Retail Real Estate in China

The CapitaLand Story



Real Estate Investment World Asia 2006
28 June 2006

Overview of the China Retail Market

Overview of the China Retail Market

Macro-Level

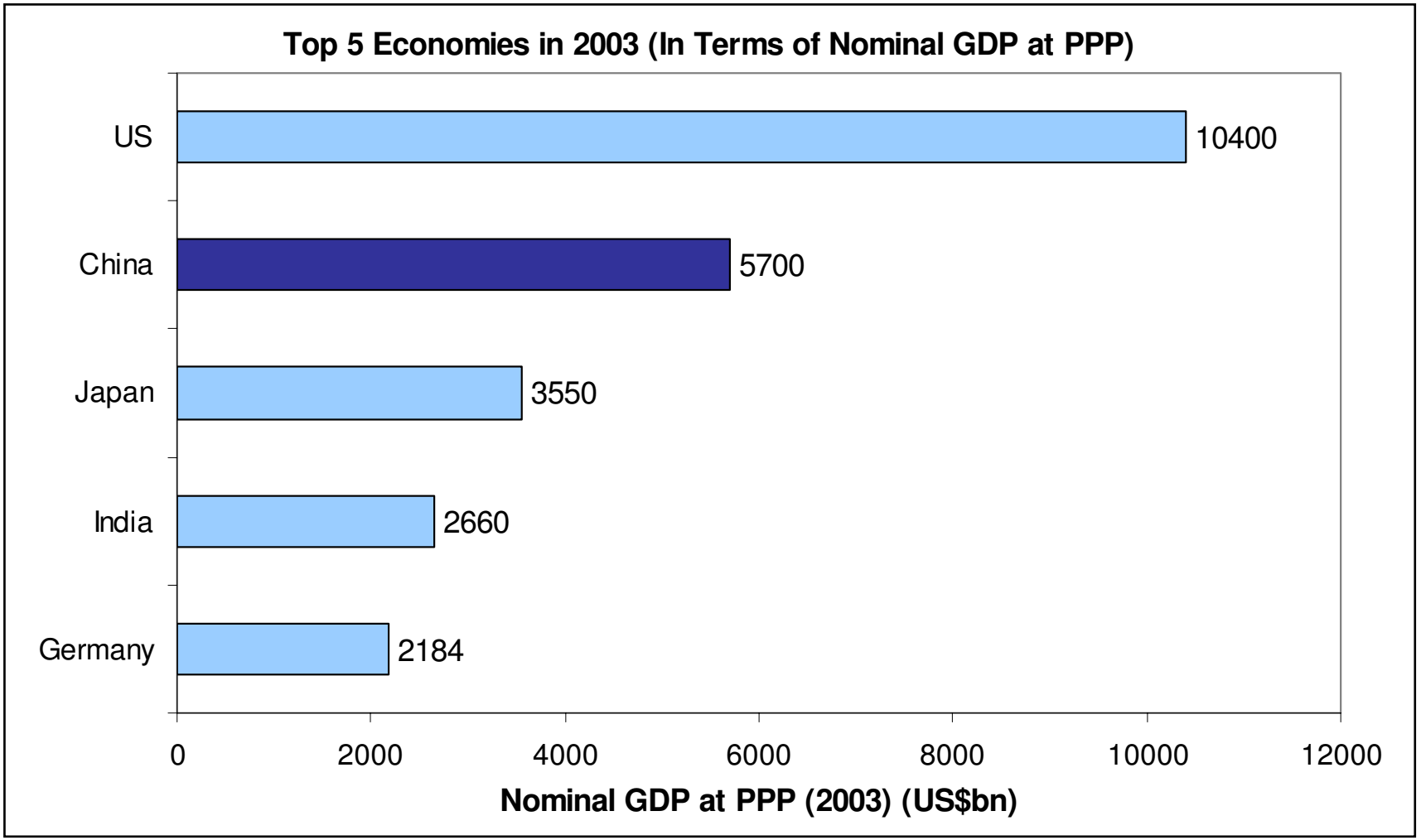
- China is the 2nd largest economy in the world with projected sustainable GDP growth
- Rapid growth in urban population driven by urbanisation
- Growing urban per capita disposable income fuels consumerism
- Rising consumer confidence and retail sales of consumer goods

