
INDUSTRY OVERVIEW

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INTRODUCTION

Economic Development of the PRC

The PRC has experienced significant economic growth since its economic reforms which began in the late 1970s. The PRC is recognized as one of the leading and fastest growing economies in the world in terms of its GDP growth and such growth rate is expected to be sustained after the PRC's accession to the WTO. According to the 中華人民共和國國家統計局 (National Bureau of Statistics of China), the PRC's GDP grew at a CAGR of approximately 13.0% between 1993 and 2003. The per capita GDP grew at a CAGR of approximately 12.0% over the same period.

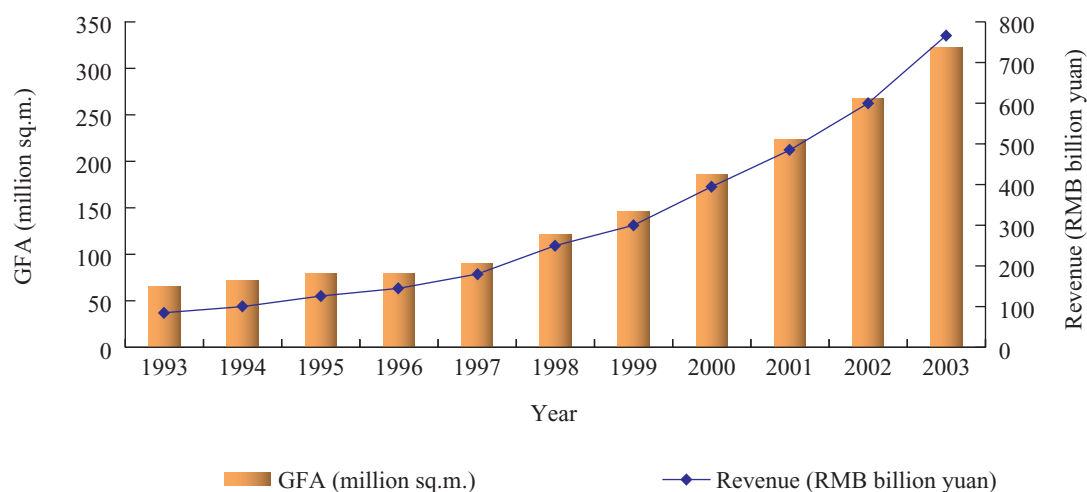
The Property Market in the PRC

Along with the promulgation of the "Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State Land in Urban Areas" (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) in 1990 and other subsequent housing reform measures, the property market in the PRC has developed rapidly. Since 1991, employer and employee funded housing funds commenced to operate. This facilitates the first down payment for buying properties. Regulation for sale of public housing promulgated in 1994 had created a market for sales of properties gradually. In 1998, the PRC government abolished the system of state-allocated housing. Employees of state-owned enterprises who have not been allocated public housing yet would no longer be allocated public housing since then. In 1999, the maximum mortgage term was extended to 30 years and maximum mortgage financing was increased from 70% to 80%. The purpose of such acts are to induce more people to buy properties.

Over the past decade, the significant economic growth experienced in the PRC had also contributed to the expansion and growth of the PRC property market. As shown in the chart below, the CAGR of GFA sold and total revenue from sales of properties in the PRC during the period from 1993 to 2003 were approximately 17.0% and approximately 24.4% respectively.

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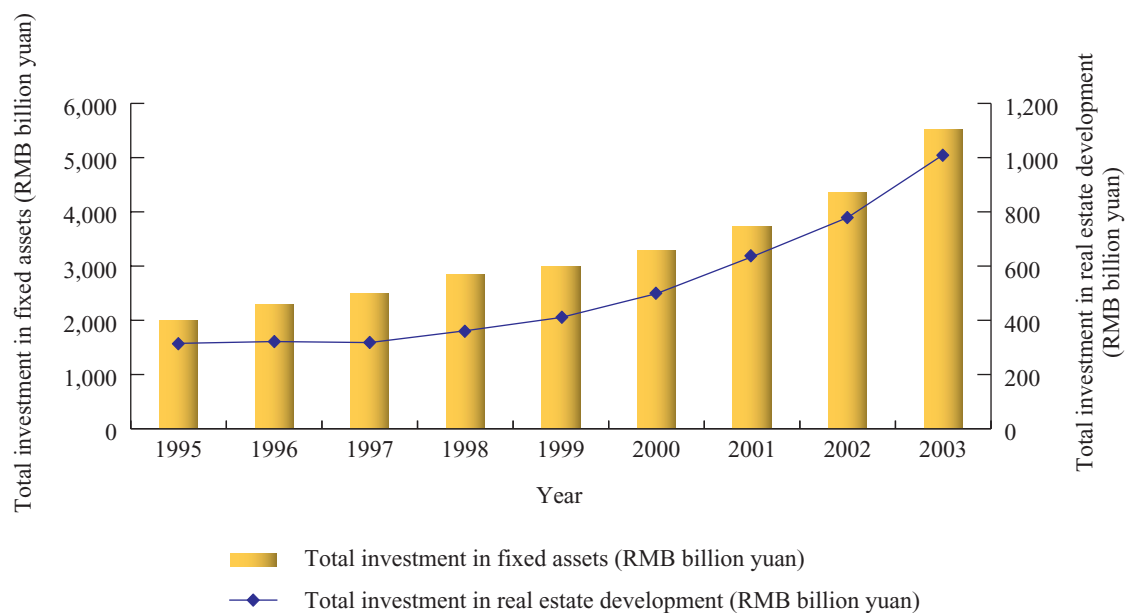
GFA of properties sold and revenue from sales of properties in the PRC



Source: 中華人民共和國國家統計局 (National Bureau of Statistics of China)

According to the 中華人民共和國國家統計局 (National Bureau of Statistics of China) and as shown in the chart below, investment in real estate development in the PRC was approximately RMB314.9 billion in 1995 and approximately RMB1,010.6 billion in 2003, representing an increase of approximately 2.2 times, or a CAGR of approximately 15.7% during the said period. The investment in real estate development accounted for approximately 18.3% of the total investment in fixed assets in the PRC in 2003, as compared to approximately 15.7% in 1995.

