

Real Estate Sector

4th Quarter 2006

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

- **Foreign Investments Totaling US\$18 billion Announced in 2006**

US\$4.1 billion of foreign investments were announced in the fourth quarter, bringing the total for 2006 to US\$18 billion. During the year, investments were announced across all major sectors – Residential, Office and Retail – with the bulk of activity remaining in primary cities. However, there was a marked increase in mixed-use development projects in secondary cities.

- **IPO's for Home Inns and Jin Jiang Hotels Confirm Interest in the Budget Hotel Sector**

During the quarter, successful initial public offerings for Home Inns and Shanghai Jin Jiang International Hotels on Nasdaq and Hong Kong respectively, underscore investor interest in the budget hotel sector and the strength of domestic travel and consumption themes as key drivers for real estate and hospitality businesses in China.

- **Demand Remains Strong for Institutional Quality Assets Despite Yield Compression**

The sale of both Platinum Tower and Ocean Tower in Shanghai in October illustrates ongoing appetite from foreign institutions for prime office assets in the city. This was the second sale of Platinum Tower within two years to a foreign institutional buyer.

Beijing

Suite 11J, Oriental Kenzo Plaza
48 Dongzhimen Wai Avenue
Beijing 100027, China
+86 (10) 8447 7398

Hong Kong

Suite 3518, Jardine House
One Connaught Place
Central, Hong Kong
+852 2973 5311

San Francisco

Suite 3330, 50 California Street
San Francisco, CA 94111, USA
+1 (415) 692 0088

Shanghai

5F Crystal Century Tower
567 Weihai Road, Jingan District
Shanghai 200040, China
+86 (21) 6288 6555

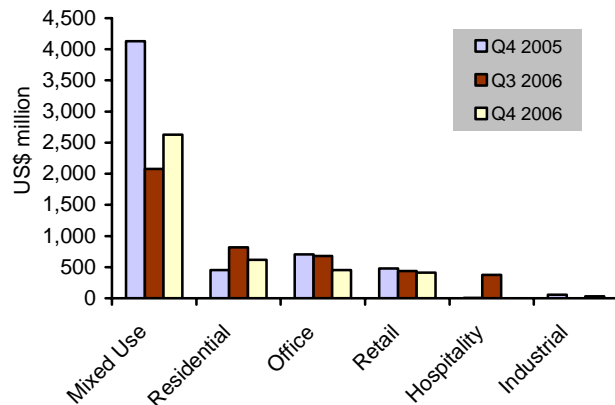
info@latitudecapital.com
www.latitudecapital.com

CAPITAL FLOWS

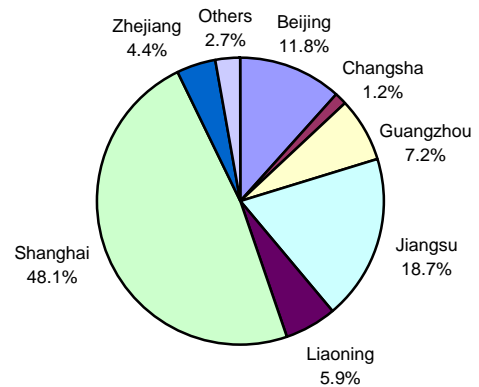
A total of US\$4.1 billion in foreign investment transactions were announced in the fourth quarter of 2006, a 5.6% decrease over the prior quarter, but a 79.3% increase over the US\$2.3 billion of announced deals for the same period in 2005.

Total announced foreign investments reached US\$18.0 billion for the year as a whole. Mixed-use development transactions stood at US\$10.8 billion, accounting for 59.8% of total activity, followed by residential (15.4%), office (11.1%) and retail (8.5%) deals. Investments in primary cities still represent the majority of foreign activity (66.6%), in spite of the surge in secondary city deals over the year.