Overview of the China Retail Market

Micro-Level

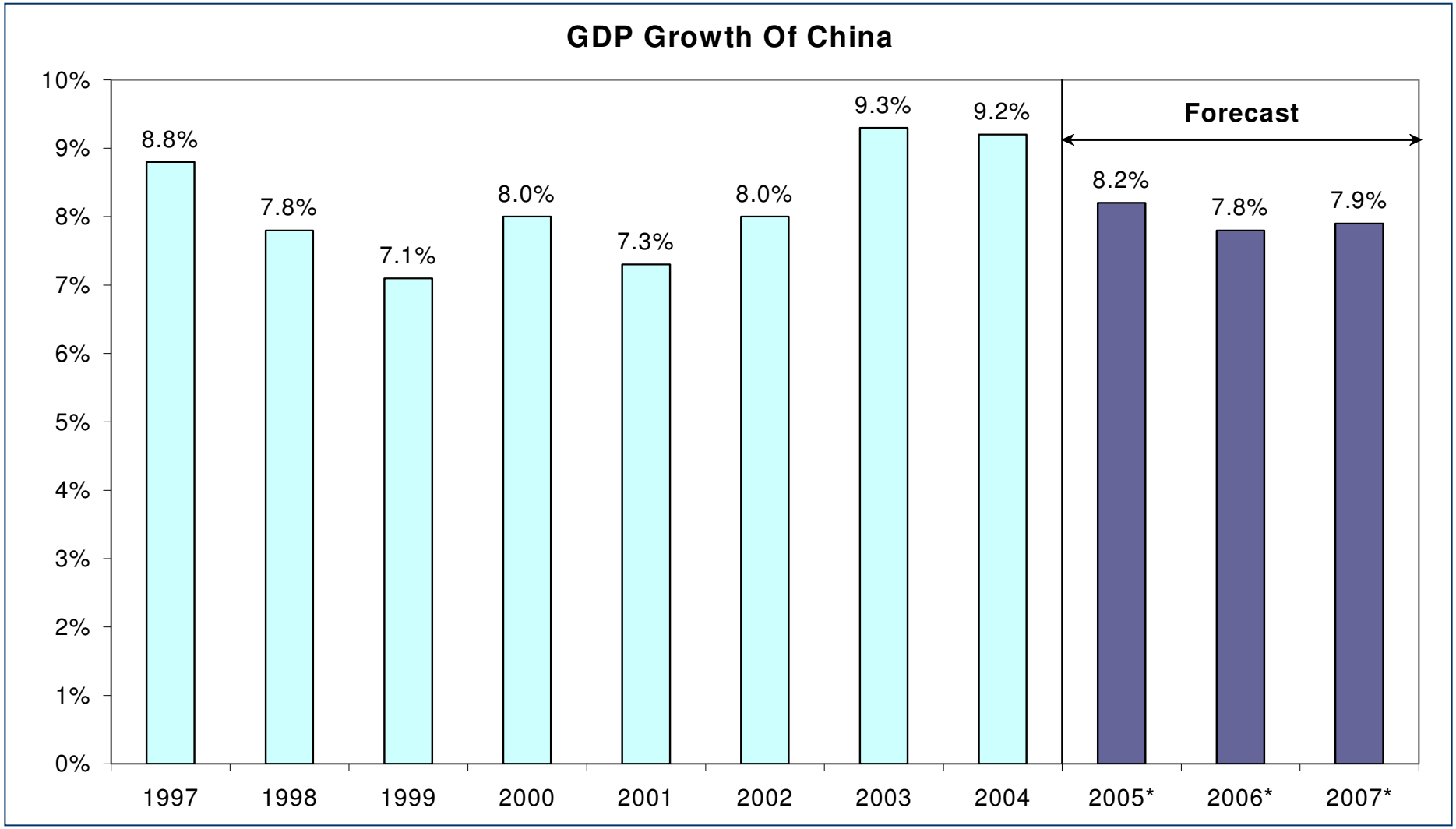
- Despite expected high supply, demand for retail space remains strong from both international and local retailers (esp. fashion, hypermarket/department stores and food & beverage)
- Retail market will continue to grow in tandem with rising income and changing consumer spending patterns
- Increased demand from foreign retailers as China's retail market gradually opens up in line with WTO commitments
- Strong demand from domestic retailers who are increasingly aggressive in their expansion plans despite increasing competition from foreign retailers
- Economic benefits expected from hosting Olympics 2008 and Expo 2010, which will in turn drive retail sales

2nd Largest Economy in the World



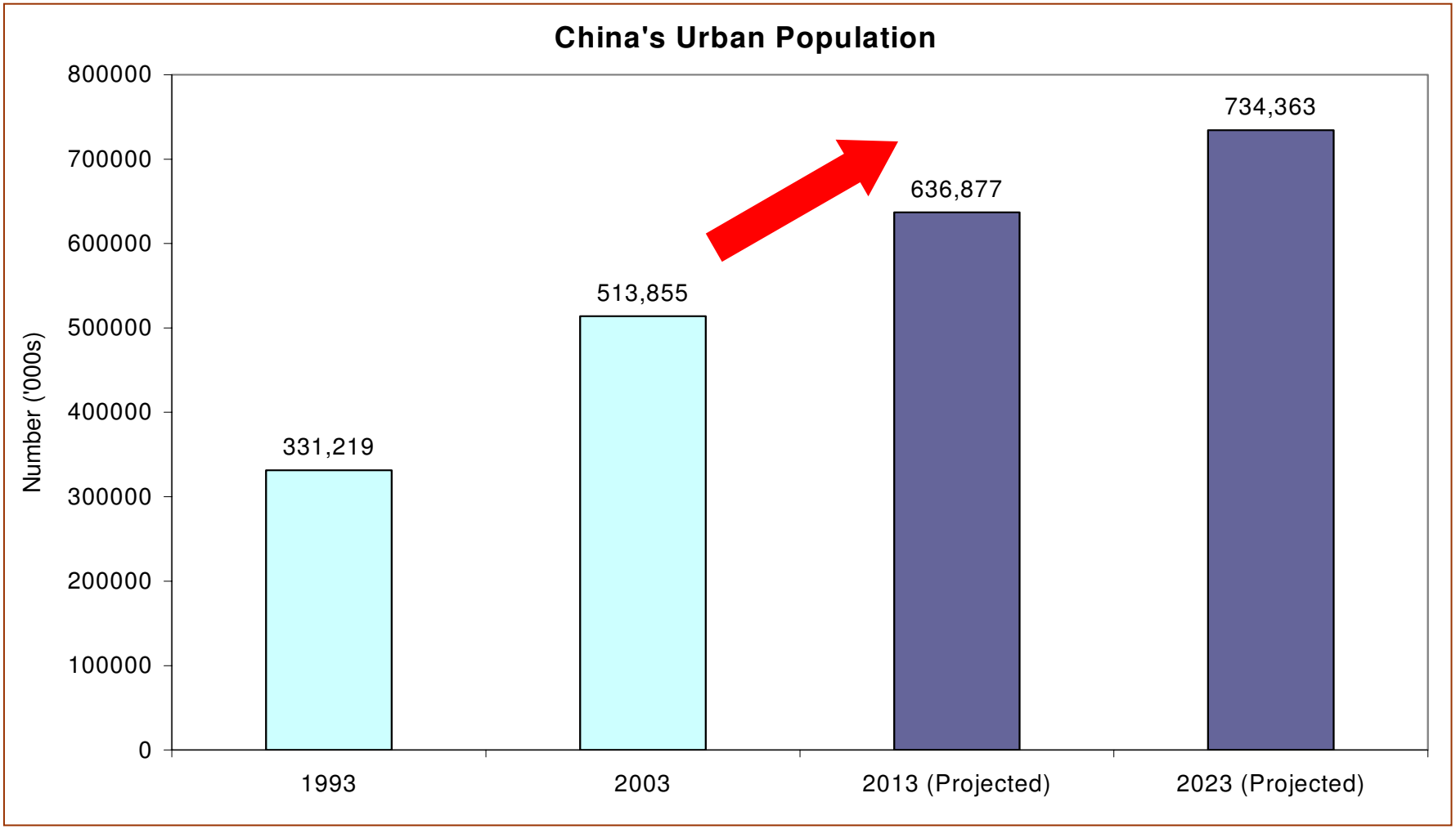
Source: CIA World Factbook & CapitaLand Research