The total investment in fixed assets and total investment in real estate development in the PRC



Source: 中華人民共和國國家統計局 (National Bureau of Statistics of China)

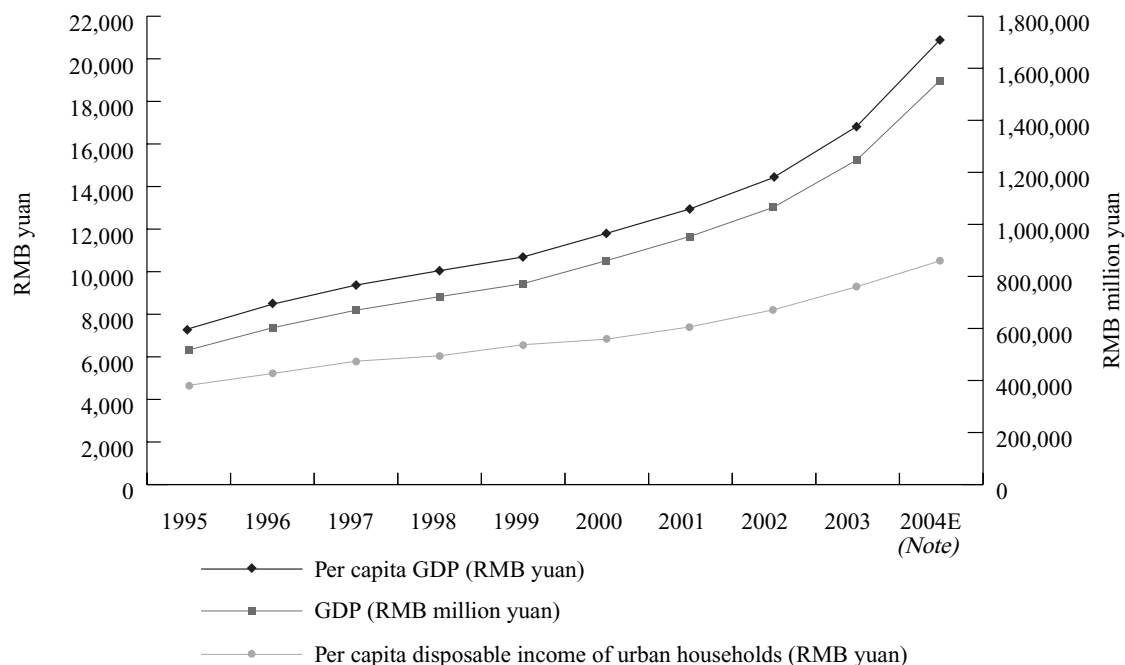
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The Property Market of Jiangsu Province

According to 江蘇省統計局 (Jiangsu Statistics Bureau), Jiangsu Province consists of a number of prime coastal cities situated at the eastern part of the PRC, close to the city of Shanghai and Zhejiang Province. Jiangsu Province has a total area of approximately 102,600 square kilometres and a total population of approximately 74.33 million at the end of 2004, representing a population density of approximately 725 people per square kilometres. It is the one of provinces with the highest population density in the PRC.

Jiangsu Province is one of the most prosperous provinces in the PRC. According to 江蘇省統計局 (Jiangsu Statistics Bureau), Jiangsu Province ranked the second, the fifth and the seventh in terms of GDP, total population and per capita disposable income of urban household respectively among all provinces in the PRC in 2003. As shown in the chart below, the GDP and per capita GDP of Jiangsu Province in 2004 reached approximately RMB1,551.2 billion and approximately RMB20,852 respectively, representing an increase of approximately 24.6% and approximately 24.1% respectively from 2003. The per capita disposable income for urban households increased from approximately RMB4,634 in 1995 to approximately RMB10,482 in 2004, representing a 126.2% increase or a CAGR of approximately 9.5%. The rapid growth in purchasing power of Jiangsu Province's urban households is indicated by its per capita disposable income as shown in the chart below. With the increasing trend of per capita disposable income in Jiangsu Province, there is a possibility that property buyers in Jiangsu Province may be able to spend more on property purchase in return for a better living standard and quality.

GDP, per capita GDP and per capita disposable income of urban households in Jiangsu Province



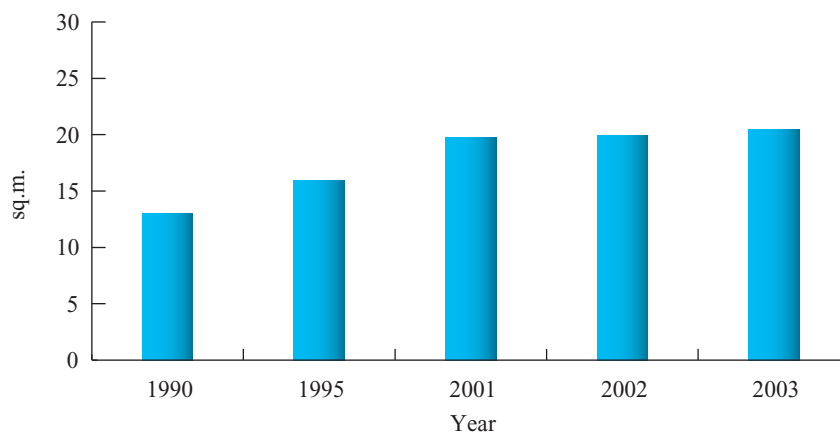
Source: 江蘇省統計局 (Jiangsu Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by the 江蘇省統計局 (Jiangsu Statistics Bureau).

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As shown in the chart below, the average per capita gross living space in Jiangsu Province increased from approximately 13.00 sq.m. in 1990 to approximately 20.09 sq.m. in 2003, representing an increase of approximately 54.5% or a CAGR of approximately 3.4%.

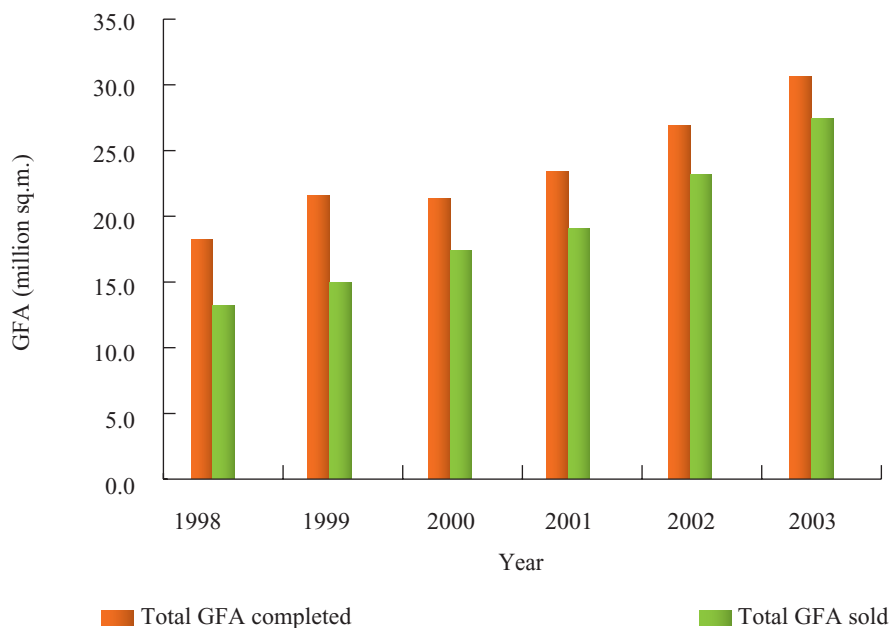
**Per capita gross living space of residential buildings
of urban households in Jiangsu Province**



Source: 江蘇省統計局 (Jiangsu Statistics Bureau)

As shown in the chart below, the total GFA of properties completed and sold in 2003 reached approximately 31.20 million sq.m. and approximately 27.22 million sq.m. respectively, demonstrating a growth of approximately 15.7% and approximately 17.2% respectively from 2002.