Announced Foreign Investment by Sector (Q4 2006)

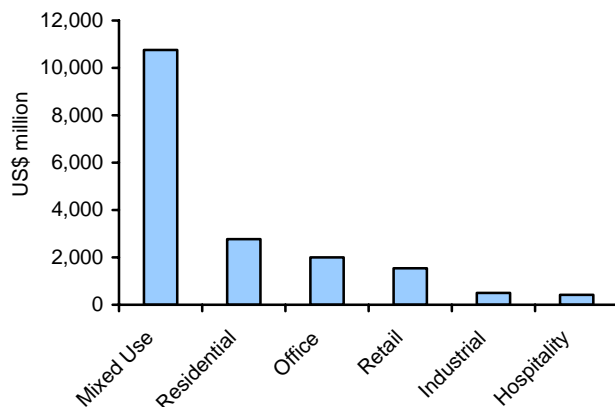


Announced Foreign Investment by Destination (Q4 2006)

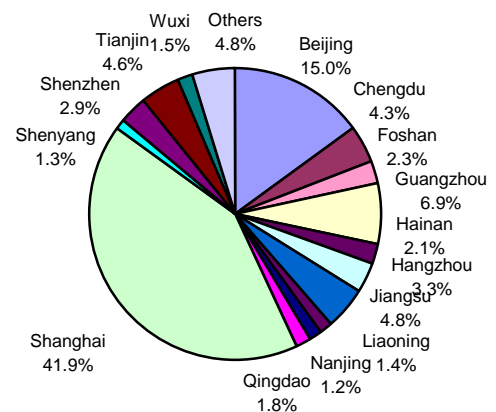


Total: US\$4.1 billion

Announced Foreign Investment by Sector in 2006



Announced Foreign Investment by Destination in 2006



Total: US\$18.0 billion

TRANSACTION UPDATE

Office

During the quarter, the benchmark transaction in the office sector was the US\$250 million sale of Platinum Tower in Shanghai by Macquarie to SEB. The property was originally developed by Capitaland and acquired by Macquarie, which realized the investment within two years of purchase. Also during the quarter, Ascendas acquired Ocean Tower for US\$169 million. The estimated initial yields for Platinum Tower and Ocean Tower are 7.8% and 6.1% respectively according to market sources.



**Ocean Tower
Shanghai**

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
8-Oct-06	Citic Square	Nanjing West Road, Jingan District, Shanghai	Citic Pacific Ltd.	Swire Properties	10%	111,000	\$35.9	3,026.0

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
11-Oct-06	Ocean Tower	Zhejiang Road Huangpu District, Shanghai	Ascendas	Sing-Mas Investments	98%	50,449	\$166.0	3,372.1
7-Dec-06	Platinum Tower	Taicang Road, Luwan District, Shanghai	SEB Fund	Macquarie Global Property Advisors	95%	32,200	\$250.0	N/A

