



TAMPEREEN AMMATTIKORKEAKOULU
UNIVERSITY OF APPLIED SCIENCES
BUSINESS SCHOOL

FINAL THESIS REPORT

**Feasibility Study on Hainan Project -
Case Study for Licon (Holdings) Limited**

Yu Cheung Henry, TSE

Degree Programme in International Business
NOVEMBER 2010
Supervisor: Kazi Shaidul

TAMPERE 2010



Writer(s):	TSE, Yu Cheung Henry	
Study Programme(s):	International Business	
Title of Thesis	Feasibility Study on Hainan Project - Case Study for Licon (Holdings) Limited	
Month and Year of Completion:	November, 2010	
Supervisor:	Kazi, Shaidul	Number of Pages: 45

ABSTRACT

The idea of this project is to conduct a feasibility report for our client Lippo Group (HK). Lingshai, Hainan is located in South-west China, a small island with its tropical location advantage, it is one of the fastest growing economic city in China as well as the high level growing of tourist visited in recent years.

Our client Lippo Group (HK) has been working with Licon (Holdings) Limited for several years. Lippo is one of the fastest growing multinational companies. Lippo has several branches in Indonesia, Singapore, China and Philippine and its headquarter is located in Hong Kong. Lippo is an Asian conglomerate with decades of experience in capturing and profiting from investment opportunities in the region and the company is focusing on 2 key sectors: Property and Retail.

More about the company, Lippo is one of the major business conglomerates in Asia with businesses geographically diversified in Hong Kong, Singapore, China, Korea, Macau, Philippines, Malaysia, Thailand, and other countries. Property and retailing are the key focus. Lippo also has interests in other businesses, e.g., hotels, food business, securities broking and banking.

The Client proposes to build a unique mixed use development in a landmark building in Lingshui area. The project focused on four main property markets: Residential; Serviced apartment; Hotel and Retail (Shopping malls including dining and retail facilities). This feasibility report will give client a complete understanding more about the project background and conditions as well as provide a repositioning analysis for the subject site, based on market feasibility studies.

Key words: Real Estate Property Development Plot Economic of Nanjian Tourism

Table of Contents

Writer(s):	2
TSE, Yu Cheung Henry	2
1 PROJECT DESCRIPTION	5
2 MACRO BACKGROUD	6
2.1 Overview of Hainan Province	6
2.2 Introduction of Tourism Policies	9
2.3 Infrastructure Development in Hainan Province	10
2.5 Macroeconomic of Lingshui	12
Tourism Development in Lingshui	13
3 MARKET ANALYSIS	16
Comparison with Neighboring Cities	19
Hotel Customer Composition	20
Downtown Hotels & Out of Town Hotels Comparison	20
Future Supply in Xiangshui Bay	22
Future Supply in Qingshui Bay	23
Key Projects in Qingshui Bay	23
Downtown Retail Market Overview	25
Customer Profile	26
Consumption Power	26
Customer Behavior	26
Future Supply of Major Retail Developments along Pearl Coast	27
4 SITE ANALYSIS	29
4.2 SWOT Analysis	29
Strength	29
Weakness	30
Opportunity	30
Threat	31
5 Project Repositioning	32
5.3 Initial Target Customer	33

6 PROJECT CONCLUSIONS.....43
7 Bibliography.....45

1 PROJECT DESCRIPTION

The project site is located in the north-west of Lingshui downtown (Yelin town), adjacent to Lingshui River, and is approx. 1.7km from Hainan Eastern Expressway to the west and approx. 6km from the South China Sea. The subject site (plots 1&3) covers an area of 3.5ha and the total GFA is 113,514m², comprising the completed Pearl Tower and the remaining approx. 81,500m² GFA is available for further development. The original development parameters for the subject development are set out in the table shown.

Land Area	34,759.1m ²	
Total Building Area	140,412.5 m ²	
GFA	113,514.1 m ²	
	Office	42,086.48 m ²
	Retail	22,821.31 m ²
	Hotel	48,606.31 m ²
Building Height	Less Than 100 m	
Site Coverage	35.3%	
Plot Ratio	3.27	

The Client proposes to build a unique mixed use development in a landmark building in Lingshui area. The project focused on four main property markets: Residential; Serviced apartment; Hotel and Retail (Shopping malls including dining and retail facilities). This feasibility report will give client a complete understanding more about the project background and conditions as well as provide a repositioning analysis for the subject site, based on market feasibility studies.

2 MACRO BACKGROUND

2.1 Overview of Hainan Province

Hainan Island Profile

Hainan is a popular tourist destination in China, known as "the Oriental Hawaii". It is located at similar latitude to other established tropical tourism resort destinations such as Hawaii, Miami in Southern Florida and Porto Rico, and with natural qualities similar to these locations. Haikou, the capital city of Hainan, is located in the northern part of the Island. It is the political, economic, and cultural and transportation centers of the province. Sanya, located in the southernmost part of the Island, has established itself to be the most popular tropical tourist city in China in light of its high concentration of international brand resort hotels.

The economics of Hainan has a significant increase every year, the GDP has increased about 100% from 2003-2008. Since year 2000, numbers of international companies invested in Hainan province and most of the investors invested in real estate and retails sector.

The following (Table 1 and Table 2) showed some economic indicators of Hainan Province.

Key Indicators of Hainan Province

Table 1

	2003	2004	2005	2006	2007	2008
GDP						
GDP (RMB billion)	71.396	81.966	90.503	103.185	122.328	145.923
GDP Growth (RMB billion)	11.08%	14.80%	10.42%	14.01%	18.55%	19.29%
GDP- Primary Sector (RMB billion)	24.385	27.876	30.075	32.348	36.107	43.761
GDP- Secondary Sector (RMB billion)	17.582	20.56	23.053	28.786	36.426	43.44
GDP- Tertiary Sector (RMB billion)	29.385	33.53	37.375	42.051	49.795	58.722
GDP per capita (RMB)	8,849	10,067	10,998	12,403	14,555	17,175
INVESTMENT (RMB billion)						
Total Fixed Asset Investment	27.634	32.528	37.942	42.601	50.925	70.901
Real Estate Investment	3.661	5.599	7.085	8.93	12.757	19.945
Utilized Foreign Direct Investment (US\$ billion)	580.62	643.43	684.01	748.78	1,120.01	1,283.37
DEMOPGRAPHIC (RMB million)						
Total Population (million)	8.1052	8.1783	8.28	8.3588	8.4503	8.5418
Per capita Annual Disposable Income of Urban Household	7,259	7,736	8,124	9,395	10,997	12,608
Per capital Annual Living Expenditure of Urban Household	N/A	N/A	5,928	N/A	N/A	9,408
RETAIL (RMB billion)						
Retail Sales of Consumer Goods	19.16	21.92	26.86	30.83	36.20	44.84
Consumer Price Index	100.1	104.4	101.5	101.5	105.0	106.9
TOURISM						
Tourists Volume (10,000 people)	1,234	1,403	1,605	1,605	1,874	2,060
Total Tourism Revenue (RMB billion)	9.355	11.101	12.505	14.143	17.636	19.233