Sustainable Growth



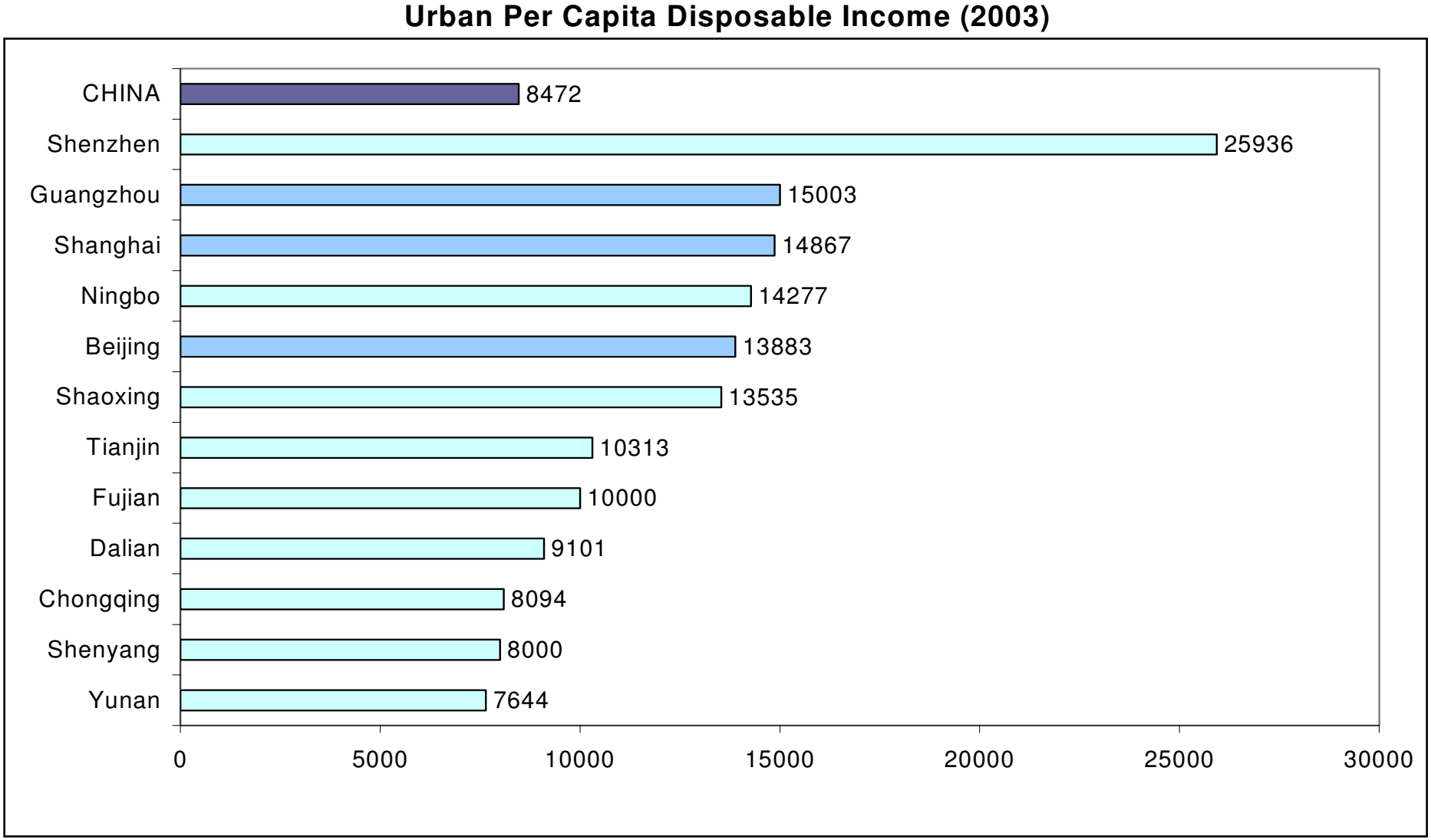
Source: ADB, EIU & CapitaLand Research

Rapid Urbanisation in China



By 2010, there will be at least 1,000 cities in PRC with almost 100 cities populated with over one million people

