

## Business Analysis

### Apartment

The area of commodity housing transacted in Shanghai during 2006 was in a rising trend. According to the index compiled by [www.fangdi.com.cn](http://www.fangdi.com.cn), there were an aggregated total of 180,929 units of residential properties with an area of 20,673,300 square meters transacted during the year, representing an increase of 16.7% over 2005.

The old district transformation maintained a reasonable scale in 2006. There were 8,484,000 square meters of gross floor area being demolished in the year, which was about the same as in the previous year. Relocated residents amounted to 76,900 households, representing an increase of 3.2% over last year. By the year end, the usable area of housing per capita in urban and rural areas was 22 square meters, which was increased by 0.7 square meters over the end of last year. The housing residential area per capita was 16 square meters, which was increased by 0.5 square meters. The rate of residential housing constructed reached 94%. According to the Report on Shanghai's Residential market of 2006 published by E-House China, a research institution, the supply and demand in the Shanghai real estate market was basically in balance. The ratio of supply and demand of commodity housing of the market was 1:0.98 for the year.

In 2006, in line with the large quantity of supply in low to mid price commodity housing, the general trend of commodity housing in Shanghai was stable with some pockets of weakness. Statistics in the Work Report of Shanghai's Chinese National Economic and Social Development of 2006 indicated that the selling price of commodity housing was down 3.2% for the year with an average price of RMB 7,038 per square meters. Housing rent in the contrary was up 4% in the year.

Cedar Oasis Garden, Lakefront Oasis Garden, Albany Oasis Garden and Rich-Gate 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 excellent quality of construction as well as leveraging on the premium branding effect from "Oasis Garden", the trend of sales remained good since it commenced sales.

### Villa

Under the 2006 edition of the Catalogue of Projects Whose Land Use is Restricted and the Catalogue of Projects Whose Land Use is Prohibited jointly published and implemented by the Ministry of Land and Resources and other departments, land use for villa projects are specifically prohibited. Contrary to the gradually diminishing supply of land for villa, the volume of villa transaction was increasing.

Recent data for the month of June 2006 indicated that the average transacted price of Shanghai villa was RMB 14,077.5 per square meter with 888 units changed hands. Such average price was the highest in the first half of the year and then it entered the traditional low season. In November 2006, both volume and price were up in the villa market, with 914 units transacted at an average price of RMB 14,585 per square meters.

The major international villa districts, Jiangnan Oasis Garden and Thousand Island Oasis Garden, which were developed by the subsidiaries of the Group and located in Qingpu District and Nanhui District respectively. Leverage on their planning of layout, concept, product design, landscaping, materials selection and integration of culture and scenery, the sales of these villas will continue to be remarkable. The Beverly Oasis Garden, located in the Songjiang District, will all be sold in 2007.

# Business of the Group

## Commercial real estate

In 2006, commercial real estate was the sector with the fastest development in the real estate market of Shanghai.

The proportion of trading volume of office increased. Office trading in the core business district of Shanghai accounted for 78% of total trading of commercial real estate during the two months of May and June in 2006. According to the Report on Shanghai's Real Estate Market of 2006 issued by DTZ Debenham Tie Leung Ltd., the total amount of Shanghai real estate traded by foreign institutional investors was over RMB 18 billion with a total area of 1 million square meters, both tripled the amount of 2005. Among which Grade A office was the main contributor.

Office rent increased whilst vacancy lowered continuously. According the recent statistics of Savills, the overall rent index for Grade A office in Shanghai was up 8.5%. The rent index for core business and non-core business districts increased 13.1% and 7.1% respectively. The average vacancy in core business district was 3%, which was the lowest level in a decade. As China's financial hub and a district with the most vibrant economy, Shanghai has become the only choice for setting up headquarters in China by multinational enterprises pursuing development in China.

Grade A office was in a short supply. According to the survey of DTZ Debenham Tie Leung Ltd., there were only six Grade A office buildings completed in 2006 with a new supply of approximately 245,000 square meters, which was far less than the 450,000 square meters of 2005.

As the consumer market grew rapidly in Shanghai, and the macro-economic control against the real estate market has a relatively smaller impact on commercial properties, together with the benefit of a higher rate of investment return, both new supply and transaction volume of commercial real estate went up. In 2006, there were 17,862 units of commercial real estate transacted in Shanghai totally, representing an increase of 27.7% over 2005. The area of commercial properties transacted was 1,970,000 square meters, representing a growth of 19.7% from 2005, with a monthly average of over 110,000 square meters. The total amount of commercial real estate transacted was RMB 20.2 billion, which was 22.2% more than that of 2005.

The projects which were developed or being under development by the Group included the Lake Meilan Govern Hotel of Luodian North Europe Town, North Europe commercial street, shops of the Rich Gate Oasis Garden, The Skyway Landis Hotel, executive center of the Central-Ring Center (shops, hotel and office) and Albany Oasis Garden (shops, hotel and office). Among them, the Lake Meilan Govern Hotel has commenced operation, and the letting of shops of the Rich Gate Oasis Garden was basically completed, while the Central-Ring Center and Albany Oasis Garden are expected to be completed and commence operation in 2008 and 2010 respectively.

A portion of the Group's developing hotels, shops, office and other commercial real estate properties will be retained as self-operated property and investment property to earn recurrent accommodation income and rental income by leasing. It is expected that such retained hotels, shops, offices and etc. will have a positive prospect and their contribution to the Group in future will increase gradually.

## Urban development

China will adopt the principle of land saving, concentrated development, reasonable lay out and coordinated development in the active development of new city and town. The aim of which is to establish new cities with less land usage, more employment, a strong concentration of essential factors and a reasonable population distribution.

After four 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 international 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 2007, 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.

China New Town Development Company Limited (CNTD), which has completed restructuring, will seek separate listing through collaborated effort with strategic investors. CNTD will draw on the successful experience as well as the status established in the construction of Luodian North Europe Town and develop new towns with a high concentration of emerging industries in the rural area of second line cities, which will have a great potential of development.

### Housing technology

The Housing Construction Plan of Shanghai for 2006 to 2010 has provided new requirements for protective measures such as technological innovation and science and technology support for implementing the housing construction plan of Shanghai in the “Eleventh Five-year Plan” period. Insisting on original innovation, integrated innovation and assimilated re-innovation, the standard of housing technology is to be enhanced. A network for information management will be constructed, the integrity of the fundamental data base of housing is to be improved, information resources are to be integrated, and the system covering the whole life cycle of commodity housing for management purposes will be improved. As a result, a comprehensive three levels – city, district (county) and street (village and town) – network management system is to be established.

The building standard and degree of informatization in Shanghai residential area will be further enhanced in 2007. 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 promising.