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REAL ESTATE MARKET IN CHINA

2011.12

Contents

1. INTRODUCTION

Objectives

The objective of this market briefing is to provide a general overview of Chinese construction industry.

Doing market research in China and Methodology

Generally speaking, conducting market research in China is different and significantly more challenging than it is in developed countries because of

1) The size and diversity of the country;

2) Lack of fully reliable centralized or official information databases;

3) The change is constant and extremely rapid – the whole China economic system is far from being in equilibrium

Therefore, our methodology leverages a combination of resources & activities such as secondary research in both Chinese and English, primary research and interviews with industry exports, as well as our collective China knowledge and industry expertise.

Information Sources

Key sources of information for this report include all background information, several secondary sources such as IBIS, China Customs etc.

Definition

The Real Estate Development and Management industry in China (China Industry Code - 7210) is primarily engaged in the development and management of real estate projects, infrastructure and buildings, as well as reselling developed real estate projects. Establishments in this industry are also sellers and leasors of commercial buildings. The construction work of such buildings and infrastructure is included within the building construction industries.

Market Characteristics

MARKET SIZE

In 2009, benefiting from high liquidity and favorable policies, speculative demand and repressed residential demand increased from 2008. China's real estate market increased strongly in 2009, with housing sales areas and sales values increasing significantly from 2008. According to data from the National Bureau of Statistics, during 2009, total sold gross floor area (GFA) of commercial buildings totaled 947.6 million square meters, up by 43.6% from 2008.

Additionally, average housing prices increased by 25.3% during 2009 due to strong demand. Stimulated by increased sold GFA and average housing prices, in 2009, the total real estate sales value was $649.4 billion, exceeding the peak level of 2007 and increasing by 80% from 2008.

In the first quarter of 2010, China's average housing prices continued to increase rapidly by 10.6% from the end of 2009. To curb the rapidly increasing housing prices and prevent financial risks, the State Council issued a series of adjustment measures to limit housing demand, increase effective housing supplies and intensify market regulation. As of May, under the strict government adjustments, housing trading volumes in China's major cities had declined sharply and housing prices in some cities fell.

Despite the strict and intensive macro-control policies, China's real estate market still developed rapidly. Average housing prices and sales volume of commercial houses were estimated to have increased by 11.1% and 8.6%, respectively, for the whole year, contributing to an increase of 20.6% in total real estate sales value in China. Benefitting from the large increase in contract sales value during 2009, the settled revenue of many real estate developers increased rapidly in 2010, which was estimated to promote rapid industry revenue growth for the year.

During 2011, stricter macro-control policies, such as a limit on house purchases, have been put forward and interest rates have increased twice to curb the rising housing prices in China. The growth rate of housing sales value in 2011 may slow down. However, with sufficient funds, real estate developers are not expected to reduce housing prices significantly. As a large amount of sales value that was realized in 2010 will be settled as operating revenue, industry revenue is expected to increase at a rate of 20%. This is still rapid growth, but much slower than growth in 2010. Over the five years through 2011, industry revenue is expected to expand at an average annualized rate of 27.9% to reach $869.1 billion. The next five years will see slower growth of 16.1% per annum, totaling $1.83 trillion by 2016.

There are forecast to be over 96,500 developers operating in the industry in 2011, with around 492,000 establishments. The total number of employees is expected to total 2.55 million, with total wages of $29.23 billion. Total assets in the industry are estimated at $3.72 trillion in 2011.

DEMAND DETERMINANTS

Personal and household disposable income

This is the largest determinant of the purchasing power of buyers. As disposable incomes increase, the general demand for housing rises.

Urban population

Most properties, especially high value-added properties, are developed in urban areas. Increases in the urban population stimulate demand for housing. As half of China's population is located rurally, and with the current urbanization trend in China, the urban population will continue to increase in the long run, resulting in enduring demand for residential housing.

Population structure

Generally, people aged between 30 and 60 years are more financially capable and likely to purchase housing. If the population within this age range increases, demand for residential housing will be stimulated.

Housing prices

Prices form a critical consideration point for purchasers, as housing is the most expensive product for most people. Increased housing prices in recent years, and the expectation for price declines in 2008, restricted people's short-term interest in purchasing housing. Sales volume of commercial property declined during the year, largely affected by this expectation.

Interest rates

Many people cannot afford to buy housing or commercial premises with a lump-sum payment. Therefore, people and companies take out loans from commercial banks. If housing interest rates rise, borrowers face higher interest costs, inhibiting demand for housing and buildings. The frequent interest rate cuts in late 2008 in China reduced interest expenses for house purchasers and contributed to the large increase in sales values in real estate markets in 2009. The five interest rate rises during October 2010 and July 2011 are expected to increase credit costs for those who take out housing loans, curbing housing demand in the years coming.

Rental expense

The high rental expense of residential housing will make the purchase of housing more economical and therefore stimulate purchasing demand. However, higher rental expenses for commercial or other non-residential housing will negatively affect rental demand for these property types.

BASIS OF COMPETITION

Companies operating in this industry compete against each other on land development rights, brand development, aftersales service, and price competition.

Competition for land development rights

Housing in prime districts, where complete infrastructure and prosperous commercial clusters are within the neighborhood, can be highly priced and still be developed further. In 2007, intense competition for development rights of valuable land contributed to risings land prices, and hence housing prices. However, In 2008 and early 2009, competition for land development rights in China was not as intense as before, mainly due to the heavy fund pressure of real estate developers and their unclear expectations for the real estate market in China.

Brand development

Buyers that purchase high-end apartments or villas usually have some brand awareness. Well-known brands developed by companies with good reputations are often recognized and favored.

After-sales service

Dwelling quality and standards will be further ensured by competent after-sales service. Large players usually provide high-quality services to gain word-of-mouth sales, attract new clients, and retain existing customers.

Price competition

With rapidly increasing property prices, real estate developers usually do not reduce their prices to promote sales. Further, many companies, especially small and mid-size firms, may not place their buildings on the market if they have an expectation of higher prices in the future, which limits supply and increases prices and demand. However, when expectations of lower housing prices exist, many large companies will reduce their housing prices in major cities to promote purchaser interest in advance. In 2008 and early 2009, in some large cities, real estate developers cut housing prices in the form of discounts, giving gifts or paying several years' realty management fees to promote the sales of their houses.

Industry Conditions

BARRIERS TO ENTRY

Land purchases require companies to invest greatly and many large companies have sought financing from the stock market (publicly listing their companies) and major banks. However, increasingly restrictive loan policies prohibit small players with fewer funds from entering this market.

Land development rights are administered by local governments. Enterprises seeking to purchase land must be approved by local governments. To standardize the market, the government has enacted regulations to raise barriers for land purchases. This has made it more difficult for new companies to obtain land.

The real estate market has become overheated in recent years due to an oversupply of capital in the market, including foreign investment. Government policies in 2007 and early-2008 increased interest rates and bank reserve ratios to limit lending growth. The large cuts in interest rates and bank reserve ratios in late-2008 have provided much liquidity to encourage real estate investment. However, real estate investment is not expected to increase much before the excess stock is absorbed by the market. The government has also restrained the investment of foreign ventures and raised entry barriers for foreign enterprises.