Urban Per Capita Disposable Income



Source: National Bureau of Statistics & CapitaLand Research

Growing Consumerism in China



Source: National Bureau of Statistics & CapitaLand Research

Consumer Indicators

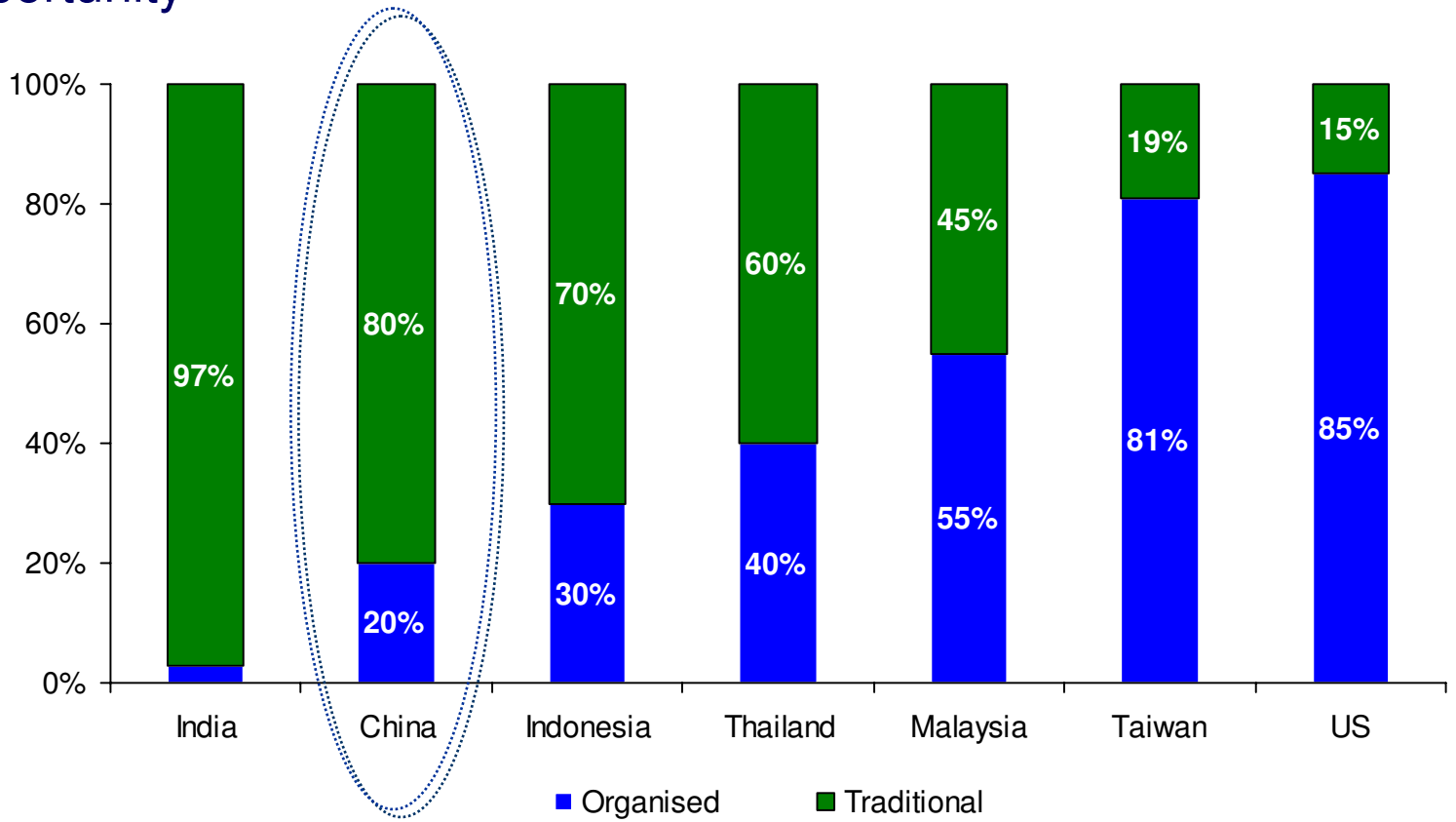
- Rising Consumer Confidence and Retail Sales of Consumer Goods





Relatively Low Penetration of Organised Retail

- The relatively low penetration of organised retailing presents opportunity



Source:
- "The Great Indian Retail Story", Ernst & Young.

Retail Sales by Type of Outlet: % Growth per year 1999-2003

In Percentage, Growth per year	1999/ 2003	2002/ 2003
Department stores	7.9	11.7
Hypermarkets	21.7	17.8
Convenience stores	10.0	11.5
Supermarkets	8.1	8.0
Other grocery retailers	8.2	7.6
Specialty stores		
- Health and beauty products	7.1	10.4
- Clothing and footwear	10.4	10.9
- Home furnishings/ Household goods	9.6	11.0
- Durable goods	5.4	6.4
- Personal and leisure goods	10.4	12.8
Others	5.1	15.1
TOTAL	8.6	9.6

Source: 1999-2002 Euromonitor from official sources (Ministry of Statistics, trade press, 2003 Euromonitor estimates

CapitaLand's Approach to Retail Real Estate Investments

Our Thought Process for Retail Real Estate Investments

- What is our retail investment criteria?
- What are the issues in the domicile market?
- What are the opportunities in the domicile market?
- What is our investment approach?

What is Our Retail Investment Criteria?

- Long term core asset
- Large capital commitment & therefore huge balance sheet requirement
  - Partner with capital providers
  - Low cost of capital
- Property needs to have sustainable income stream
- Property needs to produce steady yield return & total return benchmarked against LT government bonds
- Exit Strategy - create private property funds or listed REIT to hold assets?

What are the Issues in the China Retail Market?

(1) Retail Real Estate Capital Management

- Investment requires huge and long term capital commitment
  - Capital must come from investors who take a LT view, require sustainable yield income and have realistic returns
- Difficult to obtain LT local financing to finance acquisition of shopping mall

(2) Regulatory

- Long process to setup investment company to hold assets
- Tedious process to bring capital into China. Requires track record.
- Difficult to tap LT money or capital market
- Repatriate of capital and profits

What are the Issues in the China Retail Market?

(3) Real Estate

- Development Non-Demand Driven : May lead to oversupply. Huge capital tied up leads to cash flow issues for developers.
- Departmental vs Shopping Mall concept
- Rental market lacks maturity beyond first tier cities. Rental typically based on percentage of gross turnover does not provide steady income stream
- Land tenure : Short (40 years)
- Depreciation : Required if asset held through Chinese company. Cash "trapped" reduces distributable profit.
- Calculation of Returns : Lack of understanding by developers
  - Unrealistic expectation of high capital value even though underlying rental value is low

What are the Issues in the China Retail Market?

(4) High Taxes

- Pressure on property to produce higher yield compared to other international markets in order to meet investors' returns
- Taxes include:
  - Ongoing taxes such as business tax, property tax and corporate tax
  - One time taxes such as deed tax, stamp duty, capital gain tax and real property gain tax
- Therefore high returns required (9% EBITA yield) to provide sufficient distribution yield to investors

What are the Opportunities in the China Retail Market?

(1) Huge Capital Seeking Steady Income Producing Investment

- Investors lack understanding of market.

(2) Huge Market and Growing Consumerism

- China retail scene is in infant stage. Currently, lacks good class retail development to satisfy the growing consumerism and rising affluence
- Opportunities to develop shopping malls on a demand driven basis with potential to exit through sale to LT investors
- Needs professional manager to manage development as well as manage the retail malls business after development

Delivery Capability is Key

What is Our Investment approach?

(1) Demand Driven

- By Shoppers' Demand – stringent site selection to ensure population catchment is sufficient to support mall business and transport infrastructure is in place
- By Tenants' Demand – secure key anchor tenants before construction

(2) Realistic Forecast of Returns Before Construction

- Understand the market to forecast rental and other income realistically
- Understanding of operations to forecast operating expenses realistically

Disciplined Investment & Asset Management

19

What is Our Investment approach?