Major Cities & Counties Comparison

Table 2

	GDP	GDP Growth	Total Fixed Asset Investment	Retail Sales of Consumer Goods	FDI	Tourist No. Received by Hotel
Region	(RMB Billion)	(%)	(RMB Billion)	(RMB Billion)	(USD\$ million)	(10,000 people)
Haikou	35.18	10.30	17.54	19.91	292.85	323.58
Sanya	12.02	13.60	14.71	3.38	125.87	480.64
Danzhou	6.99	10.10	0.95	1.90	1.20	34.04
Wuhishan	0.69	7.70	0.56	0.24	-	13.80
Wenchang	6.96	12.70	3.22	1.96	16.72	24.52
Qionghai	6.31	20.00	3.74	2.09	-	59.67
Wanning	5.11	13.50	3.24	1.87	115.46	184.10
Dongfang	4.89	-3.10	2.78	0.90	-	10.03
Lingshui	2.71	12.70	2.38	0.33	76.89	59.80
Ranking of Lingshui	13	6	8	15	4	4

Planning & Policies

Hainan as an “international tourism destination” will continue to attract increasing numbers of high-end tourists, from both domestic and international origins, which will strengthen the international brand name of Hainan Island.

In order to achieve this goal, the Hainan Government prepared a policy document - “Hainan International Tourism Destination Construction Action Plan” to guide the future development of Hainan (Table 3).

Table 3

Goals at each Implementation Stage for an International Tourism Destination			
Phase	To 2013	To 2018	To 2028
Construction Process	The rudiments of an international tourism island are completed with international standard tourist facilities	International tourism destination image is almost achieved. To become the Chinese tropical island and oriental vacation paradise	An international tropical and sea-side tourism destination
Proportion of foreign tourists to total	More than 10% (1.5 million/year)	More than 20% (5 million/ year)	More than 30%
Proportion of income generated from foreign tourists to total tourism revenue	More than 20% (1 billion USD)	More than 30% (3.5 billion USD)	More than 40%

2.2 Introduction of Tourism Policies

Visa Free” Policy

Hainan is providing a “15 days visa free” policy for Group 21 countries, but this is only applicable to travel groups with 5 or more people, for a maximum stay in Hainan for 15 days. It is anticipated that the number of the countries enjoying “visa – free access” will increase, as easy and convenient access is key to building an international tourist destination.

Reducing Aviation Restrictions

Hainan government is prepared to open more aviation routes and to remove restrictions on the development of air-routes to Hainan. The National Government has approved a more open aviation policy - “partly opening to the south and fully opening to north”.

Opening up Tourism and Related Industries

Hainan Province is planning to open up both the tourism industry and its related industries, such as food and beverage, cultural activities, meetings & exhibitions, and sport and leisure industry.

Duty-Free Shops

The National Government will allow an increased number of duty-free items covering the main tourist products and allow the opening duty-free shops in major tourism cities. In addition, taxes will be reduced or removed from tourist related goods.

2.3 Infrastructure Development in Hainan Province

Infrastructure Development in Hainan

Existing Infrastructure Development

- Guangdong – Hainan Railway (“Yuehai Railway”) (Zhanjiang City – Hainan)
- West Railway (Haikou – Sanya)
- Haikou Meilan International Airport
- Sanya Phoenix International Airport
- East and West Expressways
- G223, 224, 225 National Highways
- Sanya Int’l Cruise Terminal

Future Infrastructure Development

- Qiongzhou Cross-Harbour Tunnel (After 2010)
- East Railway (2010)
- Sanya City Ring Road (2011)

Guangdong – Hainan Railway

- Completed in 2004, starting from Zhanjiang, north of Guangdong Province crossing Qiongzhou Strait Province, Strait, and joining up with West Rail and terminating in Sanya.
- Improved connection between Hainan Island and the mainland: traveling time from Sanya to now require only 35 hours; 37 hours to Shanghai, and 15 hours to Guangzhou.

Airport Facilities

Haikou Meilan International Airport and Sanya Phoenix International Airport are the 2 main civil airports in Hainan. Lingshui is served by **Sanya Phoenix**.

Sanya International Airport

- Located in Sanya Phoenix Island with 2 International and domestic cruise terminal are proposed, of which Terminal 1 had been completed since 2006.
- Terminal 1 can accommodate mega cruise vessels up to a displacement of 100000 tonnes. Maximum annual capacity of 0.6 to 1.2 million passengers, with 260,000 passenger throughput in 2008.
- Two other terminals will open in the coming five years, by which Sanya Passenger Terminal would have achieved a milestone of processing over 2 million passengers in 7 years.

- Sanya tourism industry is expected to continue to grow on the back of existing and planned infrastructure improvement projects. This will benefit Lingshui which is located in close proximity to Sanya.

2.4 Lingshui County Profile

Located 65 kilometers away from Sanyam Lingshui County boasts a 57 km long coastline, called Pearl Coast, covering three high quality beaches such as Perfume Bay or say Xiangshui Bay), Clear water Bay, and Tufu Bay. The county is also well-known as the pearl production area in China.

The climate here is typical of a tropical one with an average temperature of 25.4 C and duration of sunshine of 2563 hours throughout the year. The average annual rainfall is approx. 1279mm. The environment here is favorable for holiday getaways.