GFA of properties completed and sold in Jiangsu Province

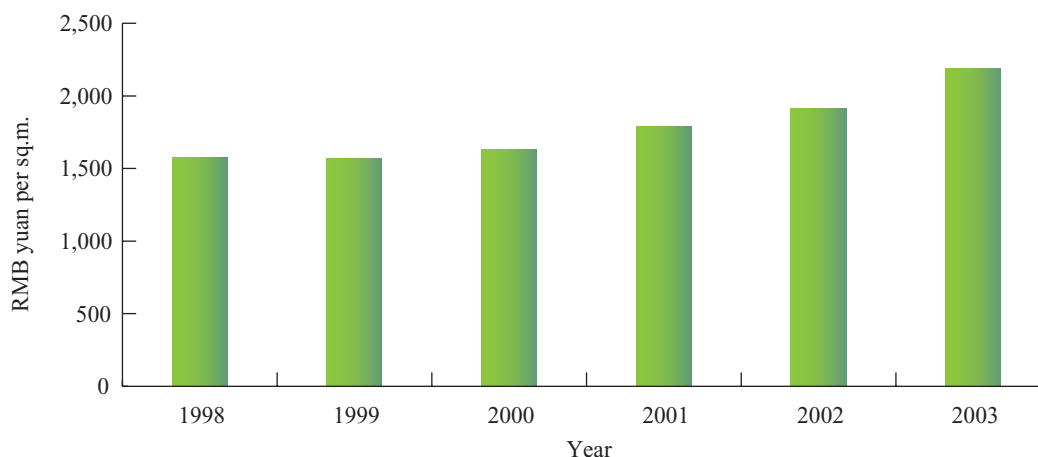


Source: 江蘇省統計局 (Jiangsu Statistics Bureau)

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As shown in the chart below, the average selling price for properties in Jiangsu Province, derived by the total revenue of all properties sold over total GFA of all properties sold, was approximately RMB2,197 per sq.m. in 2003, which represented an increase of approximately 14.1% as compared with that of 2002. The average selling price has been increasing consistently since 1998.

Average selling price for properties in Jiangsu Province



Source: 江蘇省統計局 (Jiangsu Statistics Bureau)

According to 江蘇省統計局 (Jiangsu Statistics Bureau), Suzhou ranked first in terms of GDP and per capita disposable income of urban household among all cities in Jiangsu Province in 2003. The table below summarizes the above key economic indicators of several major cities in Jiangsu Province in the year of 2003.

Key economic indicators of several major cities in Jiangsu Province

Several major cities in Jiangsu Province	GDP <i>RMB million</i>	Population	Per capita disposable income of urban households <i>RMB</i>	Per capita gross living space of residential buildings of urban households <i>(sq.m.)</i>
Suzhou	280,156	5,909,656	12,362	20.2
Wuxi	190,122	4,425,400	11,647	18.7
Nanjing	157,633	5,722,300	10,194	15.7
Changzhou	90,142	3,462,200	11,307	20.4

Source: 江蘇省統計局 (Jiangsu Statistics Bureau)

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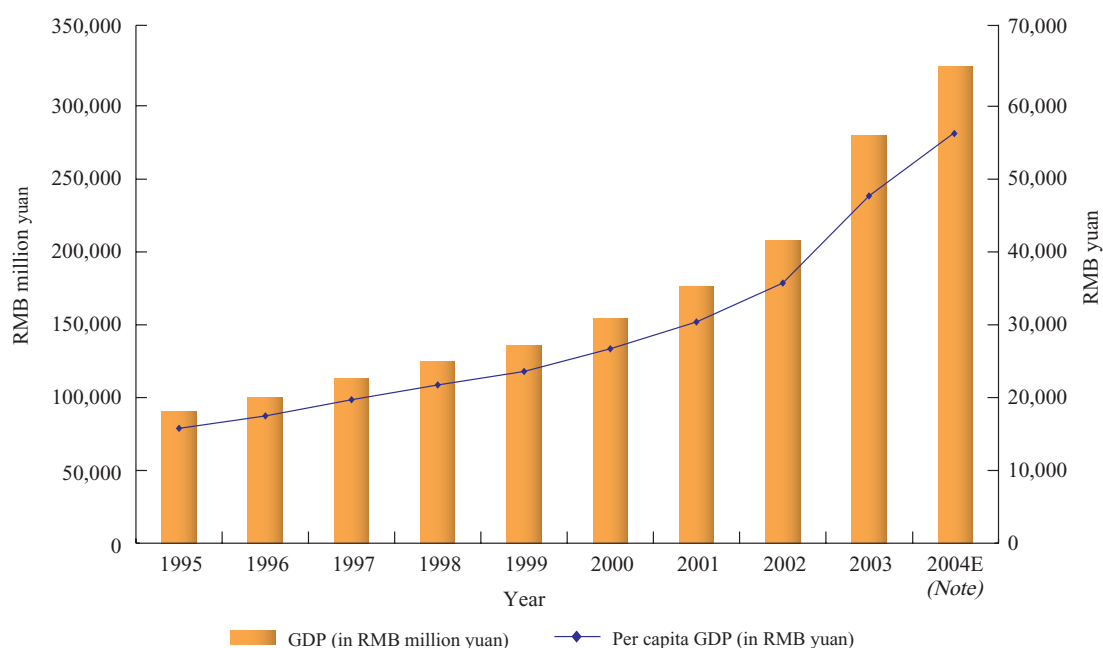
The Property Market of Suzhou

(i) Economic growth in Suzhou

Suzhou is a city in Jiangsu Province, located in the southeast of Jiangsu Province, neighbouring to Shanghai at the east and Zhejiang Province at the south. According to 蘇州市統計局 (Suzhou Municipal Statistics Bureau), Suzhou had a total area of approximately 8,488 square kilometres, and had a total population of approximately 6.0 million at the end of 2004. The significant growth of the Suzhou property market was mainly attributable to the municipal government's efforts in enhancement of its city image, citizen's increasing purchasing power on housing, old city revitalization as well as acceleration of infrastructure construction.