TAXATION

Corporate Income Tax - 15% to 25%

Corporate Income Tax Law of the People's Republic of China was implemented from January 1, 2008. It unifies the previously different income tax policies for foreign and domestic enterprises. Within the new system, income taxes will be levied on both domestic and foreign enterprises at a rate of 25%, with favorable tax rates applicable to high-technology enterprises (15%) and small-size domestic enterprises (20%).
The new system exempts enterprises' investment in research and development activities in calculating the taxable income. This is to enhance the general R&D level of all enterprises in China. The system also provides a five-year transition period for foreign enterprises to adjust, in order to maintain FDI in China.
Implementation of the new income tax system will help create an environment for fair competition, promote upgrades of industrial structures and improve the overall quality of foreign investment in China. It will also encourage investment in environmental protection and R&D.

Value-added Tax (VAT) - 17%

All manufacturers in this industry should collect the output value added tax at a standard rate of 17% and pay the input value added tax at a standard rate of 17%.

Sales Tax- 5%

Sales tax is imposed on income from sales of real estate, with the rate of 5%.

Contract Tax- 3% to 5%

Contract Tax is a specific tax for this industry, with a high rate of 5% and a low rate of 3%. This tax is imposed on the income from sales and transfer of land development-rights.

Land Value Increment Tax- 30% to 60%

Land Value Increment Tax is also a specific tax for this industry, ranging from 30% to 60%, imposed on the added value.

City Construction and Maintenance Tax - 1% to 7%

City maintenance and construction tax is levied at different rates based on different locations of the enterprise. An enterprise in urban areas pay the tax at 7% of its real value added tax amount. If it is located in rural areas, the rate is only 1%. Enterprises in counties and prefectures are required to pay the tax at 5%.

Educational Surcharge - 3%

Educational surcharge applies to all domestic enterprises, which should pay the surcharge by 3% of their real value added tax; foreign-funded enterprises are exempt of educational surcharge.

INDUSTRY ASSISTANCE

There are no specific tariffs for this industry
No tariffs are applied to this industry.
To support the development of this industry, the government has taken many steps to suppress speculation in the market and to stabilize rapidly increasing housing prices. The regulations and macro-economic controls are likely to threaten the survival of small players who are short of financing and who seek opportunities from speculating on even higher prices. However, these measures will enable large players to acquire the projects of small firms. Also, to suppress speculation in the market, the government has limited the entry of foreign ventures, benefiting domestic real estate developers

REGULATION AND DEREGULATION

Since 2005, when housing prices began to accelerate significantly, the government has paid increasing attention to the overheated market and taken measures to suppress the rapidly increasing prices for the long-term development of the market. The regulations or macro-economic controls implemented by the government include:

Raising interest rates

During October 2010 and July 2011, the central bank raised interest rates for five times. Higher interest rates help to suppress an overheated real estate market by inhibiting housing purchase activities.

Limiting land purchases

This kind of regulation intends to make it more difficult for developers to purchase land, prohibiting many unqualified developers from operating in the industry. For example, in 2003, commercial banks were prohibited to provide loans to developers for purchasing land.

Limiting the entry of foreign investment

Foreign ventures can only enter the industry through joint ventures with domestic players or through partnerships. This leads to low foreign ownership and less competition and input from foreign capital.

Standardizing the market

Several standards were enacted to regulate this market, benefiting both real estate developers and housing buyers. These regulations include Opinions about Adjusting Housing Supply Structure to Stabilize Housing Prices, enacted by the State Council in 2006.

Limiting the supply of high-end buildings while supporting the supply of low-end dwellings

The oversupply of high-end buildings and the undersupply of low-end residential dwellings has resulted in some social problems and housing displacement. The government has taken measures to benefit people with relatively low income levels. The provision of low-rental housing and economically-affordable housing are encouraged by the government.

Restraining speculation in the market

Rising prices have also resulted from increased speculation in the market, and the government has enacted several regulations to restrain speculation.
In late 2008, to stimulate economic growth, interest rates were decreased five times and deposit reserve ratios were lowered four times. A series of real estate related preferential

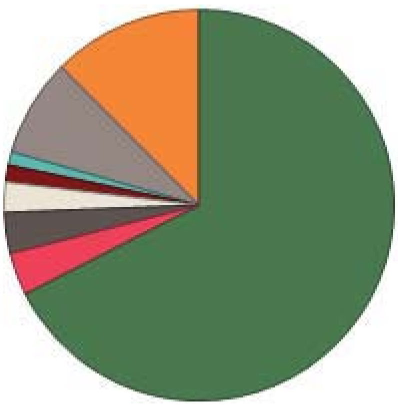
policies, such as exemptions of stamp duty tax and land value-added tax, lowering of contract tax and adjustment in housing loan rates and down payment rates, were implemented to stimulate the real estate market.

In April 2010, to curb the rapidly rising housing prices, the State Council issued the Notice of the State Council on Resolutely Curbing the Rapid Rising Housing Prices in Some Cities. According to this notice, the stricter housing credit policies will be implemented to increase down payments for second or above house purchases by one family, and to increase credit rates. The notice aims to limit speculative housing purchases.

On January 26, 2011, new macro-control policies on real estate market was issued by the State Council and down payment ratio of the second unit of residential houses purchased by one family was enhanced from 50% to 60%. During 2011, more and stricter local macro-control policies on real estate market, such as a limit on purchase of houses, have been put forward in the first-tier cities such as Beijing and are expected to expand into the second and third-tier cities in the future.

COST STRUCTURE

Year: 2011



Item	Cost %
Purchases	67.5%*
Selling Expenses	3.5%*
Wages	3.4%*
Rent	2.5%*
Depreciation	1.4%*
Utilities	1.1%*
Other	8.1%*
Profit	**12.5%***

Property purchases and construction expenses are expected to account for about 67.5% of industry revenue in 2011. Land costs are the largest expense and the ability to obtain land at lower prices is crucial to developers. As building construction requires a relatively long period, and land prices are likely to fluctuate during the construction phase, many speculators seek to profit from land price increases.

Selling expenses refer to costs paid for sales promotions, including advertising costs, distributing costs, promoting costs, etc. Because of the intensive competition among real estate developers, companies seek to develop their brand names and exhibit the benefits of their products.

In 2011, industry profitability is expected to decline slightly from 2010, mainly affected by increasing asset impairment losses under shrinking sales. In 2009, with a large increase in sales volumes and average prices, total asset impairment losses of real estate developers decreased largely from the beginning of 2009. Statistics from 99 listed real estate developers showed that total asset impairment losses decreased from $622 million at the end of 2008 to negative $95.2 million at the end of 2009, which enhanced profitability of real estate developers. Additionally, the large increase in average housing prices will enhance gross profit rates of real estate projects during the year. Profits shrank for real estate developers in 2008. Under declining market conditions during this year, many enterprises faced lower land and building asset values, offsetting profits during the year.

