

Real Estate Sector

4th Quarter 2005

China Real Estate Foreign Investment Quarterly

INTRODUCTION

This quarterly review provides a summary of foreign investment activity in China's real estate market. We track notable developments and transactions in the Office, Retail, Residential, Industrial and Hospitality sectors, as well as corporate transactions relating to foreign investment into Chinese property or real estate services.

Highlights

- Over US\$5.8 billion in transactions announced across all key sectors, representing a 164% increase over Q3

Well capitalized Hong Kong developers accounted for the bulk of new acquisition activity as they took advantage of tightened domestic liquidity and the Chinese government's "cooling" measures to secure new development sites at attractive pricing.

- LINK opens the REIT sector in Hong Kong and establishes a new and significant securitization market for China property

The LINK REIT IPO was quickly followed by Prosperity REIT and GZI REIT, the first China property REIT. These three deals combined established an initial capitalization of nearly US\$5 billion for the Hong Kong REIT market, bringing it to three quarters of the size of Singapore's market.

- The Brokerage sector attracts further Private Equity interest

Goldman Sach's stake in Century 21 China Real Estate follows Carlyle's stake in China Real Estate Network Limited last quarter.

- Foreign investors secure more partnerships with Chinese developers

The large number of corporate deals during the 4th Quarter reflects increasing interest on the part of Chinese developers to bring foreign capital into their projects.

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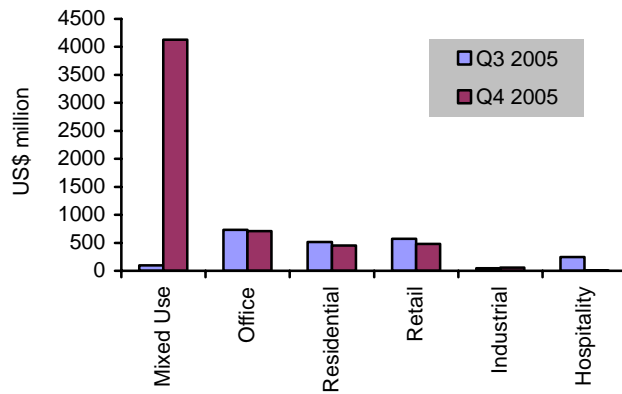
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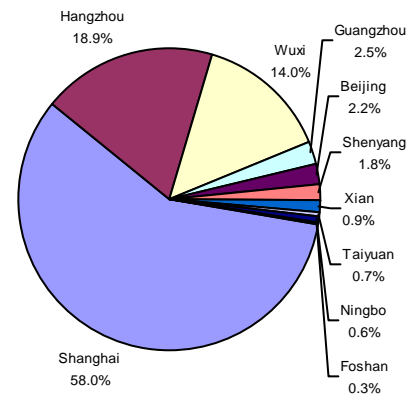
CAPITAL FLOWS

A total of US\$5.8 billion in foreign investment transactions were announced in the 4th Quarter of 2005, more than doubling the figure for the prior quarter. Transaction activity was dominated by acquisitions of development sites by Hong Kong developers seeking more profitable opportunities than available in their home market.

Announced Foreign Investment by Sector (Q3 vs Q4 2005)



Announced Foreign Investment by Destination (Q4 2005)



TRANSACTION UPDATE

Office Sector

Shanghai remained the focus of attention in the Office Sector, with 3 enbloc transactions and two development deals. With the exception of Citigroup Property Investors, all investors were Hong Kong based.

Hutchison Harbour Ring Limited acquired The Centre, a 40-storey landmark office building on Changle Road, Xu Hui District, for US\$300 million from Hutchison Whampoa and Cheung Kong. Hutchison Whampoa owns 62% of the buyer. Based upon market estimates, the investment should generate a gross yield of approximately 11%.

Citigroup Property Investors acquired the majority stake (75%) in Novel Plaza, a 22-storey office building completed in 1996 on Nanjing West Road, for US\$50 million. In a similar deal, Chinese Estates Holdings Limited purchased Peregrine Plaza on Huai Hai Road Central for US\$50.4 million.

On the development front, Shui On Land Limited announced a collaboration with Oracle China to develop Shanghai's Yangpu District into a "knowledge and innovation hub", comprising a live/work area, a technology park and a sports park. The US\$123.5 million project is targeted at technology and venture capital professionals as well as individuals in creative businesses.