(3) Sustainability of Income

- Rent structure comprising base rent + percentage sharing of gross turnover + security deposit

(4) Financial Discipline

- Financial discipline and corporate governance to monitor the results constantly and consistently

(5) Track Record in Delivering Results

- Track record and relationship with established funds facilitate CapitaLand's ability to bring in investors to invest in structured financial products derived from real estate investment

CapitaLand Retail Business

One of the Leading Retail Players in Asia

More than 23 Million Sq Ft	
Singapore	15 malls
China	30 malls
Malaysia	1 mall
Japan	4 malls
TOTAL	50 malls

Japan

Growing Presence in Japan

4 malls comprising over 1.2 million sq ft of NLA with asset size of over US$340 million

India

JV with Pantaloon

50 malls across 30 cities & 40 states within next 2/3 years comprising over 15 million sq ft of GFA with asset size of US$1.2 billion



Singapore

Largest Retail Mall Manager in Singapore

15 malls comprising over 5.3 million sq feet of NLA with asset size of over US$3.5 billion

Strong Presence in China

30 malls over 16 million sq ft of NLA with asset size of over US$1.1 billion

China

Hong Kong

Greater China

Malaysia

Our Proven Delivery Capabilities

Development



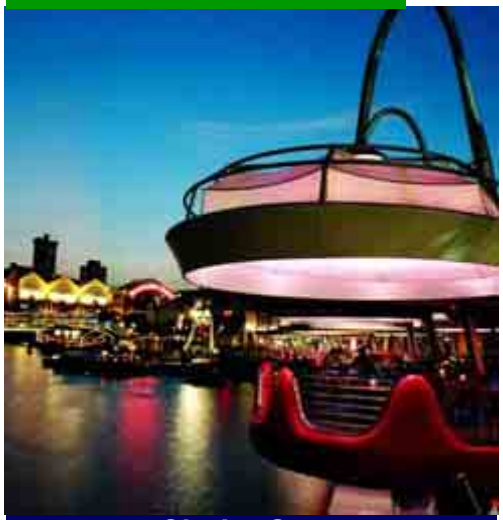
VivoCity
Largest Destination Mall in Singapore
Scheduled to Open in October 2006

Development



Wangjing, Beijing
Beijing Hualian-Anchored Mall

Repositioning



Clarke Quay
Singapore's Premier F&B, Entertainment cum Lifestyle Riverfront Precinct

Development



Orchard Turn
Landmark Retail cum Residential Development along Core Orchard

Development



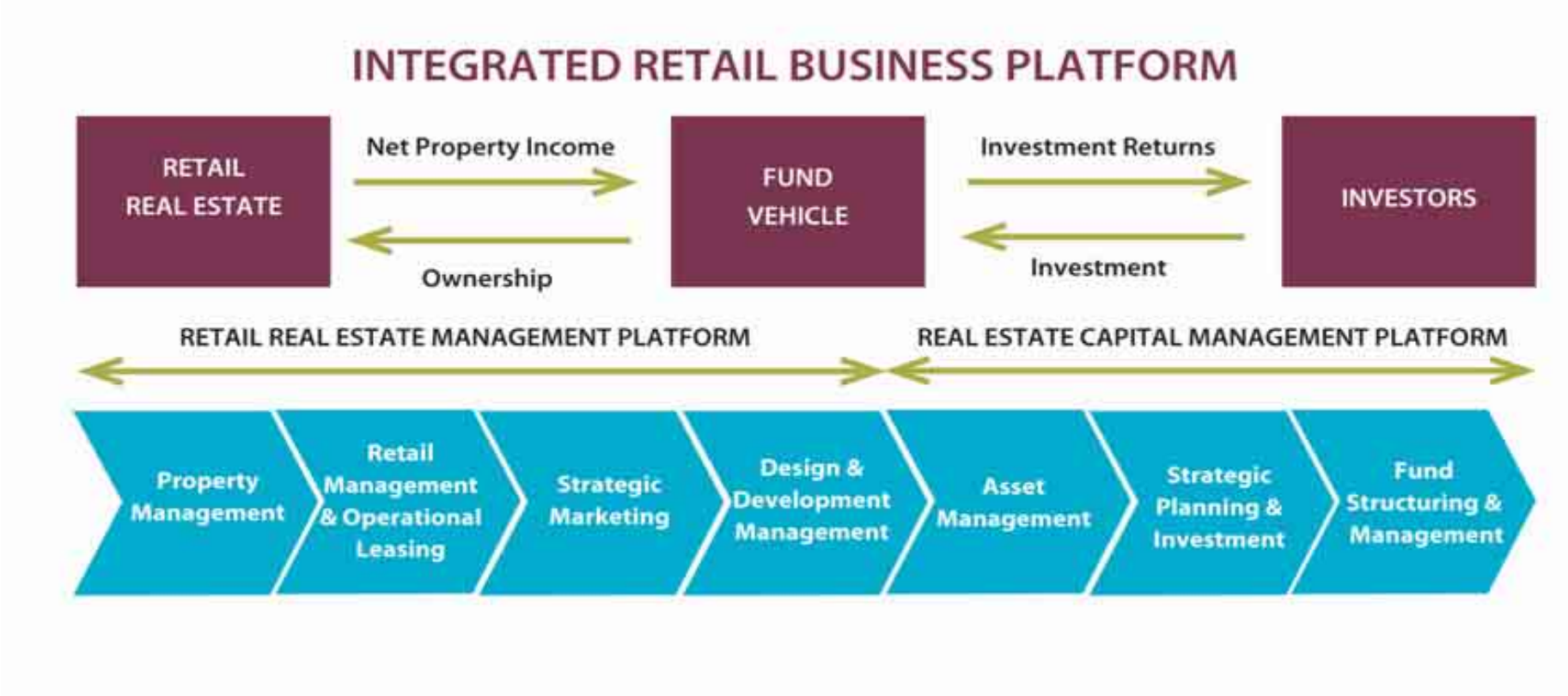
Raffles City Shanghai
Touted as one of the Top 3 malls in Shanghai

Asset Management



Junction 8
One of Top Suburban Malls in Spore
Transferred 70K GFA from Office to Retail