Mixed-Use

As in prior quarters, mixed-use developments dominated foreign investment activity. With the exception of China Real Estate Opportunities' acquisition of a mixed-use complex that is already under construction in Beijing, most deals involved site acquisitions for large-scale projects.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
10-Oct-06	Mixed-Use Site	Xin Cheng District, Foshan	CapitaLand	Foshan Land Bureau	100%	80,000	\$37.9	\$473.4
14-Oct-06	Mixed-Use Site	Lujiazui, Pudong, Shanghai	Hutchison Whampoa & Cheung Kong	Shanghai Fortune World Development	100%	80,000	\$104.0	\$1,300.0
15-Oct-06	Mixed-Use Site	Qiao Si Zhen, Yu Hang District, Hangzhou	Shanghai Forte Land Co.	Hangzhou Land Bureau	100%	420,170	\$250.0	595.0
17-Oct-06	Mixed-Use Site	Xing Sha Economical & Technology Development Zone, Changsha	China Resources Land	N/A	100%	1,380,000	\$51.3	\$37.1
21-Oct-06	Mixed-Use Site	Changzhou, Jiangsu Province	Shimao Property Holding	N/A	100%	900,000	\$301.0	\$334.4
31-Oct-06	Mixed-Use Site	Shenyang, Liaoning Province	Poly Real Estate Group Co.	N/A	100%	2,260,000	\$46.0	\$20.4
11-Nov-06	Mixed-Use Site	Yangpu District, Shanghai	Hines Interests Ltd Partnership		50%	251,776	\$213.8	\$1,697.9
17-Nov-06	Mixed-Use Site	Mudanjiang Road, Baoshan District, Shanghai	Morgan Stanley & Anderson Land	N/A	N/A	150,000	\$187.5	N/A
1-Dec-06	Mixed-Use Site	Adjacent to Shanghai Knowledge & Innovation Community, Yangpu District, Shanghai	Shui On Land Ltd	Shanghai Sheng Jin Real Estate Co Ltd ¹	100%	137,400	\$41.0	\$298.4
14-Dec-06	Xidan Centrepoint (under construction)	Xidan Street, Beijing	China Real Estate Opportunities S.A.	Subsidiary of China Metallurgical Construction (Group) Corp	100%	194,949	\$467.8	\$2,399.6
21-Dec-06	Mixed-Use Site	Shenyang, Liaoning Province	Shimao Property Holding	N/A	100%	1,500,000	\$200.0	\$133.3
27-Dec-06	Mixed-Use Site	Zhenru Area, Putuo District, Shanghai	Hutchison Whampoa Ltd	N/A	100%	177,262	\$275.0	\$1,551.4
28-Dec-06	Mixed-Use Site (Wuxi Hang Lung Plaza)	Renmin Road, Wuxi, Jiangsu Province	Hang Lung Properties Ltd	N/A	100%	243,000 ²	\$85.6	\$361.4
28-Dec-06	Mixed-Used Site	Hexi New Urban Area, Nanjing, Jiangsu Province	Yanlord Land Group & GIC Real Estate	Government Land Auction	100%	306,127	\$300.6	\$982.0
29-Dec-06	Mixed-Used Site	Putuo District, Shanghai	Cheung Kong & Hutchison Whampoa	N/A	100%	198,000	\$275.0	\$1,388.9
29-Dec-06	Mixed-Use Site (Dazhongli)	Jingan District, Shanghai	Swire Properties	HKR International	50%	62,800	\$72.4	\$2,305.7

¹ Shui On acquired 100% of the Seller

² Completed GFA

Hospitality

Park Hotel Strategic Developments acquired the 417-room, 5-star Wuxi Sheraton Hotel & Towers and Wuxi Garden City Mall retail complex for an undisclosed sum from a subsidiary of SembCorp Industries. The property is the only international five-star hotel in Wuxi. The mall consists of 10,398 square meters of retail space.



Wuxi Sheraton

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
11-Dec-06	Sheraton Wuxi Hotel & Towers and Wuxi Garden City Mall	Wuxi (City centre)	Park Hotel Strategic Investments Limited (Hong Kong)	Singapore-Wuxi Investment Holdings Private Ltd. (SembCorp Industries Ltd)	100%	N/A	N/A	N/A

Retail

Among the major transactions of the quarter, were acquisitions in secondary cities by two strategic investors, Lifestyle International and Golden Eagle Retail, for the expansion of their respective China operations.

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
10-Nov-06	Retail Site	Yancheng, Jiangsu Province	Golden Eagle Retail Group	N/A	100.0%	50,000 ³	\$85.0	\$1,700.0
8-Nov-06	Retail Site	Zhuhai, Guangdong Province	RREEF	N/A	50.0%	N/A	\$225.0	N/A
12-Dec-06	Retail Site	Suzhou	Lifestyle International Holdings	Suzhou Industrial Park Urban Development Co Ltd	46.1%	N/A	\$22.5	N/A
18-Dec-06	Six-Storey Shopping Mall	Huangpu District, Shanghai	Premium Land	Major Win (Hong Loi-Fuk)	100.0%	N/A	\$70.9	N/A
29-Dec-06	Four Levels in Sea Star City Plaza	Xi'an, Shaanxi Province	Golden Eagle Retail Group	Xi'an Haixing Property Development Limited	100.0%	25,477	\$28.4	\$1,112.8

Residential

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
5-Oct-06	Residential Site (Uncompleted)	Beijing Road South, Yuexiu District, Guangzhou	Morgan Stanley Real Estate Fund	Hon Kwok Land Investment	50%	100,000	\$30.7	\$613.0
29-Nov-06	110 Suburban Luxury Villas	Southwestern Minhang District, Shanghai	The Carlyle Group	N/A	N/A	N/A	\$119.0	N/A
29-Nov-06	Residential Land	New Jiangwan City, Shanghai	China Resources Land	N/A	100%	144,247	\$197.6	\$1,369.6
15-Dec-06	Residential Site	Panlong Lake Area, Xinchang, Zhejiang Province	Greentown China Holdings Limited	N/A	100%	144,862 ⁴	\$6.5	\$44.9
1-Dec-06	Residential Site	Hangzhou, Zhejiang Province	Greentown China Holdings Limited	N/A	100%	53,736 ⁵	\$22.5	\$418.7
14-Dec-06	2 Residential Blocks	Xuhui District, Shanghai	Citigroup	N/A	100%	13,270	\$22.5	\$1,695.5