**The Centre
Changle Road, Shanghai**

Of note, OOCL Limited and Shanghai Xin Chang Ning Holdings Co. won the tender for an office site in Shanghai's Chang Ning District for US\$182.7 million.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
04-Oct-05	The Centre	Changle Road, Xu Hui District, Shanghai	Hutchison Harbour Ring Limited	Hutchison Whampoa & Cheung Kong Holdings	100%	98,337	\$300.0	\$3,050.7
17-Oct-05	Knowledge & Innovation Community	Yangpu District, Shanghai	Shui On Land Limited & Oracle China	N/A	100%	1,000,000	\$123.5 ¹	\$1,234.6
18-Oct-05	Office Development Site	Chang Ning Road & Kai Xuan Road, Chang Ning District, Shanghai	OOCL Limited & Shanghai Xin Chang Ning Holdings Co.	Shanghai Lands Bureau	100%	242,803	\$182.7	\$752.5

¹ Total projected investment cost.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
10-Nov-05	Novel Plaza	Nanjing West Road, Huangpu District, Shanghai	Citigroup Property Investors	Novel Enterprises	75%	29,025	\$50.0	\$2,296.9
28-Nov-05	Peregrine Plaza	Huai Hai Road, Xujiahui District, Shanghai	Chinese Estates Holdings Limited	Power Jade Limited	100%	24,498	\$50.4	\$2,056.7

Mixed-use Sector

As in the Office Sector, Shanghai continued to attract the most significant interest from foreign developers with announced site acquisitions totaling US\$2.2 billion. Nevertheless, secondary cities also drew development interest. Sun Hung Kai and China Resources partnered to pursue acquisitions in Hangzhou and Wuxi, while Kerry Properties also acquired a Hangzhou site.

Among the most high profile deals over the quarter was the long-awaited announcement by Rockefeller Group International that it was proceeding with the development of a 93,999 square meter project in the Waitanyuan Bund Area of Shanghai in partnership with Sinolink Worldwide Holdings. Phase I of the US\$300 million development is scheduled for completion in 2009 and comprises luxury residential, high-end retail, hotel and office space.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
1-Oct-05	Mixed-use Development Site	Jiang Gan District, Hangzhou	Sun Hung Kai Properties (40%) & China Resources (60%)	Hangzhou Lands Bureau	100%	464,511	\$700.0	\$1,507.0
28-Oct-05	Mixed-use Development Site	Yan An Road, Xia Cheng District, Hangzhou	Kerry Properties Limited	Hangzhou Lands Bureau	100%	170,000	\$303.7	\$1,786.5
28-Oct-05	Mixed-use Development Site	Waitanyuan, Bund Area, Huangpu District, Shanghai	Rockefeller Group International, Inc & Sinolink Worldwide Holdings (91%) & Shanghai New Huangpu Group (9%)	Shanghai New Huangpu Group	100%	93,999	\$300.0	\$3,191.5
21-Nov-05	Mixed-use Development Site	Century Avenue, Zhuyuan New District, Lujiazui, Shanghai	Hutchison Whampoa & Shanghai Lujiazui Finance & Trading	Shanghai Lujiazui Finance & Trading	100%	216,600	\$323.0	\$1,491.2
28-Nov-05	Mixed-use Development Site	Changfeng Area, Putuo District, Shanghai	GuocoLand (China) Limited	Shanghai Putuo Lands Bureau	100%	359,614	\$177.8	\$494.4
2-Dec-05	Mixed-use Development Site	Huamu Road & Fangdian Road, Lujiazui District, Shanghai	Kerry Properties (40.8%), Shangri-La Asia (23.2%), Allgreen Properties (16%) & Shanghai Lujiazui Finance & Trade Zone Development Co (20%)	Shanghai Pudong Land Development (Holding) Corporation	100%	230,000	\$149.4	\$649.5
14-Dec-05	Mixed-use Development Site	Wuxi, Jiangsu Province	Sun Hung Kai Properties (40%) & China Resources (60%)	Wuxi Lands Bureau	100%	1,450,000	\$308.6	\$212.9
15-Dec-05	Mixed-use Development Site	Henan South Road & Renmen Road, Huangpu District, Shanghai	Hutchison Whampoa & Shanghai Chengtuo Corporation	Shanghai Chengtuo Corporation	100%	360,000	\$1,230.8 ²	\$3,418.8

² This figure represents the total investment cost.