According to 蘇州市統計局 (Suzhou Municipal Statistics Bureau), Suzhou ranked first among all cities in Jiangsu Province and ranked fifth in the PRC in terms of GDP in 2003. As shown in the chart below, the GDP and per capita GDP of Suzhou in 2004 reached approximately RMB345 billion and approximately RMB57,992 respectively, representing an increase of approximately 23.1% and approximately 21.6% respectively from 2003. The per capita disposable income for urban households increased from approximately RMB5,790 in 1995 to approximately RMB14,451 in 2004, representing an increase of approximately 149.6% or a CAGR of approximately 10.7%.

GDP and per capita GDP in Suzhou

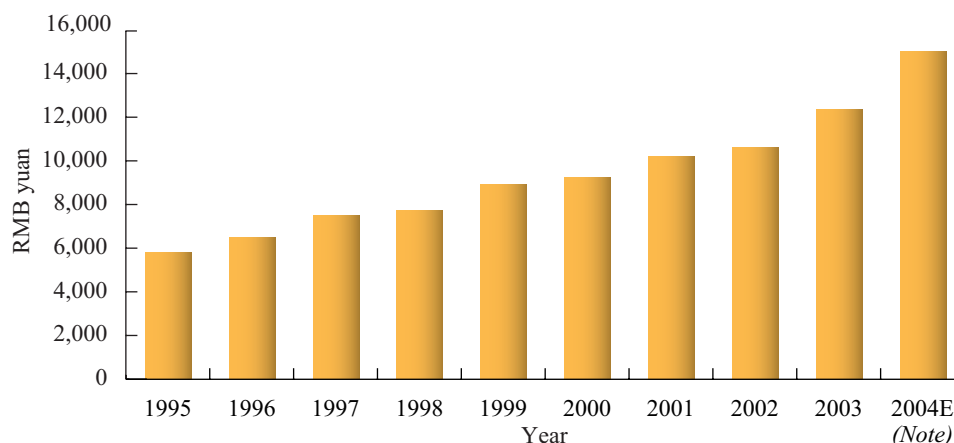


Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 蘇州市統計局 (Suzhou Municipal Statistics Bureau).

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Per capita disposable income of urban households in Suzhou



Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 蘇州市統計局 (Suzhou Municipal Statistics Bureau).

With the increasing trend in per capita disposable income of urban households in Suzhou as shown in the chart above, there is a possibility that property buyers in Suzhou may be able to spend more on property purchase in return for a better living standard and quality.

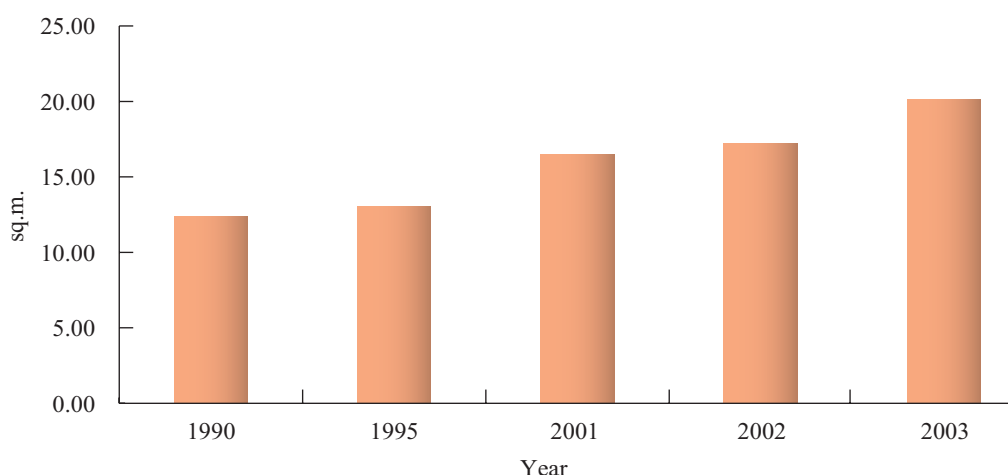
(ii) Development of the property market in Suzhou

Some significant reform measures took place in the PRC property industry in the 1990s such as the commencement of employer/employee-funded housing provident funds to facilitate urban households' first down payments and the abolition of state-allocated housing. Some organizations have also started to provide cash subsidies for the purchase of housing by eligible staff members. These subsidies in turn strengthened the purchasing power of Suzhou residents for quality housing so as to improve their living conditions.

As shown in the chart below, the average per capita gross living space in Suzhou increased from approximately 12.40 sq.m. in 1990 to approximately 20.15 sq.m. in 2003, representing an increase of approximately 62.5% or a CAGR of approximately 3.8%. The figure was slightly higher than that of Shanghai which was approximately 19.00 sq.m. in 2003 as quoted by 上海市統計局 (Shanghai Statistics Bureau).

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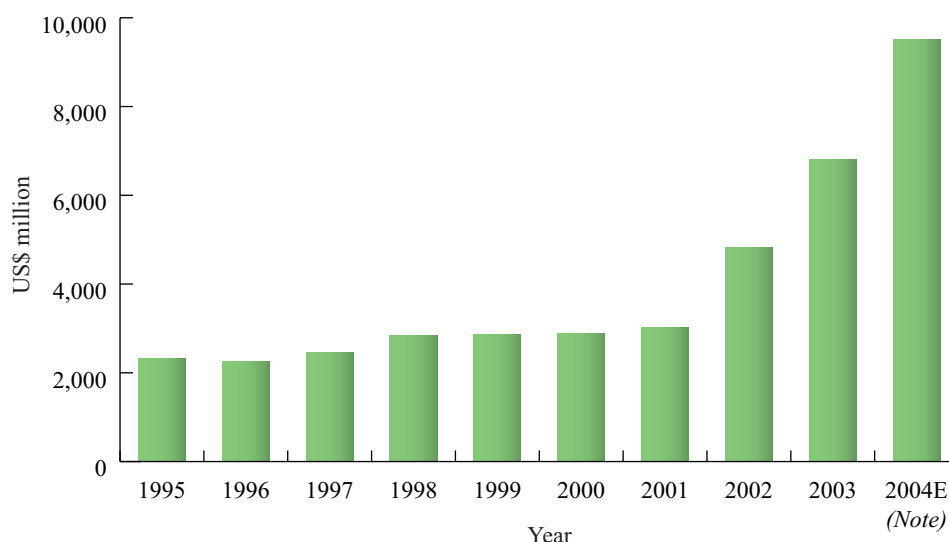
Per capita gross living space of residential buildings of urban households in Suzhou



Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

With a continuous inflow of funds into Suzhou, Suzhou has become an increasingly attractive place for both domestic and international investors and end-users. According to 蘇州市統計局 (Suzhou Municipal Statistics Bureau), the amount of foreign direct investment in Suzhou was approximately US\$9.5 billion in 2004. At the same time, many multinational companies and enterprises have set up their offices and operations in Suzhou. This in turn increases the number of expatriates and senior management relocating to Suzhou for work or residence, which results in a rapid growth in demand for residential properties in Suzhou.