2.5 Macroeconomic of Lingshui

Key Indicators of Lingshui

Table 4

	2006	2007	2008	2009 (Q1-Q3)
GDP				
GDP (RMB billion)	2.059	2.417	3.056	2.718
GDP Growth	15.1	15.0	16.1	12.7
GDP per capita (RMB)	5,945	7,552	9,394	N/A
YoY Change	N/A	14.7	13.7	N/A
INVESTMENT				
Total Fixed Asset Investment (RMB billion)	0.52	1.56	3.50	2.38
YoY Change	51.6	200	134.2	20.6
DEMOPRAPHIC				
Total Population	346,249	351,765	357,654	N/A
Per capita Annual Disposable Income for urban	6,367	7,534	9,039	7,886

household (RMB)				
YoY Change	13.5	18.3	20	15.4
RETAIL				
Retail Sales of Consumer Goods (RMB million)	261.54	305.64	387.66	326.74
YoY Change	14.8	16.9	23.9	19.4

GDP Composition of Lingshui

The GDP of Lingshui County has been increasing steadily in recent years, from RMB 2.06 billion in 2006 to RMB 3.06 billion in 2008. At the end of Q3 2009, GDP has reached RMB 2.718 billion, representing a 12.7% y-o-y growth.

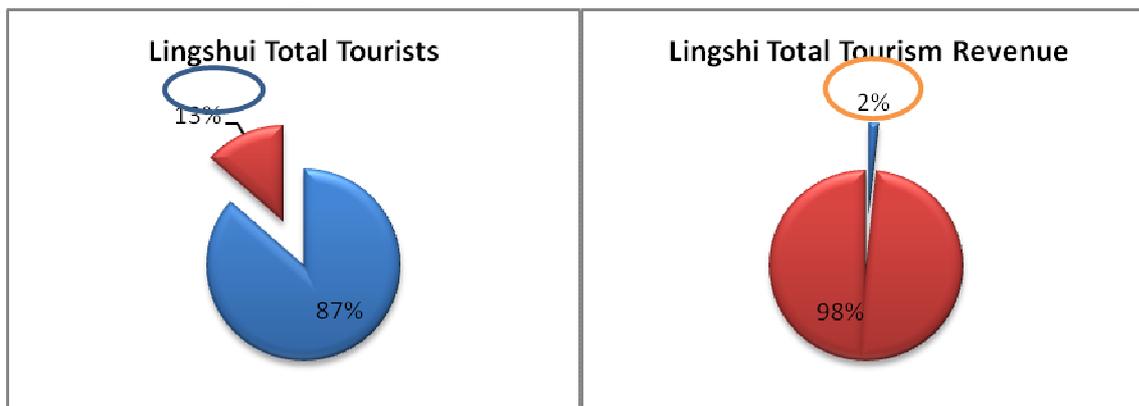
Agriculture is still the predominant industry in Lingshui County, which contributes 62% of the total GDP. Tropical crops like coconut, paddy rice are the main crops produced from this area. Tourism is playing a more important role in Lingshui's economy, and it is anticipated that the tertiary sector's share of GDP will grow in the future.

Tourism Development in Lingshui

At the end of Q3 2009, total visitor arrivals in Lingshui reached 2.12 million, representing a 12.8% y-o-y growth. This growth reflects the booming demand from domestic market as a result of the establishment of tourism projects along pearl coastline.

Affected by the global financial crisis in 2008, demand from high-end tourists and total tourism revenue has dropped. Over the past years, tourism revenue in Lingshui witnessed an average 25.8% growth up until Q3 2009, when a 62.5% y-o-y in growth rate was recorded in 20

Q1-Q3 2009 Lingshui Total Tourist Volume & Tourism Revenue Contribution



As at Q3 2009, the total number of tourists in Lingshui reached 212 million, which is equivalent to approx. 14% of the total tourist volume in Hainan in the same period. However, the total tourism revenue in Lingshui only contributed only 1.62% to the revenue of the whole province; the reasons for these significant gaps are as follow:

- Tourist profile: Due to the limited supply of high-end hotels in Lingshui, the tourists who stay here are mainly budget tourists.
- Customer behavior: Tourists are mainly short-term slayers as there are few tourism attractions in this area.

2.6 Implications

Sanya and Haikou will maintain their leading roles as the major destinations and distribution centers of tourism in Hainan Province due to their relatively advanced tourism developments and their continued tourism infrastructure improvements, such as airport extension, construction of Int'l Cruise Terminal in Sanya, and the construction of "Hainan International tourism Island". Being located in proximity to Sanya will mean that Lingshui has the advantage to receive the tourism overflow from Sanya.

Lingshui's economic development lags behind many cities & counties in the Hainan Province, and the consumption capacity of the local people is relatively low, hence the subject development needs to rely on non-local tourists.

Tourism development in Lingshui is at the start-up stage, and the lack of high-end resort facilities and well-known tourism attractions result in a low tourism revenue. In addition, existing tourists are mainly short-term stayers which may deter the future development of hotel and holiday home.

3 MARKET ANALYSIS

3.1 Lingshui County Real Estate Market Overview

The subject site is located in Yelin Town, which is the Capital Town of Lingshui County. The population of Yelin Town is 96,000, accounting to one third of the total population in Lingshui. In particular, 20% of this population belongs to the Li Minority. Total area of Yelin Town is 77.1 sq.km. With a planned downtown area of 16.34 sq.km, of which only half the area has been constructed.

There has been not been any major real estate development projects in Yelin Town. All the existing residential and commercial buildings on the subject site are constructed by the local people themselves and as such, no property transaction data have been recorded.

Yelin Town is not a popular tourist area and there are currently no published tourist maps for it.

Nearly all the real estate developments in Lingshui County are scattered along the coastline. There are three developing bays, Perfume Bay, Clear water Bay and Tufu Bay, from north to south, and six developing projects which are all tourism developments including resort, holiday apartment, villas and retail.