Unique Integrated Retail Business Platform



Established Two China Retail Funds Worth Over US$1bn

(1) CapitaRetail China Development Fund ("Development Fund")

- Will invest in retail projects in the People's Republic of China ("PRC")
- Fund size of US$600 million (S$948 million)
- CapitaLand invested approx. 45% in the Development Fund
- Pipeline include portfolio of 21 Wal-Mart anchored malls under joint-venture with Shenzhen International Trust & Investment Co, Ltd ("SZITIC"), with a total Gross Floor Area ("GFA") of over 990,000 sq m and an aggregate asset value of over S$1.6 billion
- Includes new Wal-Mart Asia Headquarters in Shenzhen
- Offered by SZITIC to invest in 14 other malls with estimated GFA of 600,000 sq m
- Pipeline to acquire at least 70% of SZITIC Wal-Mart malls up to 2010



Wal-Mart Asia HQ, Shenzhen



Jiulongpo, Chongqing



Zhanjiang



Chengdu

Established Two China Retail Funds Worth Over US$1bn

(2) CapitaRetail China Incubator Fund ("Incubator Fund")

- Will warehouse retail projects with the potential to generate quality income after repositioning of the property, enhancing the asset or on completion of leasing activities.
- Fund size of US$425 million (S$671 million)
- CapitaLand invested approx. 30% in the Incubator Fund
- Pipeline include Xihuan Plaza Retail Mall in Xizhimen, Beijing. Phase One of Xihuan Plaza Retail Mall, measuring over 780,000 sq ft, is expected to be opened by first quarter 2007.



17 May 2006

Signed sale & purchase agreement to acquire asset for RMB 1.32 billion (S$230 million).

Listing of China Retail REIT in Singapore by 2006

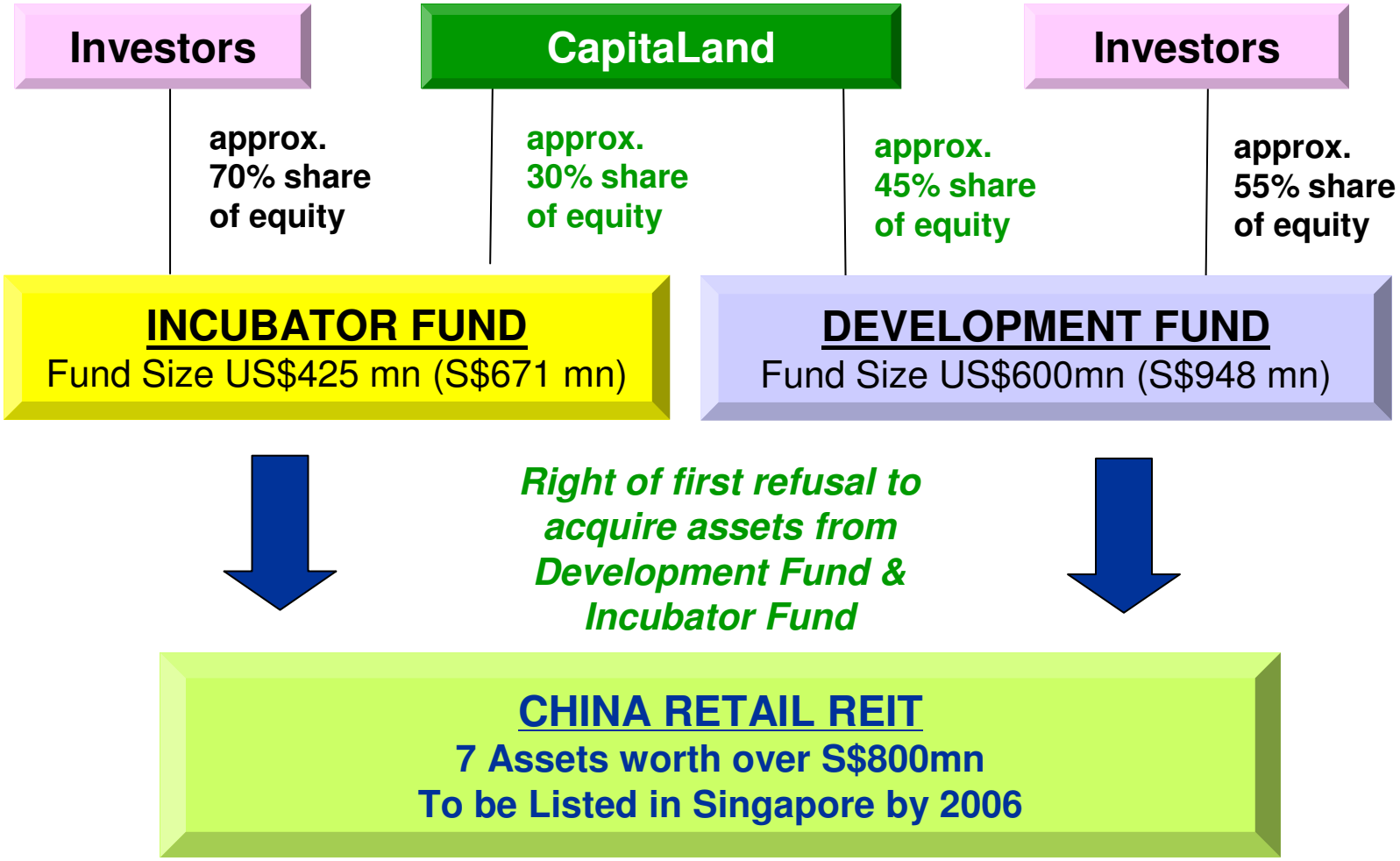
- On track with preparatory work to list China Retail Real Estate Investment Trust (China Retail REIT) in Singapore by 2006, subject to attaining all the relevant regulatory approvals.
- China Retail REIT expected to own 7 quality assets worth over S$800 million
- First right to acquire assets owned by Development Fund and Incubator Fund
- Pipeline include Anzhen Mall, anchored by Beijing Hualian Group, in Beijing
- Confident that China Retail REIT will be well-received by retail and institutional investors in Singapore and overseas







