Market Outlook

2013 marks the start of a new stage in economic reform under China's fifth generation of political leaders. The new leadership team has demonstrated its desire to sustain the country's strong economic performance while retooling the economy to achieve more balanced growth. Encouragingly, growth momentum has gradually, if slowly, strengthened since 4Q 2012, despite lingering external risks which could flare up to disrupt this nascent recovery – the Euro-area debt crisis could worsen, mis-handling of the US debt ceiling problem could dampen economic growth, and geopolitical conflicts could spin out of control and impact local, regional and international markets. Against this backdrop of risks and uncertainties, the Chinese authorities have stated as their policy goal to achieve economic growth at an annual rate of around 7.5%, with promises of fiscal measures to combat any worsening of the fragile global economy. At the same time, with reform providing the key thrust in the government's policy initiatives, efforts are being made to address a number of long-standing issues in China's economic system.

The residential property market stands to benefit from the improving economic outlook this year, though such benefit would have to be balanced against various property tightening measures. Housing prices have stabilised and sales transactions picked up strongly in early 2013. Although housing policy was further tightened in March, which will negatively influence buyers' expectations and lead to a reduction in demand from upgraders in the short term, we expect the impact shall not last long. As with previous control measures to restrain demand, it is likely the current policy may result in a further accumulation of pent-up demand and thus the resumption of price growth momentum after a temporary short period of adjustment. Recent trends indicate that a moderation of housing supply this year in most Tier-1 and 2 cities will be a key factor in support of housing prices, which should help to mitigate the policy impact on developers' financial position.

The commercial property market sector outperformed market expectation in 2012, and the outlook for this market remains generally positive as China continues her economic re-balancing using domestic consumption and services sector as the major engines of growth. The goal to double per-capita income and achieve a moderately prosperous society by 2020 points to the rapid emergence of a sizable middle-class consumer group, with various policies being implemented to boost urban household incomes. Our projects, strategically located in the

Rui Hong Xin Cheng is the first sustainable development community in East China that achieved the LEED – Neighborhood Development Pilot Version Stage 2 Gold level (Pre-certification) urban centre of key economic hubs with outstanding growth prospects throughout China - Shanghai, Chongqing, Wuhan, Foshan and Dalian, stand to benefit from this important trend.

Benefiting from the financial liberalisation of the government's reform agenda, Shanghai is well on course to becoming an international financial centre by 2020. Its commercial office and retail property sectors thus offer promising development and investment prospects. In 2012, a further 50 multinationals moved their regional headquarters to Shanghai, bringing the total to 403. In recent years, many major international retailers have also opened new stores at a steady rate in the city, reflecting their optimism with regard to the market's prospects. According to Savills, Shanghai Grade A office and retail rentals increased by 10.3% and 4.5% respectively in 2012. The commercial property market is thus expected to maintain strong growth momentum into 2013, riding on the rapidly rising purchasing power of consumers.

Chongqing and Wuhan are emerging as the regional economic hubs of Western and Central China respectively. Chongqing's GDP growth reached 13.6% in 2012, 5.8% higher than the national average. Foreign direct investment (FDI) remained robust, with the number of top-500 global companies in Chongqing rising from 200 in 2011 to 225 in 2012. Propelled by the strong demand, average rents for Grade A offices grew by 12.0% in 2012, according to Jones Lang LaSalle. Yuzhong District, along with Liangjiang New Area, were also selected for fast-track development by the "national services industry comprehensive reform pilot programme" last year. This special status means that Yuzhong District, where our Chongqing Tiandi project is located, will experience accelerated development of tertiary sector activities. This should benefit Chongqing's Grade A office market, not only helping to raise our project profile but also making Chongqing Tiandi an integral part of Chongqing's new financial core.

Wuhan's role as a transportation hub in central China was further boosted with the commencement of the Beijing-Guangzhou high-speed rail line. Completed at the end of 2012, this new line makes it possible to travel from Wuhan to either Beijing or Guangzhou within four hours. Supported by solid economic fundamentals, Wuhan's GDP grew by a robust 11.9% in 2012. Its consumer market has also expanded rapidly. Retail sales rose 15.8% in 2012 to RMB343 billion, putting Wuhan among the top ten Chinese Mainland cities ranked by retail sales value. The city's commercial property market also remained buoyant in 2012. According to DTZ, Grade A offices in Wuhan enjoyed an impressive 22.4% in rental growth while average prime retail rentals increased by 4.3%.

Foshan and Dalian possess enormous yet underdeveloped potential as leisure and retail hubs for China's economic hinterland. Despite the slowdown in GDP growth to 8.0% in 2012 in view of external headwinds, Foshan remains one of China's richest cities, with total household savings increasing by 10.8% to RMB521 billion. In February 2012, Foshan rolled out a three-year urban renewal plan aiming to significantly improve the city's image, infrastructure and industrial facilities. The city has also launched a series of policies supporting innovation and industrial reform among business enterprises, with investment funds of up to RMB10 billion over the next five years to support these activities.

Dalian, a major port city in China, has the advantage of being located on the coast and having world-class infrastructure. In 2012, Dalian recorded GDP growth of 11.0%. It also continued to be one of the leading destinations for incoming investment, attracting more than USD12.3 billion in FDI. This strong economic momentum has also driven speedy growth in its consumer markets. As the major gateway city to China's Northeast region, Dalian is in a favourable position to attract visitors from its outlying provinces. In 2012, Dalian's retail sales increased 16% to RMB223 billion, making it one of the top-three retailing centres in China's Northeastern region.

We believe that our mixed-use property development model gives us a major competitive strength that offers risk diversification and flexibility in China's frequently changing real estate market. The value of our commercial properties, including our Tiandi-style and Transport Hub developments, will benefit from the improved regional integration resulting from the high-speed rail network, growing middle-class affluence as well as the government's policies to increase household consumption and service sector development. At the same time, in view of the fragility of the global economic environment, and the constant changes in government policies that may affect our business, we will strive to strengthen our cash flow management with the raising of revenue contributions from both our residential and commercial real estate portfolio.