Retail Sector

Among the more notable transactions in the sector was Hang Lung Properties' acquisition of a retail development site in Shenyang for US\$94 million.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
10-Oct-05	Retail Development Site	Zhongjie Road, Shenhe District, Shenyang	Hang Lung Properties	Shenyang Lands Bureau	100%	130,000	\$93.8	\$721.5
20-Dec-05	Retail Podium	Fangguyuan, Fengtai District, Beijing	Wumart Stores, Inc.	Shuanglin Company	100%	24,831	\$30.6	\$1,232.3
29-Dec-05	Retail Development Site	4th Ring Road, Beijing	Metro Holdings Ltd (50%) & China National Arts & Crafts (Group) Corporation (50%)	N/A	100%	92,400	\$77.8	\$842.0

Residential Sector

During the quarter, significant site acquisitions by Asian investors highlighted the strong appetite for residential development in secondary cities. Among these, Keppel Land partnered with Surbana Land (China) to acquire a residential site in Wuxi for US\$89.5 million. In addition, GIC took stakes in 2 China Vanke controlled development companies for a total investment of US\$35.8 million to pursue residential projects in Shenyang and Wuxi (See Corporate Transactions).

In addition, Warburg Pincus made its first foray into the China property market by teaming up with Legend Holdings to develop Olive City, a large residential development in northeast Beijing. The deal forms part of a strategic agreement between the parties to jointly develop residential and commercial projects in China, with Warburg Pincus initially committing US\$31 million.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
9-Oct-05	Residential Development Site	Zhangfeng District, Taiyuan	Beijing Capital Land Limited	Taiyuan Lands Bureau	100%	510,000	\$38.3	\$75.1
13-Oct-05	Residential Development Site	Chang An District, Xian	Guangzhou R&F Properties Co. Ltd.	N/A	100%	850,000	\$53.8	\$63.3
21-Oct-05	Residential Development Site	Yin Zhou Xin Cheng District, Ningbo	Gemdale Corporation	Ningbo Lands Bureau	100%	134,696	\$33.7	\$250.2
19-Oct-05	Residential Development Site	Yonghe Economic Development Zone, Zengcheng City, Guangzhou	Gemdale Corporation	N/A	100%	N/A	\$123.5	N/A
26-Oct-05	Residential Development Site	Binhu Economic Development Zone, Wuxi	Keppel Land Limited & Surbana Land (China) Pte Limited	Wuxi Land Bureau	100%	350,000 ³	\$89.5	N/A
2-Nov-05	Olive City Housing Project	Northeast Beijing	Warburg Pincus & Legend Holdings Limited	N/A	100%	N/A	N/A	N/A
6-Dec-05	Residential / Commercial Site	Wang Quan Si Dong Cun, Shunyi District, Beijing	China Vanke	Beijing Lands Bureau	100%	230,000	\$34.0	\$147.8

Industrial Sector

The quarter saw investments by two new entrants into China's Industrial property sector. Notably, Mapletree Logistics Trust acquired Ouluo Logistics Centre for US\$15 million, comprising 7 single-storey warehouses and an ancillary office block completed in 2004. Separately, AMB Property Corporation completed its acquisition of Jiuting Distribution Centre together with an adjacent industrial site for US\$8.7 million. The distribution centre is leased to 2 international firms.

³ Figure represents site area of 350,000 square meters and not GFA.

Macquarie Goodman Group announced a series of industrial investments in both Shanghai and Hong Kong. These assets are likely to form part of an industrial-focused REIT. Macquarie Goodman's Hong Kong investments totaled US\$256.9 million, while in Shanghai, Macquarie is partnering with Exel, one of the world's leading 3rd party logistics operators, to jointly develop a distribution centre in Shanghai's Nanhui District for a total cost of US\$32 million. Exel will lease back the property for 7 years.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
12-Oct-05	Distribution Centre (under development)	Kangqiao Industrial Zone, Nanhui District, Shanghai	Macquarie Goodman Group & Exel	N/A	100%	55,875	\$31.8	\$569.1
21-Nov-05	Ouluo Logistics Centre	Pudong Airport New District, Shanghai	Mapletree Logistics Trust	N/A	100%	33,413	\$15.0	\$448.9
5-Dec-05	AMB Jiuting Distribution Centre and Industrial Site	6 miles from Hongqiao Airport, Shanghai	AMB Property Corporation	N/A	100%	17,094 sqm (existing distribution centre) 17,187 sqm (industrial site)	\$8.7	N/A

Hospitality Sector

The only notable announced deal in the sector was Citic Pacific's acquisition of a hotel site at Zhu Jia Jiao in Shanghai's Qing Pu district for US\$5.4 million.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$mm)	Implied Price (US\$psm)
29-Nov-05	Hotel Site	Zhu Jia Jiao, Qing Pu District, Shanghai	Citic Pacific	Shanghai Lands Bureau	100%	20,650	\$5.4	\$259.0

CORPORATE TRANSACTIONS AND JOINT VENTURES

The real estate services segment of the market continued to attract investors with Goldman Sachs announcing a US\$22 million investment into Century 21 China Real Estate, the Beijing-based operator of franchised real estate agencies. Through the investment, Goldman will become the second largest shareholder of the company although specific terms were not disclosed.