Investment Structure



Complete & Robust Integrated China Retail Mall Strategy

Access to Full Spectrum of Retail Opportunities in China

CapitaRetail China Development Fund	*CapitaRetail China Incubator Fund*	*CapitaRetail China REIT*
Development Assets	Warehouse Assets	Quality Income Assets

Comprehensive China Retail Mall Strategy is in line with CapitaLand's objectives to grow its fee-based income as well as enhance its asset productivity

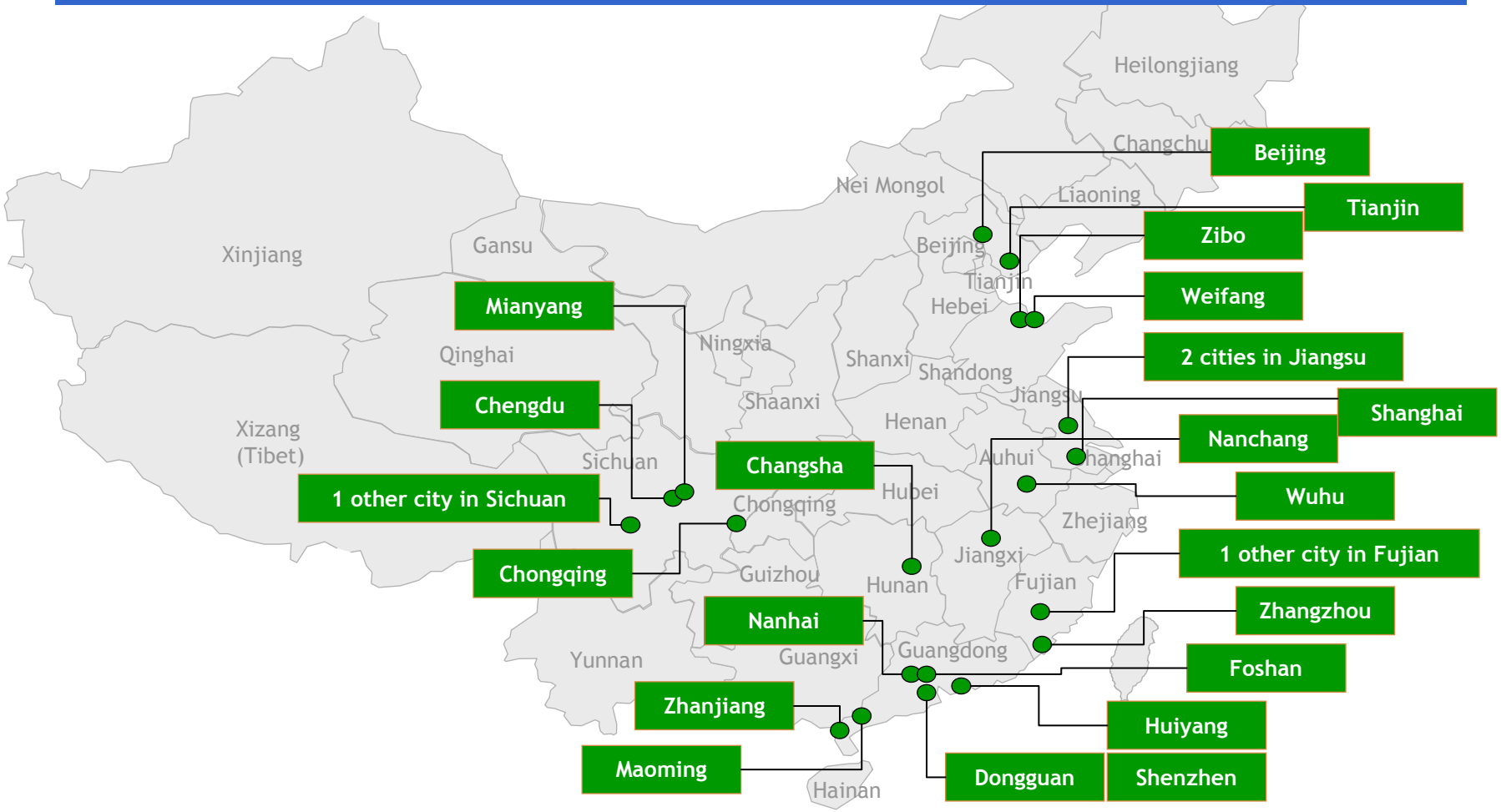
Fast becoming a significant long term retail player in China with the strong pipeline and in-depth understanding of China retail real estate

Ability to create value through leveraging on our retail mall cum asset management capabilities

CapitaLand's Extensive Retail Footprint in China

Retail Mall Business Presence in China

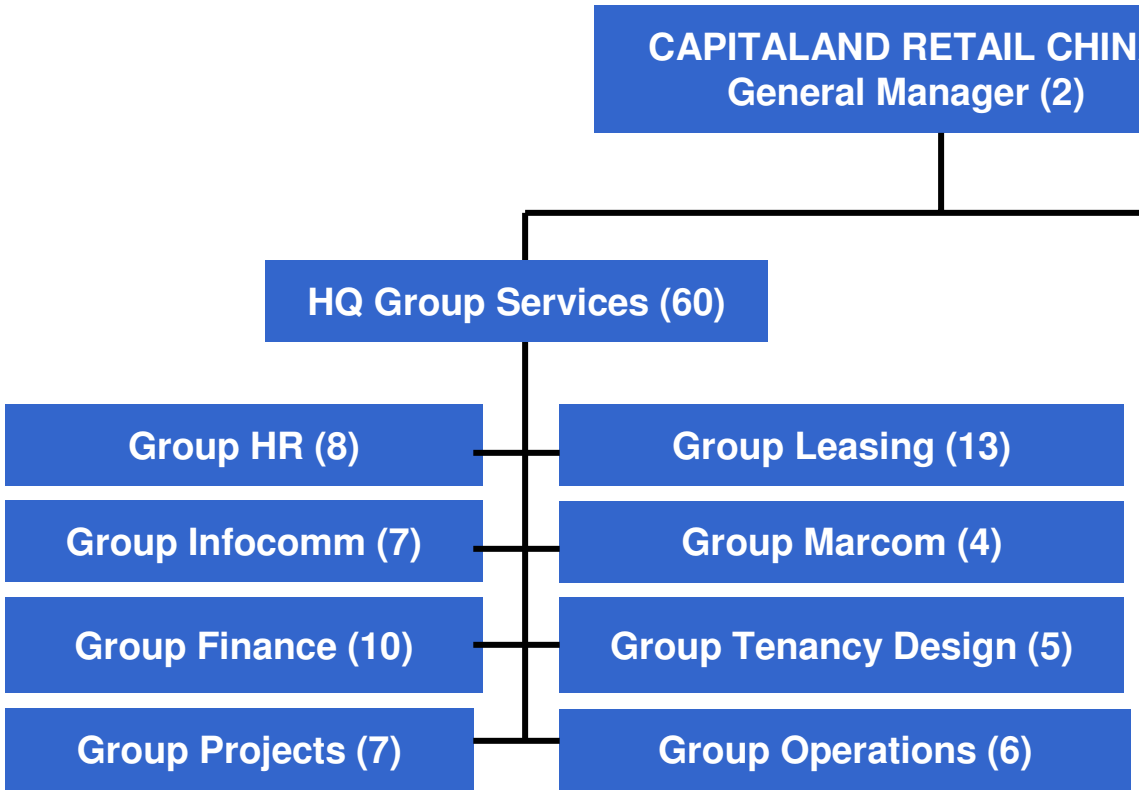
Approx. 30 assets in 25 cities measuring over 16 million sq ft