3.2 Real Estate Developments along the Coastline

Table 5

Project Name	Land Area	Main Properties	Located Bay	Bay Conclusion
Xiangshui One	0.4 sq km	Villa & Hotel	Xiangshui Bay	Most near to our site. Still under developing, need some time to form a resort atmosphere
Hongkan Suntime Bay	1.84 sq km	Condo, hotel, retail		
Wonderful Bay	1.7 sq km	Mixed		
Clear Water Bay	Over 7 sq km	Mixed	Clear Water Bay	High-end planned area
Crabapple Bay	0.7 sq km	Mixed	Tufu Bay	Most near to Sanya, it's an advantage but small size and mid-end development
Shizhi Property Hotel & Villa	0.35 sq km	Property hotel, villa		

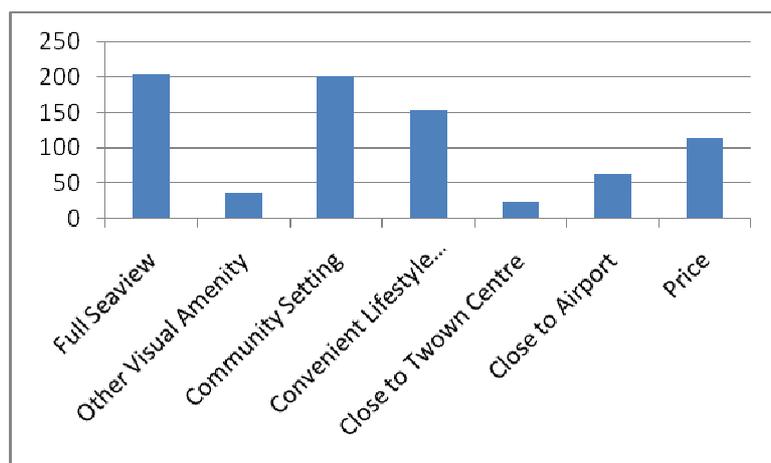


Buyers Characteristics

Over the past few years, Hainan’s holiday residential market is largely driven by external market forces the holiday properties buyers in Hainan are mainly holiday markets and retirees, with more than 80% of buyers coming from the more developed regions. The real estate market is clearly driven by market forces outside Hainan. See table 6

Table 6

Origin of Buyers	Proportion	Note
Shanghai, Jiangshu	42%	Shanghai buyers represent 29% of the total buyers in Sanya
Northeast Region	27%	High potential buyer group from these regions as weather condition in Hainan is better
Hainan Island	9%	
Other Regions	17%	Mainly from Guangdong Province and Sichuan Province
Overseas	5%	Americans represent 39% of the total within the overseas group. Majority of buyers are from Hong Kong, Japan, Russia and France in that order



The results from questionnaire¹ showed that residential properties with full sea view, located within a community setting and with convenient lifestyle facilities are popular amongst tourists and investors. The subject development may not be to

match the first two criteria, and therefore must focus in providing convenient lifestyle facilities and to mark down the sale price to attract the buyers.

¹ Questionnaires were undertaken in Mar 2008 for another potential project located in the southwest coast in Hainan. 150 questionnaires were sent out and 132 were valid. The question included “which factors do you think are the most/second/third important to influence your choice of holiday residential properties in Hainan?”, and different weight was given to take those factors.

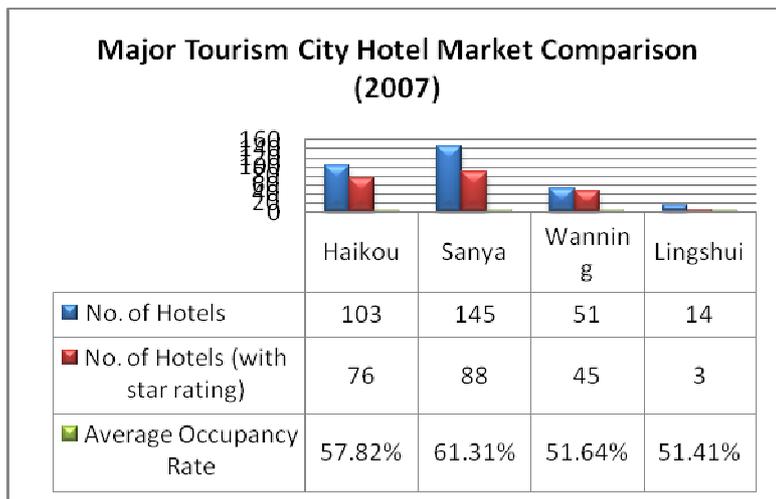
3.3 Lingshui Hotel Market

Lingshui Hotel Market Overview



Compared to Sanya, Lingshui is not relatively developed, and there are less tourism attractions to capture long-stayers. There are limited supplies of high-end hotels in Lingshui town. Future hotel supply will concentrate along the coastline areas and there will continue to be low supply in Lingshui town area.

Comparison with Neighboring Cities



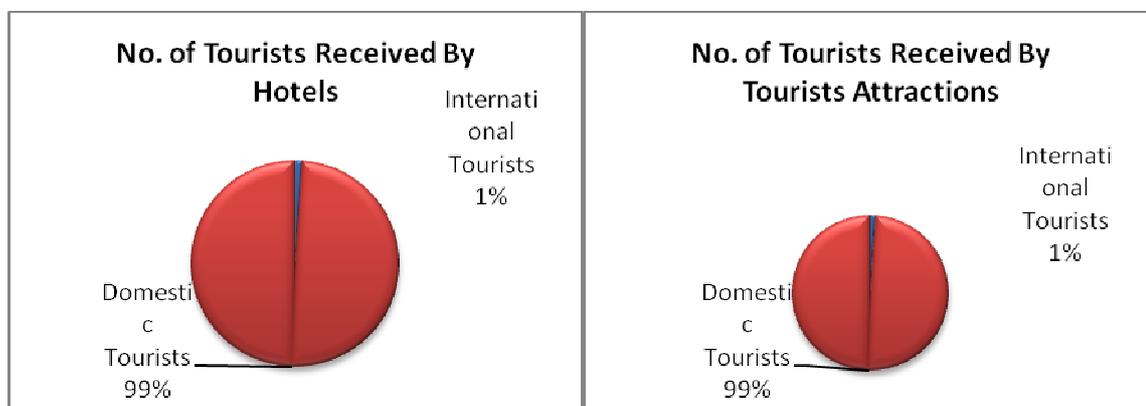
According to the Hainan Statistics Year Book 2007, there were 14 hotels in Lingshui, including 3 star rating hotels. This is equivalent to 6.6% of the total star rating hotels in Wan-

ning and 3.4% in Sanya.

Lingshui county is located mid way between Sanya and Wanning, with both cities being within reach in an hour's driving time. Lingshui hotel market con-

tinues to struggle even further as customers can conveniently find more options in Sanya and Wanning.