Total amount of foreign direct investment in Suzhou



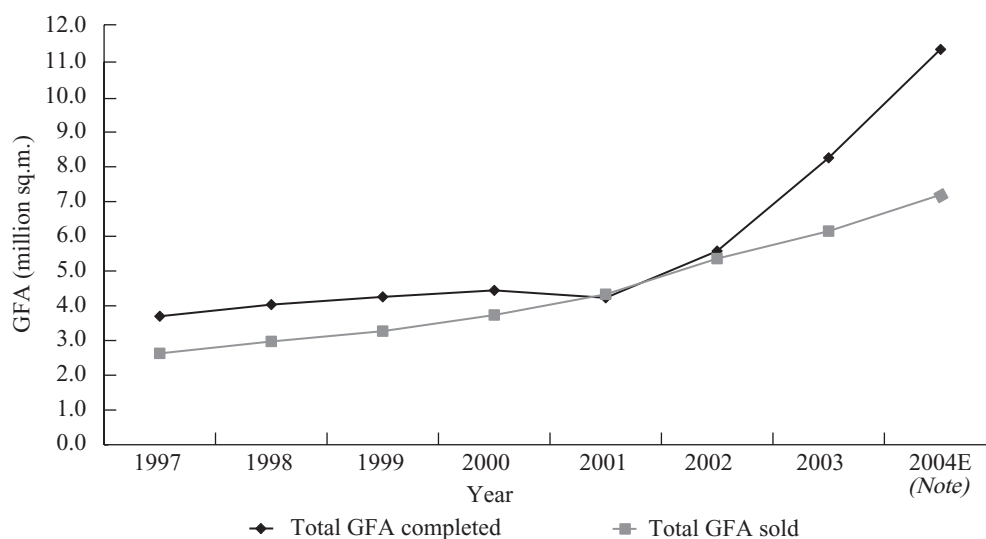
Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 蘇州市統計局 (Suzhou Municipal Statistics Bureau).

As shown in the chart below, the total GFA of properties completed and sold in Suzhou in 2004 reached approximately 11.29 million sq.m. and approximately 7.07 million sq.m. respectively, demonstrating a growth of approximately 36.7% and approximately 15.0% respectively from 2003.

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GFA of properties completed and sold in Suzhou

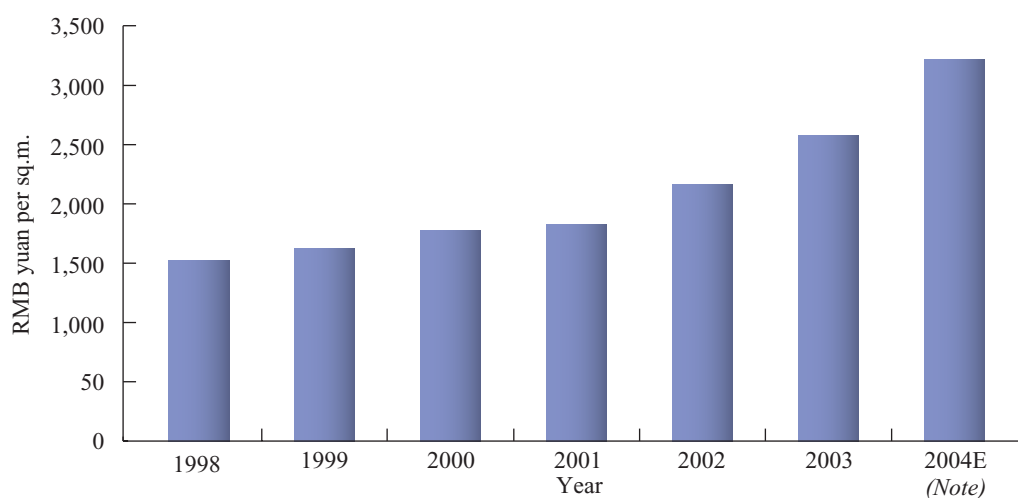


Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 蘇州市統計局 (Suzhou Municipal Statistics Bureau).

As shown in the chart below, the average selling price for properties in Suzhou, derived by the total revenue of all properties sold over total GFA of all properties sold, was approximately RMB3,203 per sq.m. in 2004, which represented an increase of approximately 24.4% as compared with that of 2003. The average selling price has been increasing consistently since 2000.

Average selling price for properties in Suzhou



Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

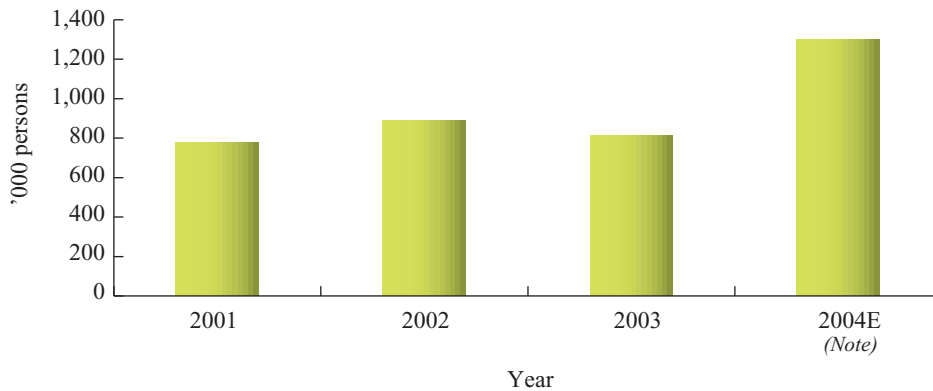
Note: 2004 figure is quoted as a preliminary estimated figure by 蘇州市統計局 (Suzhou Municipal Statistics Bureau).

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(iii) The hotel market in Suzhou

As shown in the chart below, according to 蘇州市統計局 (Suzhou Municipal Statistics Bureau), the total number of foreign tourists visiting Suzhou were approximately 778,000 persons in 2001 and approximately 1,302,000 persons in 2004, representing an increase of approximately 67.4% or a CAGR of approximately 18.7% during the period. The Directors believe that the total number of tourists visiting Suzhou decreased to approximately 816,000 persons in 2003 from approximately 891,000 persons in 2002 was due to the outbreak of SARS in 2003.

Total number of foreign tourists to Suzhou



Source: 蘇州市統計局 (Suzhou Municipal Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 蘇州市統計局 (Suzhou Municipal Statistics Bureau).

According to the 蘇州市統計局 (Suzhou Municipal Statistics Bureau), as at the end of 2004, there were a total of 99 star-rated hotels in Suzhou, 25 of which were rated as four-star, representing an increase of 12 and 10 respectively as compared to that in 2001.