Staff costs are expected to make up about 3.4% of industry revenue in 2011. Of all employees in this industry, about 20% are marketing and sales specialists, about 30% are project technicians, about 15% are designers, and the balance are management staff, including cost controllers, financial managers, information analysts, human resource managers, and customer relationship managers.

Financing costs, which usually refer to dividend and interest paid for financing, accounting for 2% of industry revenue. The dividend is paid for shareholders' investments, and the interest is paid for loans. Because real estate projects require high funding amounts, companies finance operations from both banks and stock markets, if possible. The large interest rate cuts in 2008 were positive for the reduction of interest expenses of real estate developers. In 2009, with favorable sales conditions, many real estate developers have increased cash flows, but many real estate developers plan to increase land reserves, and long-term borrowings increased largely.

Depreciation makes up about 1.4% of industry revenue. Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss. For a real estate developer, depreciation mainly comes from its largest fixed assets, properties. However, no depreciation is provided on construction in progress until the development of related assets is completed. In a strong market, properties are usually sold soon after construction is completed, and even before completion. Therefore, despite the very large fixed assets of real estate developers, depreciation levels are not high.

Rental expenses account for 2.5% of industry revenue. Such expenses refer to leases paid for the use of offices or plant, and are marginal to total industry costs.

CAPITAL AND LABOR INTENSITY

- In general, the number of employees per enterprise is low
- The average level of personal income in this industry is not high
- Fixed assets of buildings can provide depreciation

The ratio of capital, as measured by depreciation, to labor (wages) is estimated to be 1:2.4 in 2011. This indicates a medium capital intensity level.

Worker numbers employed by different real estate developers vary greatly, from 10 to 10,000. The average number of employees per company is about 30.

After the completion of building construction, if the building has not been sold immediately, depreciation of the fixed assets are accounted for.

TECHNOLOGY AND SYSTEMS

There are few advanced, industry-specific systems adopted by companies in this industry. However, most large firms utilize standard business and management systems, such as ERP (Enterprise Resource Planning) systems.

INDUSTRY VOLATILITY

Revenue volatility is high in this industry, mainly due to the rapid development in China's real estate market and frequent macro-economic regulation policies. Accelerated growth in housing prices attracts a large number of investors and speculators to the market. Therefore, increased sales volumes result in higher industry revenue growth.
Although housing prices in 2009 and 2010 continued to rise, macro-economic government controls and higher housing prices inhibited purchasing behavior. Therefore, industry revenue growth in 2011 is expected to slow due to relatively lower sales volumes.
In 2007 and 2009, rapidly increasing housing prices and sales volumes were mainly due to increased investment and speculative demand. The large increase in sales values of commercial houses contributed to industry revenue growth during these two years.

GLOBALIZATION

The level of Globalization is low

The trend of Globalization is increasing

Most operators in this industry are domestically-owned and account for low market shares. In 2008, about 7.4% of real estate developers had some form of forgiven investment, which contributed to a low globalization level.

As territorial resources are closely related to national security and local development planning, the government strictly limits the entry of foreign ventures. Foreign venture can only enter this industry via joint ventures with domestic players or through partnerships, resulting in a low globalization level. At the same time, due to high capital requirements for developers, many major companies have listed in Hong Kong to obtain extra funding sources.

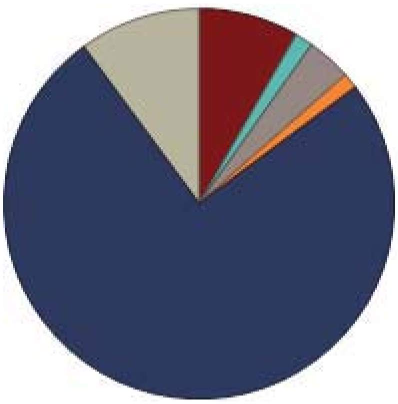
Ownership Segmentation, 2004 and 2008

Units Ownership Type	Percentage 2004	Percentage 2008
Private	39.4	43.6
Shareholding	36.8	39.4
Foreign Funded (including HK, Macau & Taiwan)	9.7	7.4
State Owned Enterprise	8.1	5.2
Collectively Owned Enterprise	4.0	2.3
Joint-equity Cooperative Enterprise	1.3	0.8
Other	0.7	1.3

Source: ACMR-IBIS World Database

Segmentation

PRODUCTS AND SERVICE SEGMENTATION



Product/Services	Share
Commercial buildings	8.3%
Economically affordable dwellings	1.5%
Office buildings	3.7%
Other real estate developments and buildings	1.3%
Standard residential buildings	75.1%
Villas and high-end apartments	10.1%

Standard residential buildings

Standard residential buildings accounted for 75.1% of industry revenue in 2009. In terms of GFA (gross floor area), this segment is expected to account for 80.4% of the industry's volume in 2011, showing that the average price of this type of real estate is lower compared with other segments in the industry.
In this segment, from 2002 to 2011, the annualized growth rate of total GFA is expected to be 16.5%, reflecting the strong demand for these types of buildings.

Low-income (affordable) dwellings

Low-income (affordable) dwellings made up 1.5% of all buildings sold in terms of sales revenue in 2009. Houses within this segment are built to provide affordable dwellings for low-income households. By GFA, this segment is expected to account for 4.4% of the industry total in 2011, which is higher than its sales. However, without sufficient legislation and supervision, a large percentage of economically-affordable dwellings have been purchased for speculation, and then resold at higher prices. Therefore, the objective of these buildings is substantially weakened.
In this segment, from 2002 to 2011, the annualized growth rate of total GFA is expected to be 4.0%. The slow increase in total GFA was mainly due to higher construction costs, which made this type of building less attractive for developers to build, as well as growth in household income, which directed interest to higher-standard housing. In the future, the share of this segment is expected to increase as the government increases investment in the construction of affordable dwellings in 2011 to meet the housing demand of low-income households.

Villas and high-end apartments

Villas and high-end apartments accounted for a 10.1% share of all buildings sold in terms of sales revenue in 2009. In terms of GFA, this segment makes up a lower share at 4.9% in 2011, because the average prices of both villa and highend apartments are high. With urban household income growth and the wider availability of housing loans, the annualized growth rate of GFA in this segment from 2002 to 2011 is expected to be 17%.
This rapid growth rate is also partly due to the expansion of large cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, where prosperous economies tend to attract people with high income levels. In addition, this segment is preferred by large real estate companies that seek high return with luxury products.

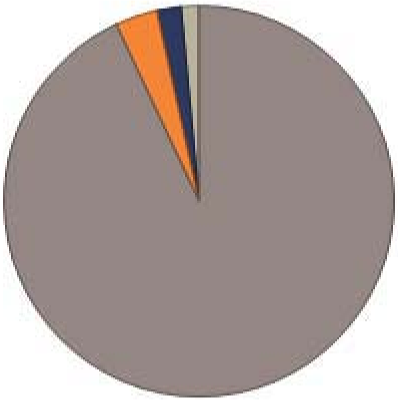
Office buildings

Office buildings accounted for a 3.7% share of all buildings sold in terms of sales revenue in 2009, with an estimated share of 1.8% of GFA in 2011. This is because the average price of office buildings is the highest among all segment types within the industry. After China joined the World Trade Organization in late 2001, high business growth stimulated demand for office buildings, and the annualized growth rate of total GFA is expected to be 16.3% from 2002 to 2011.