Hotel Customer Composition



According to the statistic report released by Lingshui Statistic Bureau, the total no. of tourists received by hotel in 2007 was 488,063, of which only 243 or 0.05% are international tourists.

However, amongst the total 870,000 tourists received by tourism attractions, approximately 130,120 or 15% are international tourists. This shows that hotels in Lingshui could not attract international visitors.

Downtown Hotels & Out of Town Hotels Comparison

Table 7

	Hotels in Lingshui Downtown	Hotels Outside Lingshui Downtown
Overall Positioning	Mid End	Mid High End- High End
Avg. Room Rate	RMB 135	RMB 572
Strengths	<ul style="list-style-type: none"> Budget Price Relatively convenient public transportation Favored by business visitors to Lingshui 	<ul style="list-style-type: none"> Most of hotels enjoy waterfront sea view or mountain view Close to tourism attractions Surrounding area has been planned and will be the key development area in the future
Weakness	<ul style="list-style-type: none"> Without ocean view No tourism attractions in surrounding area Aged facilities 	<ul style="list-style-type: none"> Lack of supporting facilities in surrounding area Inconvenient public transportation

- With low publicity to visitors

Future Supply Overview



According to the planning by Lingshui Government, the future hotel development will concentrate in these three bays area. Together, these 3 core zones will combine to form the “Pearl Coast Tourism Development Zone”, and it is estimated that there will be at least 22 high-end hotels supply in the future.

However, most of the high-end hotels are still at the planning stage, only a few are under construction.

There will be no major hotel projects coming in the Lingshui downtown area, as there are few tourism attractions or unique natural scenery.

Future Supply in Xiangshui Bay

Table 8

	Developer	Planned Hotel Site Area (sq m)	Est. Investment (RMB)
Zone A	Fuhaolvye Development. Co.	31,5204	210,241,068
	Wantong	397,332	265,020,444
	Xiang Shuiwan Hotel Co.	300,000	200,100,000
Zone B	Hainan Wan Ltd	25,0125	166,833,375
	Hainan Tourism Co.	197765	131,909,255
	Yitong Co.	26,6800	177,955,600
	Xiexin Property Development Co.	266,800	177,955,600
	Jindi Development Co.	200,100	133,466,700
	Sub-Total	2,194,126	3219,189,000

The total investment for Xiangshuiwan Tourism Zone is estimated at RMB 10 billion, with RMB1.45 billion invested to date. According to its development plan, there will be 8 new high-end hotels in Xiangshuiwan tourism zone In addition to the existing Xiangshuiwan Resort there will be 9 high end hotels in total in the zone.

As per the requirements from Lingshui Government, the minimum capital investment for development projects is RMB667/sq km, therefore it is estimated that the total investment for hotels will be a minimum of RMB 3.2 billion.

Future Supply in Qingshui Bay

Table 9

	Proposed Hotel	GFA (sq m)	Est. No of Rooms	Est. Investment (RMB million)	Development Status
Agile Group	Raffles Hotels & Resorts	700,000	350	700	Under Construction
	Jumeriah	900,000	300		Agreement Signed
	Hilton				Planning
	JW Marriot				Planning
	Outrigger				Planning
	W hotel				Planning
Greenland Group	A 5 Star Hotel				Planning

The total investment in Qingshui Bay Tourism Zone is approx. RMB 29.15 billion, and approx. RMB 3.2 billion had been invested by the end of 2008. The construction of infrastructure facilities and golf court has already completed. For the hotels, 8 high-end hotels have been planned but only the Raffles Hotels in Agile Clear Water Bay has begun planned, construction, and Agile has signed a management agreement with Jumeriah earlier this year.

Key Projects in Qingshui Bay



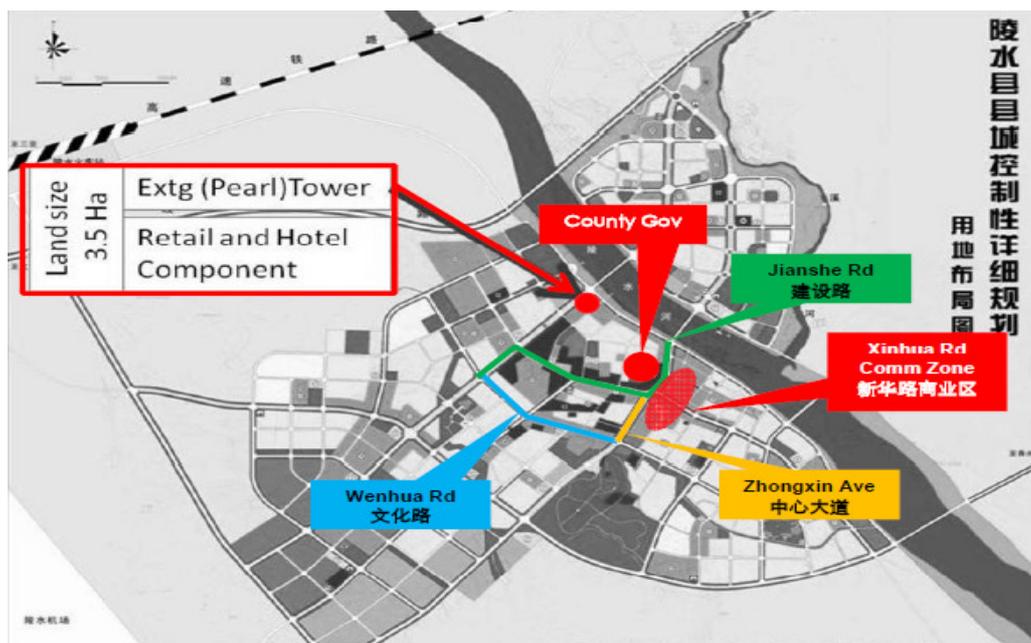
The total investment for Tufu Bay Tourism Zone is approx RMB 6.6 billion, and there are in total 7 high-end hotels being planned, however, none of these hotels have begun construction yet.

3.4 Conclusion on Lingshui Hotel Overview

Compared to nearby tourism cities (Sanya and Wanning), Lingshui hotel market lags behind in both quantity and quality. There is no high-end hotel in Lingshui downtown area and this will not change in the near future. The main hotel customer types in Lingshui downtown area are budget tourist groups or business travelers.