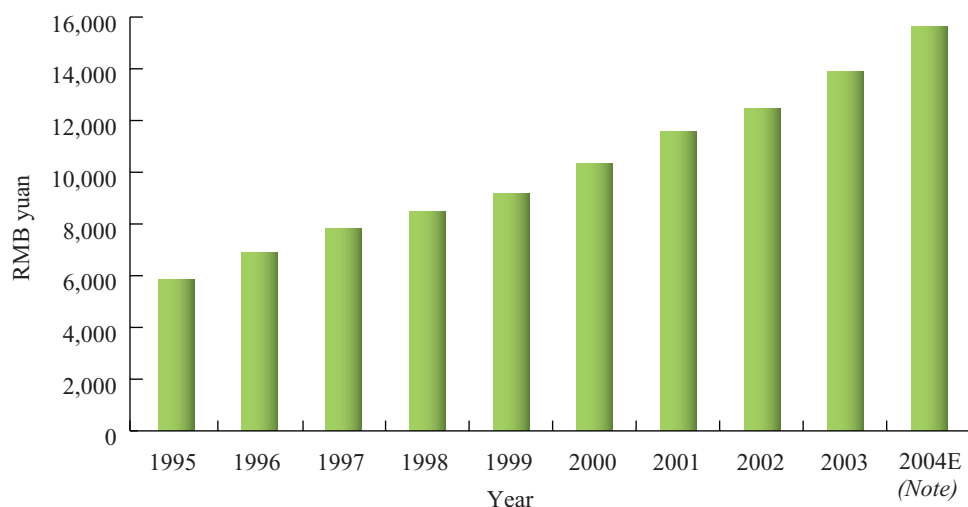
The Property Market of Beijing

(i) Economic growth in Beijing

According to 北京市統計局 (Beijing Statistics Bureau), Beijing has experienced rapid economic growth with a CAGR in GDP of approximately 12.8% between 1995 and 2003, which outperformed the national average CAGR in GDP of approximately 9.1% over the same period. In 2003, Beijing's GDP reached approximately RMB366.3 billion and its per capita GDP reached approximately RMB32,061. As shown in the chart below, the annual per capita disposable income for urban households in Beijing increased from approximately RMB5,868 in 1995 to approximately RMB15,638 in 2004, which represented an increase of approximately 1.7 times or a CAGR of approximately 11.5%.

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Per capita disposable income for urban households in Beijing



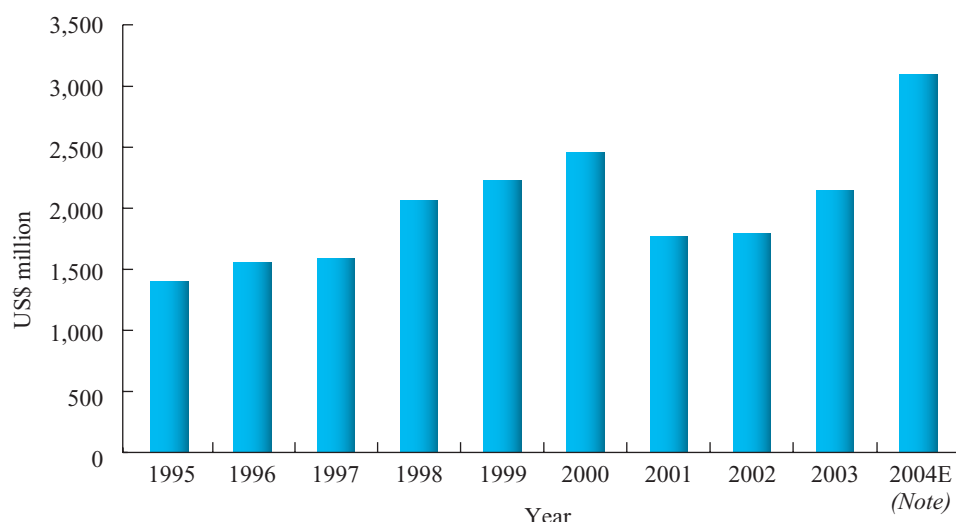
Source: 北京市統計局 (Beijing Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 北京市統計局 (Beijing Statistics Bureau).

(ii) The development of the property market in Beijing

Beijing is the capital of the PRC. Many embassies and multinational corporations from all over the world tend to set up representative offices and strategic liaisons in Beijing as their window and platform in the PRC market. The Directors believe that this would drive demand and support to Beijing's property market and it gives an indication of how this market's potential can be viewed from a strategic point of view. As shown in the chart below, the amount of foreign direct investment into Beijing increased from approximately US\$1.4 billion in 1995 to approximately US\$3.1 billion in 2004, representing an increase of approximately 121.4% during the period or a CAGR of approximately 9.1%.

Total amount of foreign direct investment in Beijing



Source: 北京市統計局 (Beijing Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 北京市統計局 (Beijing Statistics Bureau).

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The total investment in real estate development was approximately RMB35.3 billion in 1995 and approximately RMB147.3 billion in 2004, which represented an increase of approximately 3.2 times during the period or a CAGR of approximately 17.2%.

As demonstrated in the chart below, the GFA sold in Beijing in 1995 was approximately 1,919,000 sq.m.. The space of properties sold in Beijing in 2004 was approximately 24,720,000 sq.m., representing an increase of nearly 12 times or a CAGR of approximately 32.8% as compared to 1995.

According to 北京市統計局 (Beijing Statistics Bureau), the average selling price of properties in Beijing has also increased from approximately RMB3,637 per sq.m. in 1995 to approximately RMB5,053 per sq.m. in 2004, equivalent to a CAGR of approximately 3.7%.

GFA sold and average selling price of properties in Beijing



Source: 北京市統計局 (Beijing Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 北京市統計局 (Beijing Statistics Bureau).