Commercial buildings

Commercial buildings accounted for 8.3% of all buildings sold in terms of sales revenue in 2009 and a lower share of 7.1% of GFA in 2011, also due to the high average price of such buildings. The development of buildings for commercial operations relates closely to service sectors, including department stores, supermarkets, restaurants and entertainment places. GFA is expected to increase at an annualized rate of 15.8% from 2002 to 2011, primarily benefiting from the increased disposable income of consumers and greater consumption levels.

MAJOR MARKET SEGMENTS



Market Segment	Share
Building sales	93.0%
Others	3.5%
Building leasing	2.0%
Land development-rights transfers	1.5%

Building sales was the largest market segment for this industry, accounting for 93% of industry revenue in 2010. This market mainly comprises residential housing trading, as well as investment or speculation on residential housing. Within this segment, about 75% of buyers have bank finance and these buyers usually live in the premises. The remaining buyers are often property speculators.

Building leases accounted for a 2% share of the total market in 2010. Clients in this market are mostly corporate, with a small proportion of private customers. Developers receive rental income from office and commercial buildings. The market share of this segment is relatively small as purchasing expenses are much higher than the rental income received, and risks are also greater. However, in 2008, affected by lower sales volumes, many new commercial houses were leased by real estate developers.

Land development-rights transfers take place when the original developer is not financially capable of continuing the development of certain land or does not have a profit-guaranteed development plan from another developer. In general, this market segment also comprises companies engaged in property investment.

INDUSTRY CONCENTRATION

The industry's top four firms are expected to account for 3.8% of industry revenue in 2011 and, therefore, this industry is subject to a very low industry concentration level. The top eight companies are forecast to account for 6% of industry revenue in 2011.

It is not difficult for small firms to operate in the industry due to the medium barriers to entry, which have become higher recently, and low start-up costs. At the same time, increased real estate prices attracted companies to enter the industry, resulting in even higher prices. However, price declines in the future will also force many small players to exit the industry

Industry concentration levels are expected to remain steady in future years due to the large scale of the industry and the limited impact of merger activity.

GEOGRAPHIC SPREAD

East China

East China accounted for 45.7% of industry revenue, 35.6% of enterprise numbers, and 33.4% of industry employment in 2008. The prosperous economic environment in this region attracts the largest enterprises in the industry and creates high demand for residential and commercial buildings.

For GFA (gross floor area) of properties sold in East China in 2011, residential buildings are expected to account for 31.6%, office buildings 47.5%, and commercial buildings 40%. Most large real estate developers regard Shanghai as a key business area in China.

Middle South China

With Middle South China accounting for 20.7% of industry revenue and 25.7% of enterprises, many developers in this region were of moderate scale. Service activities are flourishing in this region, due to the high average income levels.

Guangdong province is the most dynamic real estate market in China, and many large developers, such as Vanke, started their businesses in Shenzhen and Guangzhou, and are still major competitors of current major players.

North China

North China accounted for 14.5% of industry revenue from just 12.9% of enterprise numbers. In terms of total GFA of sold buildings in North China in 2011, office buildings are expected to make up for 16.5%, indicating great demand for office buildings due to high volumes of business activities in the two largest cities of Beijing and Tianjin in this region. Beijing is also the cultural and political center of the country. High demand in the region has resulted in high prices for real estate in recent years, which attracts real estate developers.

North East China

As North East China is a traditional industrial base in China, demand for office buildings is low. However, due to relatively high consumption power, residential and commercial buildings are in high demand. In this region, Shenyang, Dalian and Changchun are the main cities for the industry's large companies.

North West China

The average scale of the industry's enterprises is relatively small. Although demand for business offices is limited, demand for residential buildings is still large in this region. Xi'an is the main city for real estate developers.

South West China

South West China accounted for 8.9% of industry revenue, 12% of enterprises, and 13.6% of employment in 2008. For the total GFA of sold buildings, residential buildings are expected to make up 15.6%, office buildings 11.9%, and commercial buildings 12.7% in 2011. Although there is limited demand for office buildings, demand for residential and commercial buildings is still great due to the region's large population. Chengdu and Chongqing are the two major markets for developers in this region.

Key Factors

KEY SENSITIVITIES

The key sensitivities affecting the performance of the Real Estate Development and Management industry include:

Economic Indicators - Residential Housing Prices

As residential housing prices increase, fewer people are able to afford to purchase housing.

Household Income

Household income determines the purchasing power for housing. If the level of household income increases, more dwellings will be affordable.

Interest Rates - Housing Loan Rates

As housing loan rates increase, loan applicants are required to make higher loan repayments, making it more difficult to apply for loans. However, higher interest rates can result in a softer real estate market, which can benefit some purchasers.

Population Growth - China
With China's population of over 1.3 billion people, housing demand is extremely high. As the population continues to grow, housing demand increases, which benefits the development of this industry.

Urban Population - % of Population in Metropolitan Areas
As China's urban population increases due to rural people moving to cities, demand and prices of housing increases, which benefits this industry.

KEY SUCCESS FACTORS

The key success factors in the Building Construction industry are:

Ready access to investment funding
As real estate development require enterprises to have large funds, the ability to finance from external sources is crucial to developers.

Establishment of brand names
If large developers, especially those that target high-end markets, have established their brand names, they may be preferred by clients, even though their prices are higher.

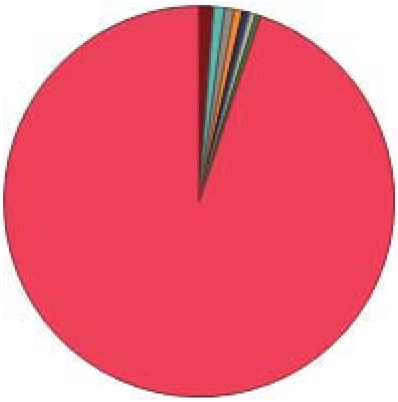
Having a good reputation
In China, a good reputation in the market will attract more customers, and developers can improve their reputation by providing better quality buildings.

Fast adjustments made to changing regulations
Regulations enacted by the government have been intensified in recent years. Therefore, only developers that can adjust their business according to new regulations are able to prosper.

Key Competitors

MAJOR PLAYERS

Market Share 2011



Major Player	Market Share Range
China Vanke Co., Ltd.	1.2%
GreenLand Group	0.9%
Poly Real Estate Group Co., Ltd.	0.8%
China Overseas Land & Investment Ltd.	0.7%
Guangzhou R&F Properties Co., Ltd.	0.6%
Shimao Property Holdings Limited	0.5%
Greentown Real Estate Group Co., Ltd.	0.4%
Other	94.9%

PLAYER PERFORMANCE

China Vanke Co., Ltd.
Market Share: 1.2%

China Vanke Co., Ltd. was founded in May 1984, and is the largest specialized residential developer in China. In 1988, the company began its residential building development business, and in 1993, China Vanke focused its business on the development of standard residential buildings. By 2006, China Vanke operated in many cities within the Pearl River Delta, the Yangtze River Delta and the Bohai Sea Ring region, providing dwellings for more than 90,000 households in China.