Lack of tourism attractions and supporting facilities nearby contributed to the lack of development of Lingshui's hotel market. Future supply will mainly focus in the high-end hotels outside Lingshui downtown area. However, most of the projects are still at the planning stage as developers are currently more focused on the residential market.

3.5 Lingshui Retail Market



Downtown Retail Market Overview

Generally speaking, the current retail market of Lingshui can be described as “underdeveloped”. The layout of retail zone in the downtown area is easy to identify. Jiefang Road and Zhongxin Avenue are the main traffic roads in Lingshui, where traffic flows are usually busy. Xinhua Road and Wenhua Road are the key commercial zones in Lingshui.

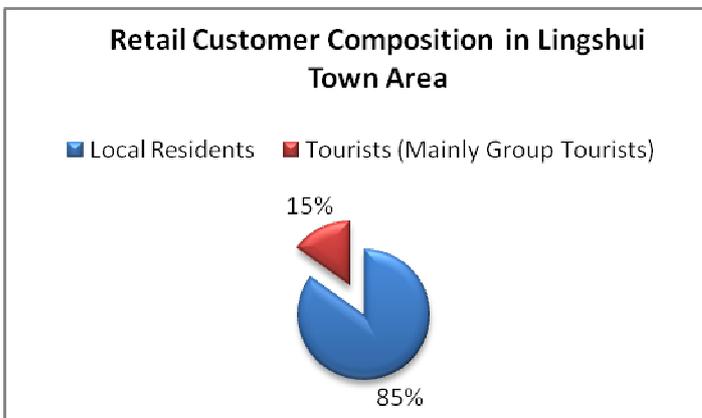
With no mass scale retail projects in Lingshui downtown area, small or medium size street retail shops take up nearly 85% of the town’s total retail space, plus a few newly built supermarkets or department stores.

The main source of customers for retail projects in Lingshui downtown are local residents, plus a small proportion of short staying tourist groups. In light of the upward trend of Lingshui’s economy, demand from local residents for retail may grow. This will help to build up the development of retail market in Lingshui downtown.

Main Streets in Lingshui

Retail market in Lingshui shows a positive growth in recent years. By 2008, the total sales of consumer goods reached RMB 370 million, a 23.9% yoy growth. The contribution mainly came from the fast growing wholesale, supermarket and entertainment sectors.

Customer Profile

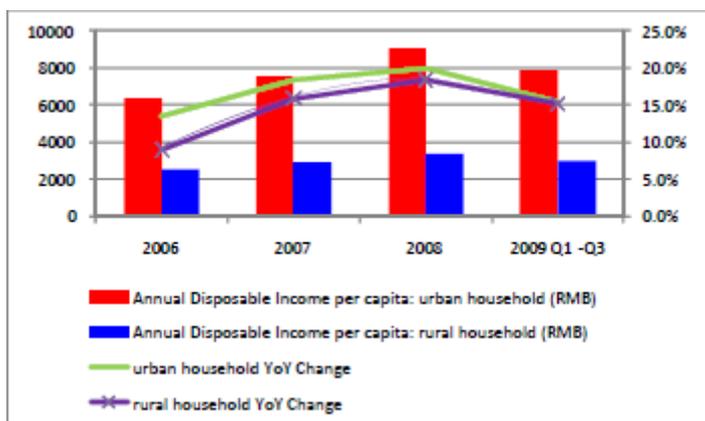


Local residents remain the major source of retail customers, equivalent to about 85%. Tourism customers are mainly short term staying tourist groups, as the hotels and supporting facilities are limited in Lingshui town area.

Consumption Power

From 2006 to 2008, the per capita annual disposable income for urban household has increased from RMB 6,367 to 9,039, representing a 42% growth. The net income for rural household is RMB 3,428 by the end of 2008, representing a 18.4% growth.

Customer Behavior



Attitude and habit are gradually changing. Local residents are now getting used to buying daily goods from supermarkets, and spending more time in bars or pubs. The commercial street also

attracts residents from surrounding towns for shopping. From interviews with local residents, it was found that the younger generation in Lingshui is more

keen to shop in Haikou or Sanya, as they can find more choice there. Interviewees also indicated their demand for new retail complex in Lingshui which can offer a wide range of goods, but at an affordable price level.

Future Supply of Major Retail Developments along Pearl Coast

Table 10

Location	Project Name	GFA (sq m)	Retail Facilities
Xiangshui Bay	Hongkan Xiangshui Bay	30,000	Health clinics, Shopping Centre, Entertainment Facilities, Supermarket
	No. 1 Perfume Bay	16,000	Commercial Street, Clubs
	Future Bay	16,000	Commercial Street, Health Centre, Sports Centre, F&B
Qingshi Bay	Aigle Clear Water Bay	35,000-40,000	Central business district, Community Retail, SPA Club
Tufu Bay	Crabapple Bay	30,000	Commercial Street, ancillary Retail
	Sub-Total	127,000-132,000	

Future retail supply will mainly concentrate along Pearl Coast. Most of these projects are Coast. Most of these projects positioned as the ancillary retail for residents and tourists. Few of them have completed construction. According to the interviews with the developers, most of these retail projects will be retained by developers and are for lease only. Indicative rental level has not been fixed yet.

3.6 Conclusion on Lingshui Retail Market Overview

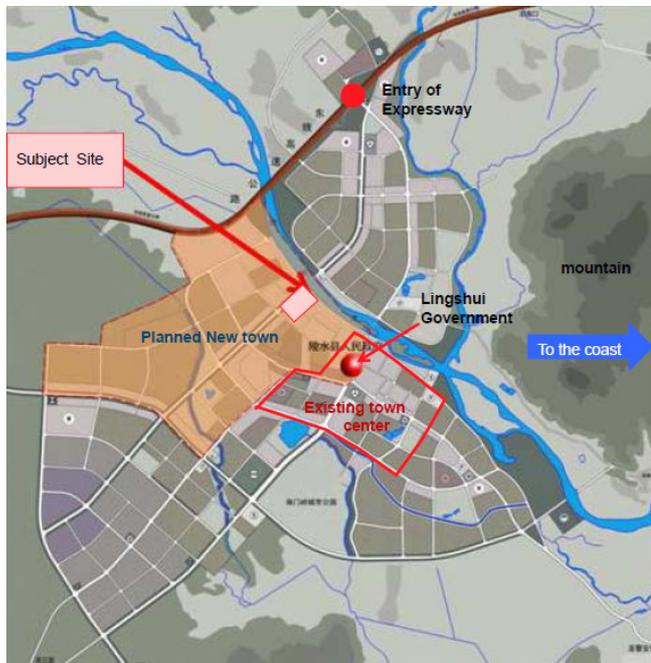
The existing Lingshui retail market is still at the “start-up” stage, and local residents remain the main source of customers in Lingshui town. Few tourists will stay and consume here as retail facilities are limited. The developing

economy and consumption power will drive the local demand for more sophisticated retail projects in Lingshui.

