitments made in entering WTO, the financial industry (bank, insurance and securities), telecommunication industry, IT industry and wholesale and retailing industry in China will be opened entirely. The restriction on the participation by foreign investment will be further released, which will rapidly increase the number of foreign and overseas entities to invest in China. As Shanghai is the municipality in China that is most open and equips with best capability in sustainable development, the market demand for Grade A office will be even stronger. Pursuant to the estimate made by commercial property division of Jones Lang LaSalle, the rental of high-end office in Shanghai will continually increase at an annual rate of over 10% in the coming two years. The supply of space in the annex building, commercial podium and stand-alone commercial properties in business area of the Administration District will become the focus of the market.

Currently, there are nine real estate projects under development by the Group, including 5 projects with hotels, shops and offices, namely Luodian North Europe Town (hotel and shops), Rich Gate Oasis Garden (shops), Skyway Oasis Garden (hotel), Central-Ring Center (shops, hotel and office) and Yabinli Oasis Garden (shops, hotel and office). Two hotels in Luodian North Europe Town had commenced operation. Shops in North Europe commercial street and Rich Gate Oasis Garden are now available for rental. Skyway hotel will be opened within the year, Central-Ring Center and Albany Oasis Square are expected to complete and commence commercial operation in 2008 and 2009 respectively.

The majority of the Group's developing hotels, shops, office and other commercial real estate properties will substantially retained as investment property for leasing for recurrent rental earnings.

It is expected that hotels, shops, offices and so on which were retained as investment properties will have a positive prospect and their contribution to the Group in future will increase gradually.

Urban development

The "Eleventh Five-year Plan" for the social and economic development in China will facilitate the sound development of urban area actively and stably. The coordinated development of major or medium size cities and small towns will be uphold and become a focus of facilitating regional coordinated development. New city groups with less land usage, more employment, strong concentration of essential factors, reasonable population distribution will thus be formed.

After three years' development, Luodian North Europe Town invested and developed by the Group first witnessed its results. The relocation of residents and enterprises within the area of 68,000 square kilometers was fundamentally completed. Two golf courses (36 holes) with PGA standard Lake Malaren Golf Hotel with "five-star" standard, an international Conference Center with 24 meeting rooms and 76 units of standard accommodations, north European style commercial street with 66,000 square meters, the Nobel Park with five north European countries style were completed. In 2003 and 2004, there were two blocks of land that had completed site formation were acquired from the government through open market bidding. As the first and wholly foreign owned company anticipating the first level land development of "One City and Nine Townships" plans in Shanghai, the Group will continue to improve the functions of Luodian North Europe Town, enhance the image of North Europe Town, and become well prepared for the land bidding in the next round.

Housing technology

In 2005 the pace of development of integrated IT Infrastructure construction in Shanghai increased. As at the end of the year, 1621 duct kilometers of integrated IT lines were completed, representing an increase of 361 duct kilometers. Value of RMB 42.25 billion were added to IT services, representing an increase of 26.4% comparing with the last year. Internet users reached 8,030,000 households, an increase of 1,700,000 households or 26.85% over the last year. Broadband users reached 2,474,000, an increase of 885,800 or 55.77%.

The building standard and degree of informatization in Shanghai residential area will be further enhanced. By capitalizing on the abundant internal resources from the rapid growth of Group's real estate development business and the expansion of housing technology basis fundamental expertise team, improvement in the quality on related operations and establishment of the long-term strategic relationship with professional technology equipment supplier and operators, the Group's prospect on housing technology business development is optimistic.