In 1991, China Vanke was the second listed company on the Shenzhen Stock Exchange and is now the largest by market capitalization. Since then, the company's net profit has increased each year, with annualized growth in revenue and net profit of 28.3% and 34.1%, respectively. China Vanke focuses on low profit, high volume housing. Although the company's profit margin is not high compared with other large competitors, its net profit is the largest.

During the first quarter of 2011, real estate sales of Vanke increased sharply. Total sold GFA was 3.04 million square meters, up by 144.6%, and contract sales totaled $5.46 billion, up 144.9%. This sharp increase was mainly supported by the historical sales record in January, the focus on development of medium and small size common residential buildings and the company's flexible sales strategy. During 2010, total sold GFA and contract sales value of Vanke reached 8.98 million square meters and $16.4 billion, up by 35.3% and 76.5%, respectively. The slowed growth in operating revenue resulted from decreased settled area and slow growth of settled area during the year. Compared with slowed revenue growth rates in 2010, company profitability improved rapidly with a growth rate of 38.7% in net profit, which is mainly due to the large increase in average prices of sold buildings in 2009.

Financial Performance of China Vanke Co., Ltd - 2005 to 2010

Year	US Million Dollars Revenue	% change Growth	US Million Dollars NPAT	% change Growth	US Million Dollars Assets	% change Growth
2005	1289.2	N/C	164.9	N/C	2685.1	N/C
2006	2239.4	73.7	270.3	63.9	6086.3	126.7
2007	4670.9	108.6	699.1	158.6	13159.9	116.2
2008	5898.1	26.3	667.6	-4.5	17156.3	30.4
2009	7156.1	21.3	941.3	41.0	20145.6	17.4
2010	7491.4	4.7	1305.8	38.7	31853.8	58.1

Source: Annual Report

GreenLand Group Shanghai Construction Group
Market Share: 0.9%

Established in July 1992, Greenland Group is a comprehensive group engaged in real estate development, energy, automobiles and financial industries. Real estate development is the core operation of the group and its main real estate projects are in 43 cities across 23 provinces of China, with total GFA of nearly 30 million square meters under construction

The group has developed rapidly and become one of the largest real estate developers in China in recent years. During 2010, the company reported sold GFA and contract sales revenue of 7.43 million square meters and $9.85 billion, both of which ranked the third among real estate developers in China. In 2010, total GFA of buildings under construction was around 20 million square meters and completed GFA of the company was 10 million square meters. For the whole year of 2010, the group made revenue of over $18.98 billion. In 2011, total revenue of Greenland Group is expected to be $26.59 billion.

With strong bank credit support, the group invested $2.79 billion to purchase land in 2009. During the first three quarters of the year, total GFA of the newly increased land was around 2.6 million square meters. Currently, total GFA of its land reserves is estimated to be near 34 million square meters.

Poly Real Estate Group Co., Ltd.
Market Share: 0.8%

Poly Real Estate Group Co., Ltd. (PREG) is a large state-owned real estate developer, which is held by China Poly Group Corporation. In July 2006, PREG went public on the Shanghai Stock Exchange. This company is engaged in the development of commercial buildings, building project design, property management, hotel management, and wholesale and retail developments. PREG's real estate projects are mainly located in Guangzhou, Beijing, Shanghai, Wuhan, Chongqing, and Shenyang.

During the first quarter of 2011, total GFA of the company's newly started real estate projects increased by 154.7% to 3.2 million square meters, and completed real estate projects grew 109.4% to 318,000 square meters. During this period, total GFA was 1.32 million square meters and value of contract real estate sales was $2.17 billion, both of which showed rapid increases compared with the same period in 2010.

In 2010, the contract sales value increased by 57.5% to $10 billion and sold GFA of the company grew 37.2% to 7.23 million square meters. Total operating revenue increased by 57.6% to $5.3 billion, benefiting from strong sales levels in 2009 and early 2010.

During 2009, total contract sales value amounted to $6.35 billion, up 146%, and sold GFA was 5.27 million square meters, up 131%, from 2008. At the end of 2009, the company reported revenue of $3.37 billion, up 50.7% from 2008.

Financial Performance of Poly Real Estate Group Co., Ltd. - 2005 to 2010

Year	US Billion Dollars Revenue	% change Growth	US Million Dollars NPAT	% change Growth	US Million Dollars Assets	% change Growth
2005	287.7	N/C	49.7	N/C	978.7	N/C
2006	505.3	75.6	82.7	66.4	2069.8	111.5
2007	1067.0	111.2	195.8	136.8	5376.6	159.8
2008	2233.1	109.3	322.1	64.5	7716.9	43.5
2009	3365.2	50.7	586.7	82.1	13151.0	70.4
2010	5302.3	57.6	813.2	38.6	22501.8	71.1

Source: China Building Industry Yearbook

China Overseas Land & Investment Ltd.
Market Share: 0.7%

China Overseas Land & Investment Ltd (COLI) was founded in Hong Kong in 1979 and is a subsidiary of China State Construction Engineering Corporation, the largest construction group in China. In 1992, COLI was listed on the Hong Kong Stock Exchange. The company has developed a large number of high-end properties across 16 cities, including Beijing, Shanghai, Hong Kong and Macau.

During the first quarter of 2010, the company purchased nine plots of land in eight cities in China and the newly increased GFA of land reserve was around 2.6 million square meters. In this period, the sold GFA totaled about 1 million square meters, almost unchanged from the same period in 2009. However, benefiting from rising housing prices, contract sales values increased strongly from the same period of 2009 to $1.77 billion. For the whole year in 2010, total sold GFA and contract sales value of COLI reached $8.8 billion and 5.3 million square meters, ranking the fourth and the sixth, respectively in China. During 2009, company revenue almost doubled to $4.81 billion. The sold GFA totaled 4.77 million square meters, up 76% from 2008. By the end of 2009, total GFA of the company's land reserves increased by 23% to 30.55 million square meters, which is expected to meet development demand for the next four years.

Financial Performance of China Overseas Land & Investment Ltd. - 2005 to 2010*

Year	US Billion Dollars Revenue	% change Growth	US Million Dollars NPAT	% change Growth	US Million Dollars Assets	% change Growth
2005	968.3	N/C	80.8	N/C	3069.8	N/C
2006	1368.9	41.4	262.5	224.9	4498.6	46.5
2007	2131.8	55.7	540.5	105.9	8269.8	83.8
2008	2426.5	13.8	651.5	20.5	10991.1	32.9
2009	4811.0	98.3	980.2	50.5	14710.4	33.8
2010*	5051.6	5.0	1519.3	55.0	15998.1	8.8

Source: China Building Industry Yearbook

Note: *2010 data are ACMR-IBISWorld estimates

Guangzhou R&F Properties Co., Ltd.