The future supply will mainly concentrate in the “Pearl Coast” targeting tourists and high-end residents.

4 SITE ANALYSIS

4.1 Site Description



The project site is located at the north-west entry of Lingshui downtown- Yelin town, adjacent to Lingshui River, Lingshui culture square and Lingshui stadium. It is located 1.7 km away from Hainan Eastern Expressway and approx. 6 km from South China Sea.

4.2 SWOT Analysis

Strength

Lingshui is located adjacent to Sanya , so it has the advantage of receiving any spillovers from Sanya. Together they can build complementary tourism resources, binding as the Sanya tourist circle at a broader scale.

The subject development will become a landmark in Lingshui County, and many public supporting infrastructures will be in place around the subject site (e.g. the construction of the local stadium), making the area more livable and convenient for future residents.

- The subject site is located at a beautiful riverside with a civil square located nearby and therefore enjoying good visual amenity.

- Excellent accessibility – 1.7km to the Hainan Eastern Expressway and 2 km to the downtown.

Weakness

Lingshui's economic development lags behind many cities in Hainan, and consumption power of the local people is relatively low. Therefore the subject development needs to rely on tourists.

The tourism sites in Lingshui are neither famous nor attractive; hence visitors to Lingshui are mainly short-term stayers. The existing building was originally designed for office use, and the existing structure is not suitable for living in even after design amendments.

Lacking a sense of holiday atmosphere as the subject development is not a costline resort. Although the site is located 6km away from the coast, most units in the existing tower cannot enjoy sea-view which has been blocked by mountains located between the site and the coast.

Opportunity

Lingshui is close to the mountain and has long coastline and tropical climate. It has the potential to attract retirees of holiday markets originating from the cold regions. According to development plans, the future projects along Lingshui's coast will be of high standard, which can help to elevate the property price of the entire area.

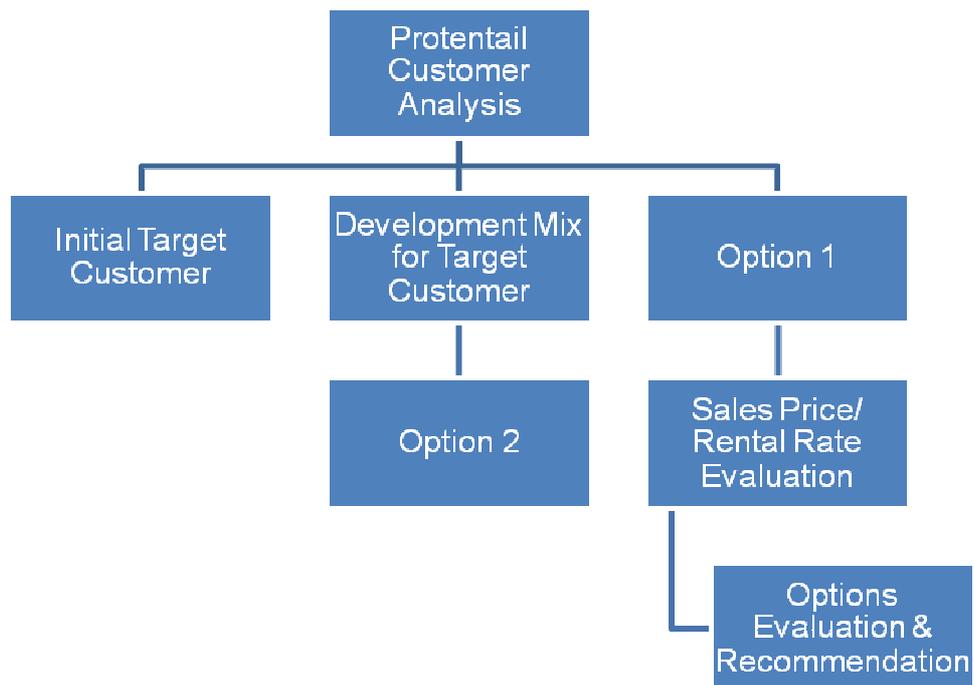
The subject development has a lower price advantage when compared with the relatively high price of those projects located along the coastline or in Sanya.

Threat

The subject development has less competitive edge when compared with the projects located along the coastline. However, this may change when coastline development became mature and the demand turns into inland. Changes in domestic macroeconomic conditions, and the government policies directly related to the real estate market, will have a certain impact on these projects.

5 Project Repositioning

5.1 Methodology



5.2 Potential Customer Analysis

			Short Term	Long Term
Local People	Low Income Group 80%	Low income, but low affordability	0%	0%
		Build house on their own land		
		Satisfied with current living environment		
	Mid-High Income Group 20%	Accept proper built residential property and preferring to live in a residential community setting	20%	20%
Educated young people, with working experience outside Lingshui				
Living away from parent after marriage				
		High spending power		
Non-Local Employee	Currently these employees belong to low income group working in service sector. May be some in the future, such as taxi drivers, tourism projects staff		0%	5%
Tourist	Currently only focused on short stay tourist group		80%	30%
	Increase of mid-long stay individual tourists, after more mature development in Pearl Coast.		0%	25%
Investor	Difficult to compete against residential developments in surrounding area like Sanya, Xinglong and Wanning in short term		0%	20%
	In longer term, the real estate market will be more robust when the development in Pearl Coast matured			

5.3 Initial Target Customer

Development Phase	Initial Target Customer	Possible Property Needs				
		Hotel	Serviced Apartment	Residential Flats	Shopping Centre	Tourists Related Retail
Short Term (1-2 years)	Short term stay tourist groups	✓				✓
	Local High income			✓	✓	✓

Long Term (3 years and beyond)	Mid-long term stay tourists		✓	✓	✓	
	Investors	✓	✓			✓
	Non-local Employees	✓		✓	✓	

Development Mix for Target Customer

Option 1: Targeting on Tourist Market	Option 2: Target partly on the Local Market
<ul style="list-style-type: none"> • Change the existing office tower into a serviced apartment. • Build a tourism related retail complex of approx. 12000 sqm in GFA at the podium in plot 3. • Build two separate buildings on the retail podium, one for serviced apartment and one for a 40star hotel. 	<ul style="list-style-type: none"> • Change the existing office into a 4-star hotel (property hotel*). • Build a shopping centre for both tourists and local residents at approx. 18000 sqm in GFA at the podium in plot 3. • Build some residential blocks for both locals & mid-long term stay tourists.