During the quarter, Beijing Tian-hong Group and Beijing Urban Development Group Co. Ltd announced a merger. Although not a foreign invested transaction, the deal is significant from the perspective that it created Beijing's largest property developer with total assets of RMB50 billion.

Announcement Date	Lead Investor/Buyer (Country)	Target (Country)	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Target Description
1-Oct-05	Salim Group (Indonesia)	Shanghai COSCO Salim Property Group Co. Ltd. (China)	\$118.3	55%	\$215.1	Shanghai Cosco is principally engaged in real estate development in Shanghai and is best known for COSCO Liangwan City in Putuo District. The deal gives Salim Group 100% control.
12-Oct-05	Ergo Tru Asia Ltd., Metro Holdings Ltd., Citigroup Venture Capital International, BOC International Ltd, JP Morgan	Shui On Land (China)	\$375.0	N/A	N/A	Shui On is engaged in property development in Shanghai and cities along the Yangtze River. The transaction took the form of a US\$375 million 3-year convertible bond providing an 8.5% annual coupon.
18-Oct-05	Chevalier International Holdings Limited (Hong Kong)	Beijing Feng Tong Xiang Rui (China)	\$18.6	44%	\$42.3	Beijing Feng Tong Xiang Rui is engaged in the development of a luxury residential project in Huairou District, Beijing. The development covers a site area of 292,333 sqm and the luxury residential project has a total floor area of 200,000 sqm.

Announcement Date	Lead Investor/Buyer (Country)	Target (Country)	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Target Description
11-Nov-05	Cargill Financial Services Corporation (US) & China Real Estate Partners I, LLC (US)	Shanghai Cheng Huan Miao Shopping Centre Development Co Ltd (China)	\$88.0	100%	\$88.0	Shanghai Cheng Huan Miao Shopping Centre Development Co Ltd is engaged in the development of a shopping centre at Yu Garden in Shanghai. The project covers a site area of 12,000 sqm and provides a GFA of 36,000 sqm including 16,000 sqm underground. It is scheduled to commence operation in September 2006.
21-Nov-05	CapitaLand China Holdings Pte Ltd (Singapore)	Lai Fung Holdings Ltd (Hong Kong)	\$12.7	50%	\$25.4	Lai Fung Holdings Ltd is engaged in developing a residential project with a total GFA of 330,000 sqm in Shi Jing Town, Bai Yun District, Guangzhou.
30-Nov-05	Shanghai Forte Land Co. Ltd. (China)	Perth Property Property Co Ltd (China)	\$19.5	30%	\$64.8	Perth Property is principally engaged in the development of a residential project located in Zhuanqiao Town of Minhang District, Shanghai with a total GFA of 289,656 sqm. It comprises 1,484 apartments and is due for completion in April 2007.
2-Dec-05	Orient Resources Group Co Ltd (HK)	Grand Hope Group Ltd (China)	\$62.7	100%	\$62.7	Grand Hope Group Ltd is engaged both in property development and investment as well as distribution of house building materials.
17-Dec-05	Morgan Stanley Real Estate Fund (US)	High Able Group Limited (China)	\$16.5	50%	\$33.1	High Able Group Limited, the wholly owned subsidiary of Hon Kwok Land Investment, is engaged in the development of a residential project located at Dali Yayao Lijiao, Nanhai District, Foshan, providing a total GFA of 247,987 sqm.
19-Dec-05	GIC Real Estate Pte Ltd. (Singapore)	Shenyang Vanke Yongda Real Estate Development Co Ltd (China)	\$12.3	42%	\$29.0	Shenyang Vanke Yongda Real Estate Development is engaged in developing a residential project in Changbai Technology Development Zone, Shenyang, with a total GFA of 1.05 million sqm. The project commenced in October 2005. As at September 2005, the company had net assets of US\$23.76 million.
19-Dec-05	GIC Real Estate Pte Ltd. (Singapore)	Wuxi Vanke Real Estate Development Co Ltd (China)	\$23.8	40%	\$59.5	Wuxi Vanke Real Estate Development Co Ltd is engaged in developing a residential project at Charming City, Taihu Town, Hubin District, Wuxi with a total GFA of 1,347,000 sqm. An area of 151,000 sqm was sold during the initial launch. As at October 2005, the company had net assets of US\$32.9 million.
23-Dec-05	New World China Land Limited (Hong Kong)	Guangzhou Ronghe Real Estate Co. (China)	\$12.4	50%	\$24.7	The principal asset of Guangzhou Ronghe Real Estate Co. is a residential site of 268,474.83 sqm in Xingtang Town, Guangzhou, Zengcheng.
31-Dec-05	Goldman Sachs Strategic Investments (Asia) LLC	Century 21 China Real Estate	\$22.0	N/A	N/A	Century 21 China Real Estate is a Beijing-based operator of franchised real estate agencies. Century 21 China has more than 700 offices with 7,000 agents in China. Century 21 China's transactions totaled more than RMB13 billion (US\$1.63 billion) in the first 10 months of this year, compared to RMB11 billion last year. Goldman Sachs will become the second largest shareholder of the firm subsequent to the investment.