Market Share: 0.6%

Guangzou R&F Properties Co., Ltd. was founded in 1994 with registered capital of $97.3 million. The company is mainly engaged in real estate design, development, project supervision, realty management and real estate intermediation.

In 2011, the company is expected to introduce around 40 projects in 13 cities in China to make contract sales value of $6.15 billion. During the year, the company expects to deliver real estate projects of 2.9 million square meters, which will ensure the company's stable financial performance in 2011.

In 2010, the company's contract sales value totaled $4.73 billion. The company expected to issue 450 million A-shares on Shanghai Stock Exchange in the near future, which is thought to optimize the company's capital structure and provide support for land purchases by the company.

In 2009, the company confirmed real estate sales revenue of $2.66 billion, up 20.5% from 2008. For the whole year, total sold GFA was 2.33 million square meters, up 46% from 2008. During the first ten months of 2009, total contract sales value of the company amounted to $3.03 billion, increasing by 64.7% from the same period in 2008.

Financial Performance of Guangzhou R&F Properties Co., Ltd.- 2005 to 2010

Year	US Billion Dollars Revenue	% change Growth	US Million Dollars NPAT	% change Growth	US Million Dollars Assets	% change Growth
2005	715.0	N/C	154.5	N/C	2109.5	N/C
2006	1278.1	78.8	269.1	74.2	3337.6	58.2
2007	1942.1	52.0	698.8	159.7	7125.4	113.5
2008	2210.1	13.8	453.7	-35.1	7909.0	11.0
2009	2664.0	20.5	427.7	-5.7	9712.8	22.8
2010*	3640.1	36.6	658.3	53.9	11436.0	17.7

Source: China Building Industry Yearbook

Shimao Property Holdings Limited
Estimated Market Share: 0.5%

Shimao Property Holdings Limited (Shimao Property) is engaged in the development and investment of high-end residential and retail properties, office buildings and hotels in Beijing, Harbin, Nanjing, and Fuzhou. Shimao Property was listed on the Hong Kong Stock Exchange in June 2006.

Shimao Property is one of two major listed entities of Shimao Group, which is a conglomerate primarily engaged in real estate development. In the 1990s, Shimao Group entered the Beijing market. In the 2000s, the group focused on Shanghai, with three major core businesses: high-end residential buildings, luxury hotels and commercial/office buildings.About two-thirds of the company's projects are located in the Yangtze River Delta and Bohai Sea Ring Region.
In 2011, the company is expected to introduce 32 real estate projects with total GFA of 5.91 million square meters for sale. During the year, the company will start constructing 5.55 million square meters, making total GFA under constructing 10.88 million square meters. For the

whole year, total contract sales value of the company is targeted at $5.54 billion.

Financial Performance of Shimao Property Holdings Limited - 2005 to 2010

	US Billion Dollars	% change	US Million Dollars	% change	US Million Dollars	% change
Year	Revenue	Growth	NPAT	Growth	Assets	Growth
2005	305.3	N/C	72.8	N/C	1900.5	N/C
2006	867.4	184.1	208.6	186.5	3475.0	82.8
2007	1219.6	40.6	548.7	163.0	5163.1	48.6
2008	1035.4	-15.1	123.8	-77.4	6688.0	29.5
2009	2493.5	140.8	527.5	326.1	9739.7	45.6
2010*	3218.7	29.1	811.1	53.8	14132.2	45.1

Source: Annual Report

Greentown Real Estate Group Co., Ltd.
Estimated Market Share: 0.4%

Greentown China Holdings Limited (Greentown China) is a Hong Kong listed company with its major wholly owned subsidiary Greentown Real Estate Group Co., Ltd. (Greentown Group), one of the leading residential property developers in China. Greentown Group was founded in 1995 and in 2000, the company began its national expansion and entered markets in Shanghai, Beijing, Hefei and other strategic cities.

The group is primarily engaged in developing mid- to high-end residential properties for middle to high income earners. The major housing types developed by the group are villas, low-rise-apartment buildings and high-rise-apartment buildings. Greentown Group has 29 subsidiaries and over 1,100 employees. Properties developed by the group are located in 17 cities, including Hangzhou, Ningbo, Shanghai and Beijing. Zhejiang province is the major market of Greentown Group.

In 2010, while Greentown consolidated its dominant position in Hangzhou and other areas in Zhejiang province, it expanded in the second and third-tier cities in Shandong and Jiangsu. For the whole year, the company's sold GFA and contract sales value reached 2.79 million square meters and $8.01 billion, ranking the tenth and sixth in China, respectively. During the year, benefiting from the excellent contract sales performance in 2009, the company's operational revenue increased by 29% to $1.65 billion.

Financial Performance of Greentown China Holdings Limited - 2005 to 2010

Year	US Billion Dollars Revenue	% change Growth	US Million Dollars NPAT	% change Growth	US Million Dollars Assets	% change Growth
2005	309.6	N/C	51.8	N/C	1536.2	N/C
2006	803.1	159.4	109.4	111.2	2238.2	45.7
2007	754.5	-6.1	132.2	20.8	4321.0	93.1
2008	954.7	26.5	81.5	-38.4	6160.4	42.6
2009	1277.7	33.8	159.9	96.2	11049.7	79.4
2010*	1648.7	29.0	283.0	77.0	18517.9	67.6

Source: Annual Report

Industry Performance

CURRENT PERFORMANCE

Rapidly increasing house prices have become a major social problem in China, limiting accommodation levels, increasing members per household, and increasing household debt levels. Although average household income levels have increased strongly in China in recent years, house prices have increased at faster rates. The gap between the rich and poor in China is also considerable, with a large percentage of housing transactions conducted by housing investors and speculators for profit, rather than by residents for living. Also, when prices were rising quickly from 2005 to 2007, and in 2009, many people brought forward their housing purchases in fear of future price rises. The ratio of average housing price to annual personal income far exceeds the upper limit recommended by the World Bank, especially in large cities, such as Beijing, Shenzhen and Shanghai.

General building quality and related services are not high. Due to favorable market conditions for developers, many real estate development companies, especially small ones, do not strictly control the quality of their projects. Macro-economic government controls intensified from 2005 to 2008 to curb the overheating economy, with the government increasing interest rates and bank reserve ratios. At the end of 2007, the implementation of government policies contributed to the downward trend in housing prices in several large cities. In late 2008, affected by the economic slowdown and declining real estate market conditions, interest rates and bank reserve ratios were reduced to stimulate growth. At the same time, many preferential real estate related policies were implemented to promote trading in this market. Promoted by sufficient liquidity and preferential policies, trading volumes and housing prices in 2009 increased strongly. Over the past five years, industry revenue is estimated to have increased at an average annualized 27.9% to reach $869.1 billion in 2011.