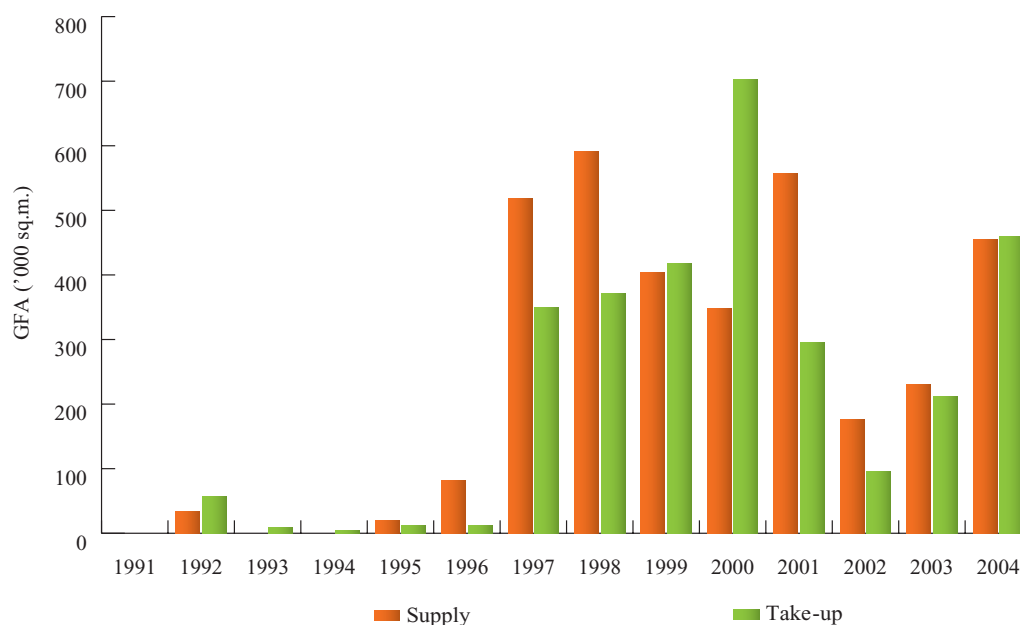
(iii) The office building market in Beijing

According to DTZ Debenham Tie Leung Limited, the supply of new Grade A office in Beijing commenced to grow in 1997 with supply level increased to as high as 518,000 sq.m.. Supply of new Grade A office was approximately 176,000 sq.m. in 2002, which represented a significant drop of approximately 415,000 sq.m., compare with the peak level of approximately 591,000 sq.m. in 1998. The take-up for Grade A office increased significantly since 1997 while the peak reached approximately 702,000 sq.m. in 2000. In 2004, Beijing's Grade A office space take-up was approximately 460,000 sq.m..

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The following chart illustrates Grade A new office supply and take-up in Beijing:

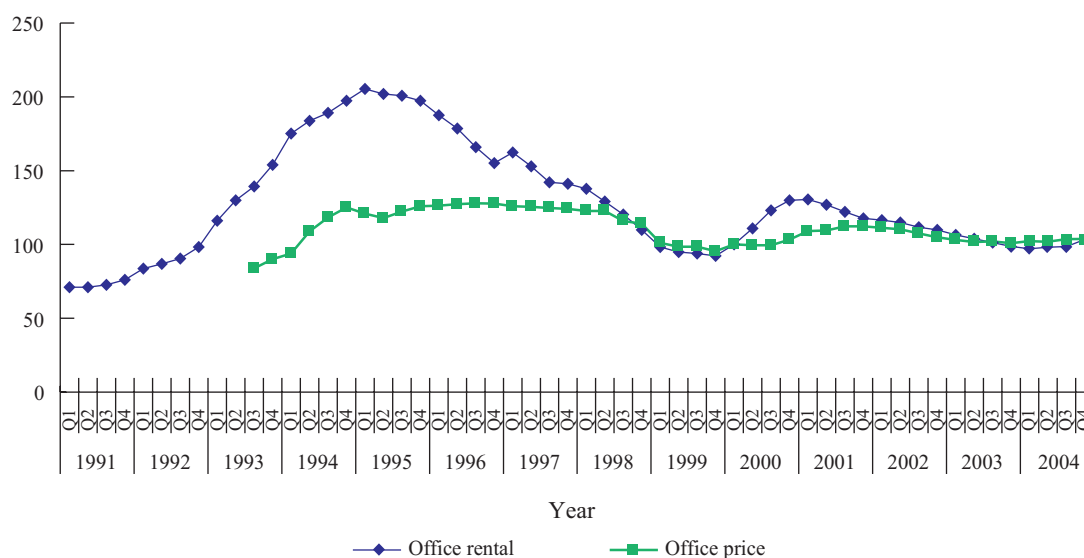
Supply and take-up of Grade A new office in Beijing



Source: DTZ Debenham Tie Leung Limited

The office rental and office price indexes, which measure the trend of rental price and selling price respectively, is shown in the chart below. It covers the rental and price for Grade A office between the first quarter of 1991 and the fourth quarter of 2004, with the first quarter of 2000 as the base year. The office rental index reached the peak of 205.4 in the first quarter of 1995 and recorded 106.0 in the fourth quarter of 2004. The office price index was relatively stable during the period from 1993 to 2004 and was recorded 104.4 in the fourth quarter of 2004.

Office rental and price in Beijing



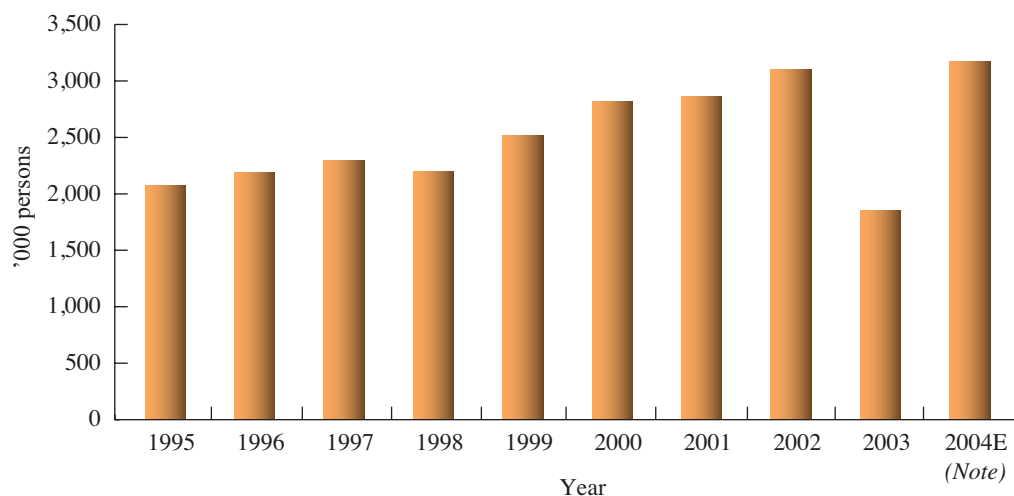
Source: DTZ Debenham Tie Leung Limited

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(iv) The hotel market in Beijing

As shown in the chart below, the total number of foreign tourists visiting Beijing was approximately 2,070,000 persons in 1995 and approximately 3,155,000 persons in 2004, representing an increase of approximately 52.4% or a CAGR of approximately 4.8% during the period. In 2003, the total number of foreign tourists visiting Beijing decreased to approximately 1,850,000 persons, which represented a decrease of approximately 40.3% as compared to that of 2002. The Directors believe that there is a high possibility that such a drop in number of tourists visiting Beijing was a result of the outbreak of SARS in 2003.