³ Completed GFA

⁴ Completed GFA

⁵ Completed GFA

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
16-Dec-06	Residential Site	Foshan, Guangdong Province	CapitaLand	N/A	100%	271,132	\$11.7	\$43.0
27-Dec-06	Residential Site	Wenjiang District, Chengdu, Sichuan Province	CapitaLand	Government Land Auction	100%	202,361	\$32.2	\$159.1

Industrial

Date	Property	Location	Buyer	Seller	Interest %	Total GFA (sqm)	Total Price (US\$ mm)	Implied Price (US\$ psm)
19-Dec-06	Portfolio of Warehouses	Guangzhou	Mapletree Log	Eastern American Group	100%	N/A	\$30.2	N/A

CORPORATE TRANSACTIONS AND JOINT VENTURES

Announcement Date	Lead Investor/ Buyer (Country)	Target (Country)	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Target Description
8-Oct-06	Shanghai Real Estate Limited	Shanghai Qin Hai Real Estate Co Ltd	\$11.30	30%	\$37.7	Shanghai Qin Hai Real Estate Co Ltd is engaged in property development in Shanghai. It owns a residential site located at the junction of Da Xing Street and Zhong Hua Road in Huangpu District, Shanghai. The project has a total gross floor area of 118,800 square meters.
23-Oct-06	Century 21 Real Estate	Bonity Property Group	N/A	NA	N/A	Bonity is a Shanghai-based real estate brokerage. It has 22 outlets in the city, covering residential and commercial property sales.
1-Nov-06	Tiger Global Fund	Baoye Group	\$72.0	8%	\$923.1	Baoye is a Zhejiang-based real estate development group. The company is engaged in three primary business lines: construction, building materials and property development.
4-Dec-06	Warburg Pincus Real Estate I, L.P.	7 Days, Budget Hotel Chain	N/A	20%	N/A	7 Days is a domestic budget hotel chain with 17 hotels in operation and another 14 under renovation or lease. The company's focus is currently in Southeast China. It plans to operate 150 hotels by 2009.
18-Sep-06 / 30-Aug-06	Blue Ridge China Partners L.P. & Equity International	Henan Xinyuan Real Estate Co.	\$50.0	N/A	N/A	Henan Xinyuan Property Development Co Ltd is a Henan-based real estate developer focusing on middle- to high-end residential property in Zhengzhou.

CAPITAL MARKETS ACTIVITY

The quarter opened with Shui On Land's successful listing, which was priced at the top of the indicative range and raised US\$877 million after exercising an over-allotment option. The offering was originally planned for June but had been postponed due to poor market sentiment at the time.

Successful transactions were also undertaken in the hospitality sector for Home Inns & Motels and Shanghai Jin Jiang International Hotels. Jin Jiang is the largest domestic hotel chain with 263 properties ranging from budget to 5-star categories. The Home Inns deal was notable as it was the first budget hotel offering from China and validated the lease and operate model that many Chinese operators have adopted in the budget sector.

Chinese developers took advantage of the buoyant public markets during the quarter to undertake secondary share placements. Among these were deals for Hopson, Beijing Capital Land, Shanghai Real Estate and Vanke.

Shimao Property Holdings launched a benchmark US\$600 million corporate debt offering, the largest 10-year corporate deal to emerge from a Chinese issuer. The deal had been increased from US\$500 million due to strong demand.