2011

On January 26, 2011, new macro-control policies on the real estate market were issued by the State Council and the **down payment ratio of a second unit of residential houses purchased by one family** was enhanced **from 50% to 60%**. In the current year, stricter macro-control policies have been introduced, such as a limit on house purchases. Interest rates have also increased twice to contain rising housing prices. The growth rate of housing sales value in 2011 may slow down, but real estate developers are not expected to decrease housing prices to much extent. As a large amount of sale value that was realized in 2010 will be settled as operating revenue, industry revenue is still expected to increase at a rapid rate of 20%, slower compared with that in 2010.

2010
During the year, China's real estate markets were faced with strict and intensive macro-control policies and interest rate increases after rapid rises in housing prices in 2009 and early 2010. In April 2010, to curb the rapidly increasing housing prices and prevent financial risk, the State Council implemented a **10-part adjustment policy** on China's real estate market. According to this policy, stricter housing credit policies will be implemented requiring higher down-payments for second and above house purchases by one family, and increasing credit rates to reduce speculative housing purchases. As of May 2010, under the strict government adjustment, housing trade volumes in major cities of China had declined sharply and housing prices in some cities declined slightly.

2009
In 2009, high liquidity levels, insufficient supply and a series of preferential policies implemented in late 2008 saw average housing prices increase by 25.3% and trading volumes increase by 43.6% from 2008. The sales value of commercial buildings during the year totaled $649.4 billion, up by 80% from 2008.
Preferential financial and fiscal policies aimed at the industry stimulated the release of suppressed demand from 2008, which was an important factor in the large increase in trading volume.

2008
As speculative investment in China's real estate markets decreased from the end of 2007, housing prices increased at slower rates in most Chinese cities. In Shenzhen, housing prices declined by 16.5% in March. Transaction volumes declined sharply, indicating sluggish market conditions. The global financial crisis also hindered industry growth in the later part of 2008 as people became reluctant to make major purchasing decisions due to economic uncertainty.
For 2008, sales volumes and sales values of commercial buildings decreased by 14.7% and 8.2% from 2007. Despite this decline, industry revenue increased by 22.6% for the year, which was mainly due to a large amount of real estate that was sold in 2007 but not settled until 2008.

Outlook

With rising inflationary pressures and an overheating economy, China's relatively loose monetary policies to stimulate economic growth are not expected to continue in the near future. Interest rates are forecast to be increased to control excess liquidity and prevent the economy from overheating. There are expected to be more adjustment measures to address high housing prices at state and local levels during the next two years.

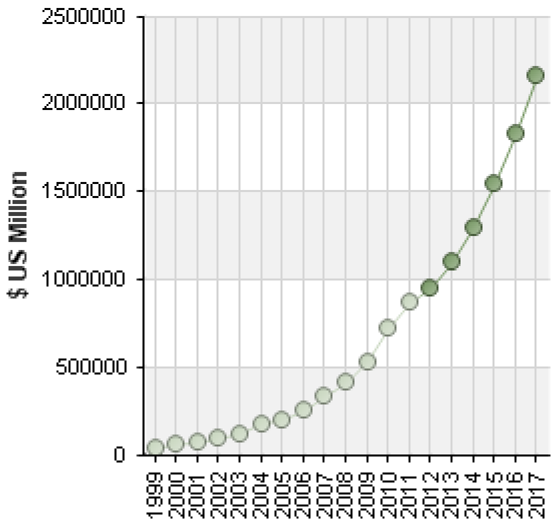
During 2011, the Central Government is expected to increase housing levels by providing more land supplies and policy houses, and issuing stricter macro-control policies to restrain soaring housing prices. In addition to low-expense rental housing, the government is expected to subsidize the purchase of affordable dwellings. In the next few years, the government will significantly increase investment in the construction of economically-affordable dwellings, which is expected to meet increased housing demand and curb price appreciation. As housing prices return to a reasonable range, sales volumes will further increase.

Strong demand from China's large population and accelerated urbanization process will further support this industry's development. As housing prices decline, this will further stimulate real demand from residents for housing. Therefore, the industry is expected to develop steadily in the coming years.

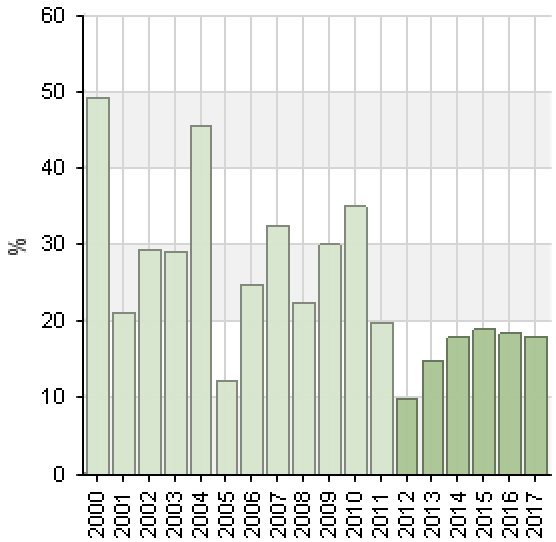
Revenue (constant prices)

	Revenue $ US Billion	Growth %
2012	956,025.8	10.0
2013	1,099,429.7	15.0
2014	1,297,327.1	18.0
2015	1,543,819.2	19.0
2016	1,829,425.8	18.5
2017	2,158,722.4	18.0

Revenue



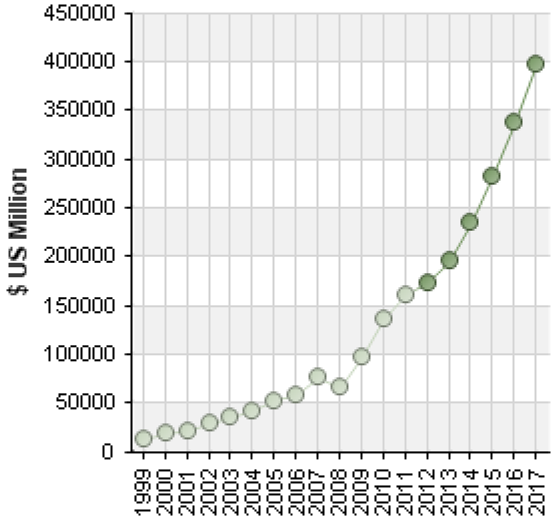
Revenue Growth Rate



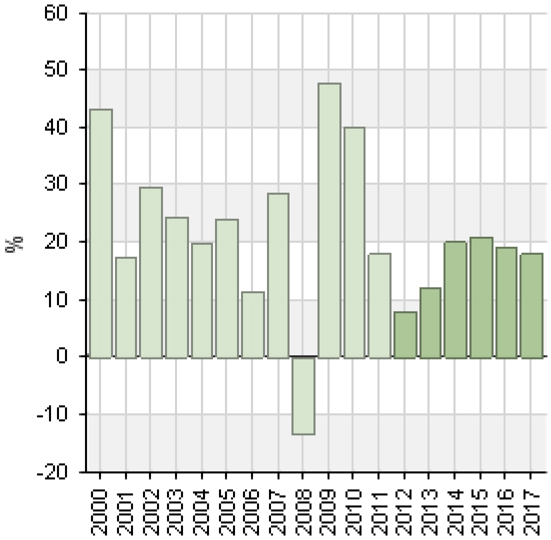
Gross Product (constant prices)