Total number of foreign tourists to Beijing



Source: 北京市統計局(Beijing Statistics Bureau)

Note: 2004 figure is quoted as a preliminary estimated figure by 北京市統計局(Beijing Statistics Bureau).

Pursuant to a statistics report released by 北京市統計局(Beijing Statistics Bureau) on 12 February 2004, as at the end of 2003, a total of 659 hotels and approximately 109,000 guest rooms were recorded in Beijing, where the number of guest rooms increased by approximately 6,000 compared to 2002, or representing an increase of approximately 5.8%. Accordingly to 中華人民共和國國家統計局(National Bureau of Statistics of China), in terms of foreign currency earnings derived from the tourism sector, Beijing was ranked second among all areas in the PRC for 6 consecutive years from 1997 to 2002. Tourism in Beijing is expected to be substantially accelerated by the launch of 2008 Summer Olympic Games to be hosted by the city of Beijing.

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Future Prospect of the Property Industry in Jiangsu Province, the PRC

According to the “Report for the Residential Market Survey of Four Major Cities In Jiangsu Province” published in June, 2005 by Colliers International Property Consultants, Inc., an independent property consultant, the expected capital values in respect of the residential property market of several major cities in the Jiangsu Province during 2005 and 2006 are tabulated as follows:

	2005F Capital value <i>(RMB yuan</i> <i>per sq.m.)</i>	2006F Capital value <i>(RMB yuan</i> <i>per sq.m.)</i>
Nanjing	3,691	3,876
Suzhou	3,531	3,707
Wuxi	3,280	3,423
Changzhou	2,601	2,731

Source: Colliers International Property Consultants, Inc.

Note: Capital value is the average selling price, derived by the total revenue of all properties over total GFA of all properties sold.

Future Prospect of the Property Industry in Suzhou, the PRC

According to a report named “Features and prospect of the property market in Suzhou” (蘇州市房地產市場特點和趨勢展望) published by 蘇州市統計局 (Suzhou Municipal Statistics Bureau) in April 2004, residential properties in suburban areas of Suzhou commenced further development as a result of urbanization, deficiency of land for development and rise in selling price of residential properties in the Central Business District. Residents in urban areas of Suzhou are willing to relocate to suburban areas, which in turn will create demand for housing in various districts in Suzhou. Hence, more room is created for properties development in these areas.

In light of the continuing infrastructure development in Suzhou, a plan for the construction of two light rail lines covering east to west, and north to south of the city, has been approved and the construction is targetted to be completed by 2010. At present, underground railway and light rail systems are only operated in a few cities in the PRC. The Directors believe that the construction of the two light rail lines in Suzhou would enhance transportation convenience within Suzhou, which in turn may motivate Suzhou residents to shift their focus on the quality of properties rather than considering transportation convenience when buying properties. This may also attract new group of buyers from cities close to Suzhou and hence, the Group’s sales may benefit from such infrastructure development.

According to the “Report for the Residential Market Survey of Four Major Cities In Jiangsu Province” published in June, 2005 by Colliers International Property Consultants, Inc. as compared to the other three major cities, namely Nanjing, Wuxi and Changzhou of Jiangsu Province, the high-end residential market in Suzhou is likely to outperform the average supply market. This witnesses the growth of capital value in this sector and market demand growth rate for such developments is likely to sustain in Suzhou. The average selling price of properties in Suzhou in 2005 and 2006 are expected to be approximately RMB3,531 per sq.m. and approximately RMB3,707 per sq.m. respectively.

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Future Prospect of the Property Industry in Beijing, the PRC

According to 北京市國民經濟和社會發展第十個五年計劃綱要 (Compendium of the Tenth five-year plan on Beijing local economy and community development) issued by the Beijing Municipal Committee of the Communist Party (中共北京市委), key policies related to the Beijing property market for the period from 2001 to 2005 include the following: (1) to cultivate the property market with a focus on residential properties and gradually smoothen properties price in order to promote a healthy development of the property market; (2) to expedite the removal of the industrial enterprises from the downtown area to the industrial park area, with a view to reducing the area of industrial region from the current 8.74% to 7% out of the total urban area so as to reduce the pollution level of the city; (3) to speed up the development of the southern district of the city, with a focus on the enhancement of transportation and infrastructures such as water supply, electricity supply and hot air supply, etc.; (4) to expedite the development of satellite towns close to Beijing, including Tungzhou (通州)、Changping (昌平)、Yizhuang (亦庄)、Huangchun (黃村)、Liangxiang (良鄉) and Shunyi (順義) which are expected to be transformed into major regions for taking up more population; and (5) to speed up the construction of transportation routes such as railways and roads with a target to building railways of over 200 kilometres and roads of approximately 700 kilometres so as to improve the transportation of Beijing.

The Directors believe that the above policies, in particular the enhancement of the transportation system, measures taken and to be taken to reduce the pollution level and expansion of satellite towns, may, to a large extent, motivate Beijing residents to consider more on the quality of properties besides transportation convenience, when buying properties. The implementation of these policies may also attract new group of property buyers from cities close to Beijing. Hence, the Group's sales may benefit from such development.

The Beijing government also forecasted that within the city, an accumulated total of approximately 60 million sq.m. floor residential area would be achieved by the end of 2005 and would strive to complete renovation works of 3 million sq.m. of old and dangerous properties in the old areas. The targeted per capita gross living area for urban residents is expected to be not less than 18 sq.m. in 2005.

According to a quarterly report issued by DTZ Debenham Tie Leung Limited in the third quarter in 2004, it is estimated that demand for office space in Beijing is expected to remain strong due to increasingly buoyant business activities and PRC's robust economic growth to WTO. According to the articles from 中國建設報 (China Construction Journal) and 每日經濟新聞 (Daily Economic News), China's accession to WTO in 2001 and the 2008 Summer Olympic Games to be held in Beijing are stimulating the demand for the office building and the hotel markets of Beijing.

China's accession to WTO would increase the demand for the office space, as well as the residential properties in Beijing by the entrance of a massive number of foreign companies and investments. With such increase in the number of foreign companies, the office building and the commercial building markets would most likely face rising demands.

The construction of the Olympic Village in Beijing for the preparation of the 2008 Summer Olympic Games to be held in Beijing, and the enhancement of infrastructures and surrounding areas of Beijing, will also enhance the potential rise in demand and pricing of properties in the related area. The potential income generated from shopping centers, hotels and entertainment centers in Beijing would be strengthened due to the evolvement of a commercial area around the China International Exhibition Center. Further, the demand for quality accommodation, and food and beverage services for diplomats, athletes, press and spectators from foreign countries before and during the 2008 Summer Olympic Games to be held in Beijing will boost sales to hotels and restaurants in Beijing, which will in turn strengthen the competitiveness of Beijing's hotels in the long run.