CAPITAL MARKETS ACTIVITY

The successful listing of the US\$2.5 billion LINK REIT in November establishes Hong Kong as a new and significant venue for the securitization of China property. LINK’s portfolio comprises 180 shopping centers and car parking facilities controlled by the Hong Kong Housing Authority. LINK was quickly followed by Cheung Kong’s Prosperity REIT and a US\$230 million IPO for GZI REIT, the first China focused REIT. GZI consists of a mixed portfolio of office and shopping centers principally in Guangdong province. All three issues were well received by the market, with LINK posting the largest gains, rising 43% by quarter-end.

As at December 31, 2005, the three REITs were offering a weighted average dividend yield of 4.1%. LINK, the most diversified portfolio and most liquid security, traded to a dividend yield of 3.9% whilst GZI offered a yield of 5.8%.

In addition to the REIT’s, the quarter saw traditional corporate IPO’s for China real estate development companies. Among these, New Heritage Holdings Ltd., a property developer engaged in the medium to high-end residential projects primarily in Suzhou and Beijing, raised US\$12.5 million, while Agile Property Holdings, a medium to high-end residential developer in Guangdong Province raised US\$404 million.

Hong Kong and China Property IPO’s (Q4 2005)

Listing Date	Exchange	Company	Description	IPO Size (US\$ million)
25-Nov-05	Hong Kong	LINK REIT	LINK REIT is the first REIT listed in Hong Kong. Its portfolio contains property assets previously held by the Hong Kong government, comprising 180 retail and carpark facilities.	\$2,500.0
01-Dec-05	Hong Kong	New Heritage Holdings Ltd	New Heritage is engaged in the development of medium- to high-end residential projects mainly in Suzhou & Beijing.	\$12.5
15-Dec-05	Hong Kong	Agile Property Holdings	Agile is engaged in the development of medium-end to high-end residential projects in Guangdong Province. It has 18 projects under development with a total GFA of 8.1 million sqm.	\$404.1
16-Dec-05	Hong Kong	Prosperity REIT	Prosperity REIT is a spin-off from Cheung Kong and currently holds or will invest in a diversified mix of assets, including office, hotel, warehouse & industrial/ office components in Hong Kong.	\$246.0
21-Dec-05	Hong Kong	GZI REIT	GZI is a real estate investment trust formed primarily to own and invest in a diverse, income-producing portfolio of retail, office and other commercial properties in Guangdong Province.	\$229.8

Hong Kong REIT Capitalization and Dividend Yields as of December 31, 2005

REIT	Market Capitalization (US\$ million)	% Total Market	IPO Price (HK\$)	Closing Price at 30 Dec 05 (HK\$)	Price Change Since IPO	Dividend Yield at 30 Dec 05
LINK REIT	\$4,028.3	83%	\$10.3	\$14.7	42.7%	3.9%
GZI REIT	\$442.3	9%	\$3.1	\$3.5	12.2%	5.8%
Prosperity REIT	\$392.9	8%	\$2.2	\$2.5	13.4%	4.7%
Total	\$4,863.5	100%	-	-	37.6%*	4.1%

* Weighted average

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