	Gross Product $ US Billion	Growth %
2012	174,324.0	8.0
2013	195,242.9	12.0
2014	234,291.5	20.0
2015	283,492.7	21.0
2016	337,356.3	19.0
2017	398,080.5	18.0

Gross Product



Gross Product Growth Rate



Key Statistics

CONSTANT PRICES

	2007	2008	2009	2010	2011	
Industry Revenue	*336,535.3	*412,684.8	*536,489.8	*724,261.9	*869,114.4	$US Mill
Industry Gross Product	*76,177.5	*66,057.0	*97,706.4	*136,789.0	*161,411.1	$US Mill
Number of Establishments	*384,247	*441,884	*461,769	*477,931	*492,269	Units
Number of Enterprises	*62,518	*87,562	*91,940	*94,698	*96,592	Units
Employment	*1,719,666	*2,104,000	*2,314,400	*2,453,264	*2,551,395	Units
Exports	N/A	N/A	N/A	N/A	N/A	Units
Imports	N/A	N/A	N/A	N/A	N/A	$US Mill
Total Wages	*10,126.7	*12,729.0	*18,155.2	*25,417.3	*29,229.9	$US Mill
Total Assets	*1,610,217.6	*2,254,302.7	*2,705,161.2	*3,381,454.6	*3,719,600.3	$US Mill
Domestic Demand	NC	NC	NC	NC	NC	$US Mill

CURRENT PRICES

	2007	2008	2009	2010	2011	
Industry Revenue	*280,379.4	*370,633.0	*478,846.3	*680,058.0	*869,114.4	$US Mill
Industry Gross Product	*63,466.2	*59,325.9	*87,208.3	*128,440.4	*161,411.1	$US Mill
Number of Establishments	*384,247	*441,884	*461,769	*477,931	*492,269	Units
Number of Enterprises	*62,518	*87,562	*91,940	*94,698	*96,592	Units
Employment	*1,719,666	*2,104,000	*2,314,400	*2,453,264	*2,551,395	Units
Exports	N/A	N/A	N/A	N/A	N/A	Units
Imports	N/A	N/A	N/A	N/A	N/A	$US Mill
Total Wages	*8,436.9	*11,431.9	*16,204.5	*23,866.0	*29,229.9	$US Mill
Total Assets	*1,341,529.1	*2,024,593.7	*2,414,503.3	*3,175,074.2	*3,719,600.3	$US Mill
Domestic Demand	NC	NC	NC	NC	NC	$US Mill

REAL GROWTH

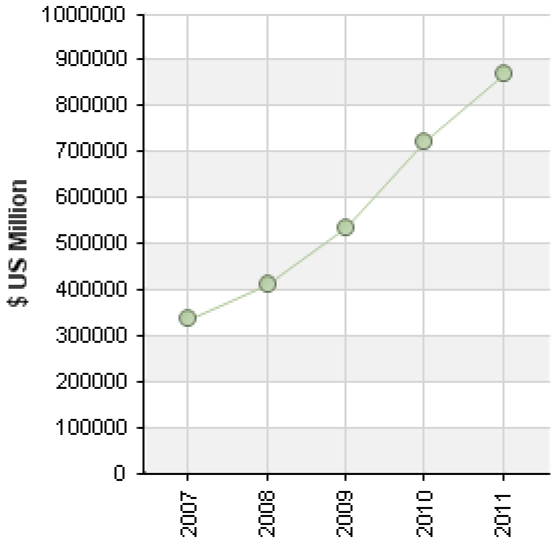
	2007	2008	2009	2010	2011	
Industry Revenue	*32.6	*22.6	*30.0	*35.0	*20.0	%
Industry Gross Product	*28.5	*-13.3	*47.9	*40.0	*18.0	%
Number of Establishments	*6.3	*15.0	*4.5	*3.5	*3.0	%
Number of Enterprises	*6.5	*40.1	*5.0	*3.0	*2.0	%
Employment	*7.4	*22.3	*10.0	*6.0	*4.0	%
Exports	N/A	N/A	N/A	N/A	N/A	%
Imports	N/A	N/A	N/A	N/A	N/A	%
Total Wages	*8.2	*25.7	*42.6	*40.0	*15.0	%
Total Assets	*16.8	*40.0	*20.0	*25.0	*10.0	%
Domestic Demand	NC	NC	NC	NC	NC	%

RATIO TABLE

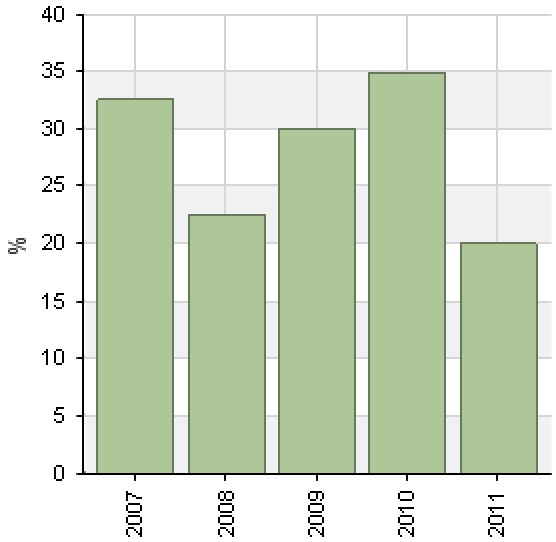
	2007	2008	2009	2010	2011	
Imports share of domestic demand	N/A	N/A	N/A	N/A	N/A	%
Exports Share of Revenue	N/A	N/A	N/A	N/A	N/A	%
Average Revenue per Employee	*0.20	*0.20	*0.23	*0.30	*0.34	$US Mill
Wages and Salaries Share of Revenue	*3.01	*3.08	*3.38	*3.51	*3.36 %	

GRAPHS

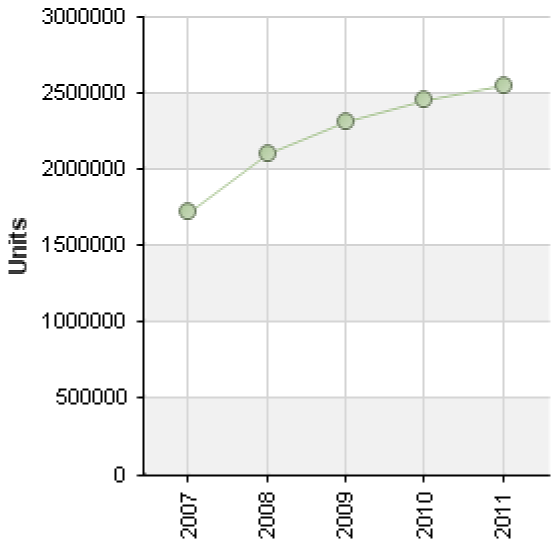
Revenue



Revenue Growth Rate



Employment



Note: Unless specified, an asterisk (*) associated with a number in a table indicates an IBISWorld estimate and references to dollars are to US dollars.