**Home Inn
Suzhou**

Date	Transaction	Exchange	Company	Size (US\$ mm)	Business Description
04-Oct-06	IPO	Hong Kong	Shui On Land	\$797.0	Shui On Land is a leading Shanghai-based property development company, best known for its Xintiandi project in Shanghai. The company's current development portfolio consists of residential (57%), office (26%), retail (13%) and various hotels, serviced apartments, schools, and clubs. It tends to work with local governments to redevelop entire city sections into modern communities.
26-Oct-06	IPO	Nasdaq	Home Inns & Hotels Management Inc.	\$109.0	Home Inns is the first Chinese budget hotel operator to secure an overseas listing. At the time of IPO, the company had 63 leased and operated hotels and 33 under development. A further 19 hotels were franchised and managed. Home Inns currently has activities in 26 cities.
28-Oct-06	Share Placement	Hong Kong	Beijing Capital Land	\$135.0	Beijing Capital Land is a leading integrated property developer focused on investment and development of medium to high-end residential and commercial properties. Given its strong political and commercial relationships in Beijing, BCL has concentrated its activities in the Bohai Bay Economic Circle.
04-Nov-06	Share Placement	Hong Kong	Hopson Development Holdings	\$128.0	Hopson is the leading Guangdong based developer and focuses primarily on the development of medium-to high-end large-scale residential properties. The majority of its projects are in southern China. But it also has projects in Beijing, Shanghai, and Tianjin.
07-Nov-06	Senior 9% Fixed Rate Notes	Hong Kong	Greentown China	\$400.0	Greentown is the largest developer in Zhejiang province. The company listed in Hong Kong in July 2006. The company has development activities in 17 cities in China with a land bank of approximately nine million square meters.
06-Dec-06	IPO	Singapore	First Real Estate Investment Trust	\$64.7	First REIT focuses on income-producing real estate in Asia that is primarily used for healthcare-related purposes. It is targeting assets in high growth Asian healthcare markets, such as Indonesia, Singapore, China, Malaysia, Thailand and Hong Kong.
06-Dec-06	Share Placement	Hong Kong	Shanghai Real Estate Ltd	\$107.0	Shanghai Real Estate is listed on the Hong Kong Stock Exchange and has focused primarily on residential development under the Oasis Garden brand name in Shanghai. The company is beginning to broaden its product focus with comprehensive projects involving commercial, office and hotel space.
12-Dec-06	Share Placement (non-public A shares)	Shanghai	China Vanke Co	\$525.0	China Vanke Co., Ltd. is one of the few national scale developers in China. Headquartered in Shenzhen, the company primarily develops residential properties across more than 18 cities in China and provides related property management services.
15-Dec-06	IPO	Hong Kong	Shanghai Jin Jiang International Hotels (Group)	\$311.0	Jin Jiang is China's largest hotel operator with 263 hotels accounting for 51,588 rooms. Jin Jiang is primarily engaged in star-rated hotel operation and management, budget hotel operation and franchising, and restaurant operations. The Group is structured as a horizontally integrated hospitality services provider with product ranging from budget accommodation to five-star hotels.
23-Dec-06	5-Year Floating Rate Notes (L+195) / 10-Year 8% Notes	Hong Kong	Shimao Property Holdings Limited	\$600.0 (\$250 FRN; \$350 Fixed)	Shimao Property is a large-scale real estate developer, specializing in high-end developments in prime locations. The company's development portfolio comprises residential, retail, offices and hotel properties. The company has currently has 15 projects at various stages of development located in Shanghai, Beijing, Harbin, Wuhan, Nanjing, Fuzhou, Kunshan, Changshu, Shaoxing and Wuhu.

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Beijing

Suite 11J Oriental Kenzo Plaza
48 Dongzhimen Wai Avenue
Beijing 100027, China

Tel +86 (10) 8447 7398
Fax +86 (10) 8447 7396

Hong Kong

Suite 3518 Jardine House
One Connaught Place
Central, Hong Kong

Tel +852 2973 5311
Fax +852 2295 3979

San Francisco

Suite 3330, 50 California Street
San Francisco, CA 94111
USA

Tel +1 (415) 692 0088
Fax +1 (415) 366 1408

Shanghai

5F Crystal Century Tower
567 Weihai Road, Jingan District
Shanghai 200040, China

Tel +86 (21) 6288 6555
Fax +86 (21) 6288 6585

info@latitudecapital.com

www.latitudecapital.com

 **LATITUDE**
CAPITAL GROUP