

China – Sustained Liquidity & Active Public Capital Markets

PRIVATE EQUITY PLAYERS FIND OPPORTUNISTIC EXITS

Driven by a buoyant real estate market, a maturing domestic capital market, and the reopening of the IPO window in Hong Kong, many international private equity firms that gained a foothold in China over the last few years have recently harvested their investments.

During the previous investment boom between 2004 and 2007, a common investment strategy of foreign investors was to invest in convertible bonds or structured pre-IPO investments in private Chinese developers. Last year many of these "momentum investments" were subject to restructurings; however, the recent rebound in the IPO market has positively impacted some of these investments. For example, the successful IPOs of Evergrande Real Estate Group and Fantasia Holdings provided an exit opportunity for the offshore pre-IPO investors.

In addition to the liquidity from the IPO market, different onshore exit routes for project level investments have drawn increasing attention from both global and local real estate funds. This has been driven by the competitive onshore lending market as well as the gradual maturation of the Chinese domestic capital markets. The number of large projects sold is expected to increase as the regulations governing domestic real estate investments are loosened for Chinese insurance companies and other domestic institutions. In addition, the developing onshore RMB fund market and the prospect of a Chinese REIT market may ultimately provide liquidity options for international private equity investors in the coming years.

Sources: Finance Asia, KPMG research, M3 Capital Partners.

CHINA RETAIL PROPERTY SECTOR – EVOLVING

While the strong growth of the Chinese retail sector continues to attract the interest of many foreign retailers, investors and developers, the retail real estate sector still remains under-developed when compared to the residential market.

Historically, state owned department store chains have dominated the retail landscape in China, with foreign retailers only entering the market in 1992 when China opened the sector to foreign investment. The real catalyst for foreign investment, however, was the liberalization in November 2004 that allowed the establishment of wholly foreign owned retail businesses. Since then, there has been a boom of foreign retailers entering the market.

The retail formats have also been evolving since China opened its doors to foreign investment. International hypermarket operators set up their first big-box stores in the mid 1990s. The number of specialty stores for electronics / appliances and home / furniture has also seen a rapid increase and shopping malls, which first opened in the early 1990s, have today become one of the most popular retail products in China. Other specialized retail formats such as discount stores (outlet centers) and professionally managed convenience stores are also expanding rapidly.

Despite all the positive developments, there is still a notable lack of specialized retail developers / operators, especially considering the size of the Chinese retail market. In many large scale development projects retail continues to play a secondary role to residential, and strata title sales continue to encumber the professional ongoing management of many new retail schemes.

Sources: National Bureau of Statistics, Company Websites, Li & Fung, M3 Capital Partners.

IPO WINDOW MAY START TO CLOSE FOR PRC DEVELOPERS

YTD 2009, the property market in China staged a strong rebound on the back of a series of initiatives taken by the Central Government to stimulate the domestic real estate market. Nationally, the sales volume of residential properties increased by over 45% and prices jumped 20%-50% year on year.

As a result of the strong sales figures and the improving public equity markets, many Chinese property companies are once again seeking to list on stock exchanges. Since mid-August 2009, eight Chinese property companies were listed on the HKSE raising over HK\$32 billion (approx. US\$4.2 billion). The majority of the IPOs, however, were priced at the mid to low end of the price range, and two prospective listings were either withdrawn or postponed / downsized. This was due in part to an overhang of new listings but also the result of deteriorating investor sentiment and concerns about a speculative bubble forming in the Chinese property market.

Based on the current heated market conditions, most industry analysts believe that many of the Central Government's stimulus measures, such as the relaxation on second home mortgages and businesses tax concessions, are unlikely to be extended. At the same time Chinese developers may find that the current window to list on the HKSE may soon start to close.

Overview of Chinese Property Company IPOs on the HKSE (Sept. – Nov.)

Pricing Date	Issuer	Property Sector	Size (US\$)	Offer Price (HK\$)	Pricing Range	2010 P/E
11/19/2009	Fantasia Holdings	Residential (mid / high)	\$408 M	\$2.18	\$1.75-\$2.20	6.5x
11/13/2009	Longfor Properties	Residential / Commercial	\$912 M	\$7.07	\$6.06-\$7.10	13.9x
11/11/2009*	Mingfa Group	Mixed-use / Commercial	\$278 M	\$2.39	\$3.03-\$3.79	5.8x
10/29/2009	Evergrande	Residential (mid / high)	\$726 M	\$3.50	\$3.00-\$4.00	5.5x
10/27/2009	Yuzhou Properties	Residential / Commercial	\$209 M	\$2.70	\$2.70-\$3.70	5.2x
Withdrawn	Excellence	Residential / Commercial	\$1,000 M	-	\$2.10-\$2.60	7.5x-9.3x
10/15/2009	Powerlong	Mixed-use / Commercial	\$355 M	\$2.75	\$3.30-\$4.90	6.3x
09/24/2009	Glorious Property	Residential (mid / high)	\$926 M	\$4.40	\$4.00-\$5.30	10.5x
08/17/2009	China South City	Trade Centers	\$406 M	\$2.10	\$1.40-\$2.10	N/A

* Postponed / downsized.
Sources: Finance Asia, M3 Capital Partners.

GLOBAL REAL ESTATE STOCKS CATCHING UP WITH ASIA

Buoyed by improving investor sentiment, real estate stocks around the globe continued their rally throughout Q3 2009, recording a second consecutive quarter of double digit increases across all four major regional S&P Property Indices. Q3 2009 has seen a further increase in liquidity and capital raisings by many REITs and property companies, suggesting that Q1 2009 may well have marked the trough of the current capital cycle.

Amongst the S&P Country Property Indices in the Asia / Pacific region, Australia ranked first in Q3 2009 with a 44.0% increase followed by Thailand (40.0%), India (35.9%), The Philippines (35.6%) and Singapore (20.8%). China unexpectedly posted a negative return of -11.1% as a result of widespread concerns about the Central Government's tightening of credit to cool down the country's bustling housing market. China's lackluster Q3 performance, however, follows a 101.6% increase of the S&P China Property Index over the 12 months ending in September 09, the best performance of any of the 35 countries in S&P's Global Property Index.

Standard & Poor's Global Property Index

Annualized Returns	3Q 2009	1 Year	3 Years	5 Years	10 Years
Global	32.7%	-18.2%	-11.2%	2.1%	10.2%
North America	34.4%	-27.3%	-12.4%	1.6%	9.9%
Europe	34.3%	-11.7%	-12.3%	4.9%	12.3%
Asia / Pacific	29.8%	-0.7%	-8.4%	2.0%	9.2%

Sources: Standard & Poor's, ING Clarion, M3 Capital Partners.

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