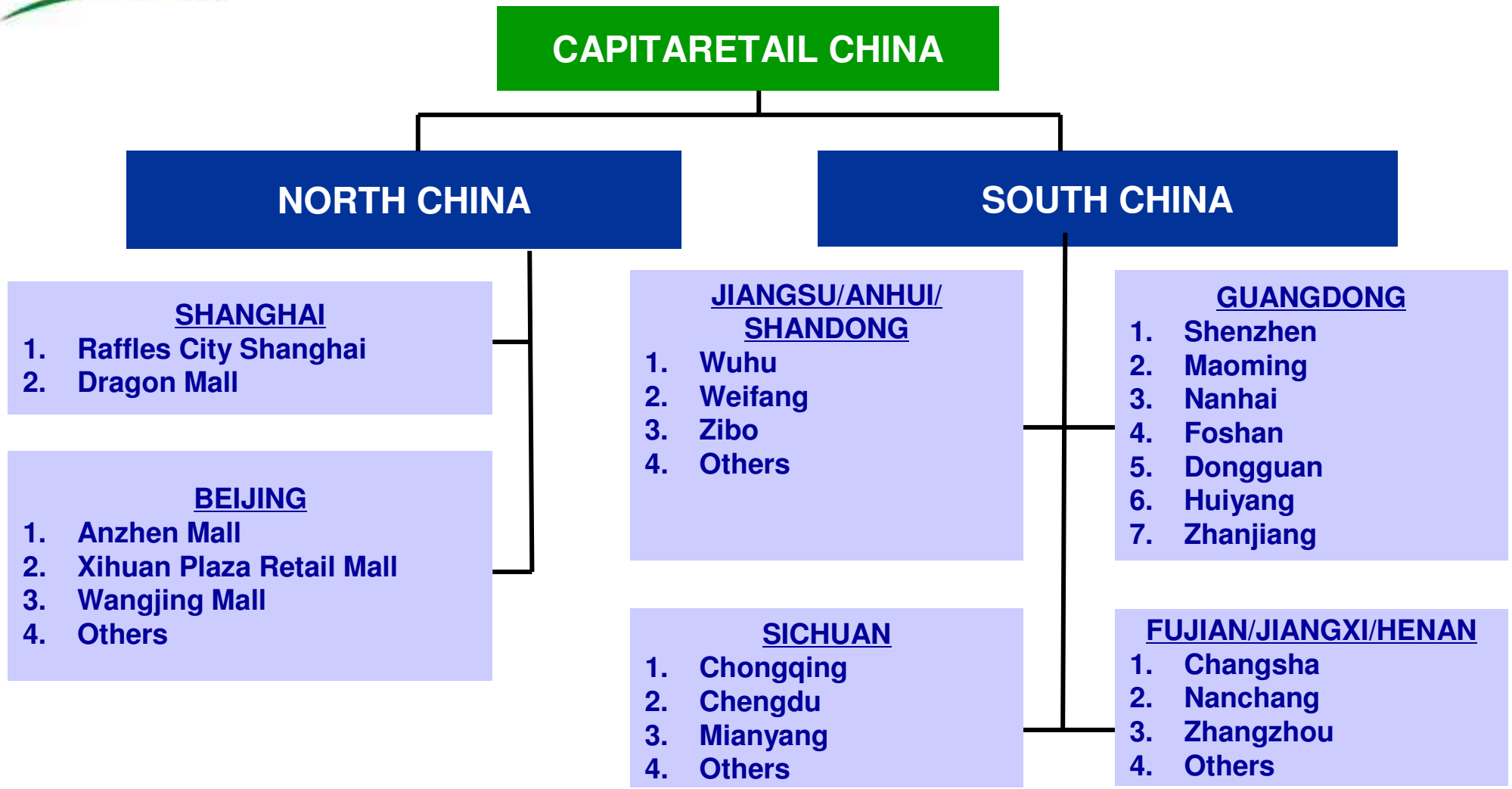
Our Significant China Retail Mall Management Platform

As at 1 Dec 2005	As at 1 Apr 2006	By end 2006	By end 2007
215 Staff	> 426 staff	> 950 staff	>1,300 staff

Breakdown as at 1 Apr 2006
Total No of Staff : 426
Total no of Expats : 20 (5%)
Total no of Locals : 406 (95%)



CapitaRetail China Regional Cluster



The CapitaLand Formula

CapitaLand's Formula

Key Success Factors	Our Capability To Deliver
Sizeable Scale as One of the Largest Retail Player in Asia	▪ Ability to tap on the extensive relationships with local and foreign retailers plus strong domain knowledge in markets where we operate
Integrated Retail & Capital Management Platform	▪ Ability to leverage on CapitaLand's integrated platform to deliver a full suite of value added real estate services sets us apart from investment banks & other property players
Ability to Bring in Capital	▪ Strong relationships with international investors who are familiar with our proven track record and are interested in having an exposure to Asia real estate



The End