Remark

* Property Hotel is hotel sold to the individuals with strata title, and then lease back the rooms to the developer who will look for an operator to operate hotel, while buyers) enjoy the owners(annual dividends certain number of days (usually 10-12 days) free stay each year. Hence, the developer can get the money return when the property hotel sold as serviced apartment.

5.4 Option One Development Mix

Development Mix

Site	Development Mix		Unit	Remark
	Distribution	Quantity	Sqm	
Plot 1.				
1.1	Serviced Apartment	286	Unit	The 6 th -26 th floor
1.2	Serv. Apt. lobby & facilities	Approx. 6,000	Sqm	At the apartment podium
1.3	Connection with retail	Approx. 600	Sqm	
Sub-total		32,000	Sqm	26 stories
Plot 3.				
3.1	Tourism related retail	12,000	Sqm	1-2 stories
3.2	Hotel	22,000	Sqm	Approx. 300 rooms
3.3	Serviced apartment	47,500	Sqm	Approx. 470 units
3.4	Car park	700-800	Lot	Basement
Sub-total		81,500	sqm	

Apartment Mix for Existing Pearl Tower		
Unit Size	Net Area Distribution	No. of Unites
100-110 m ²	20%	74
60-80 m ²	60%	170
40-50 m ²	20%	42

Apartment Mix for Future Development		
Unit Size	Net Area Distribution	No. of Unites
90-120 m ²	60%	About 244*
60-90 m ²	40%	About 228*
40-50 m ²	0%	

Apartment Sales Price Evaluation

Methodology:

Referencing from a project located at a key position in Sanya downtown, and some other projects located at the sea-front area of Sanya. All these projects' target buyers are nonlocal people. Then, compare the historical apartment transaction price of these projects at two locations to get a ratio.

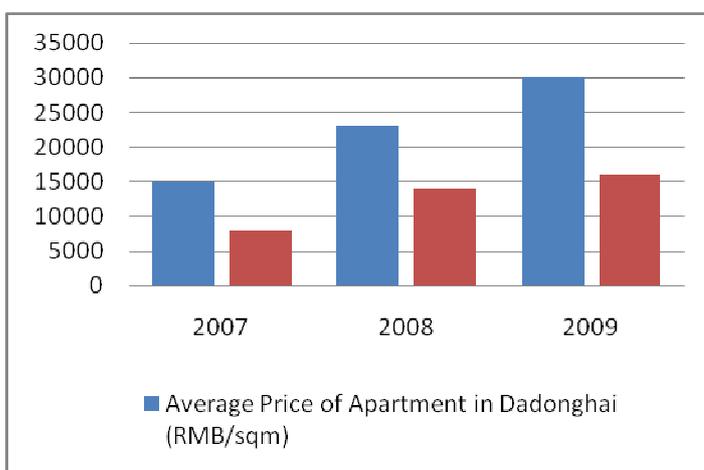
Applying the ratio in Sanya with the average apartment sale price of the projects in Pearl Coast, Lingshui, to derive the sale price in Lingshui downtown (subject site).

Introduction to the projects to be chosen in Sanya

Times coast: It is an urban renewal project, covering both banks of the Sanya River, with high floors apartments enjoying views over Sanya River, a five star hotel with tourism related retail and some other urban culture facilities. The apartments, hotel and retail were developed in 2003, and the culture facilities and a office tower will be built next year.

Shanhaitian Condominium & Serenity Coast are projects located at the Dandonghai area which is the traditional tourism coast closest to Sanya downtown. 3 blocks of Shanhaitian Condominium were sold out in 2007, and Serenity Coast is a large scale mix development project which has been on sales since 2007.

Serviced Apartment Sales price Evaluation



According to market study, the average price on Pearl Coast is about RMB 12,000/sqm, and for the subject site:
Average Price of $12,000 \times 56\% = \text{RMB } 6,720$ apartment.

According to the situation in Sanya, if we sell the holiday apartment in the form of property hotel, the average price can increase by about 20-25%, but at the same time we have to promise a fixed annual return to the buyer of about 6% of the total price in the first 5 years. So if the existing building is changed to a property hotel, the proposed sales price is within the RMB 8,000-8,400 per sqm range.

Because there is no tourism related retail operating in Lingshui, we can only refer to comparable cases in Sanya and then discount the expectation on the subject development.

Tourism related retail complex rental evaluation

The Operation Conditions of Tourism Related Retail Development in Sanya					
Name of Development	Tenant Mix	Positioning	Opening Time	Avg. Rental Value (RMB/m ² per month)	Leasing Rate
La Floret International Shopping Village	F&B, recreational, enter-	Mid-High	2007	1F : 150-300 2F : 70-90	70%

	tainment				
Times Coast Bars Street	F&B, Bars	Mid	2006	50-150	Above 95%
Ruihai Shopping Mall	Department Store	Mid-Low	2003	Street Front : 120-180 In shopping mall : 25-70	Around 60%

Considering Sanya has a much higher tourism volume than that of downtown Lingshui, a phased developing strategy for the subject retail development is proposed.

Proposed rental strategy for the subject retail properties unit: RMB/m² per month			
	Start up stage (3 years since opening)	Developing stage (between 4-6 years after opening)	Mature stage (7 years after opening)
Rental for 1 st floor	90-100	120-150	150-300
Rental for 2 nd floor (F&B)	50-60	60-80	80-100
Avg. Rental	75	100	130

5.5 Option Two Development Mix

Development Mix

Site	Development Mix		Units	Remark
	Distribution	Quantity	Sqm	
Plot. 1				
1.1	4-Star Hotel	Approx. 450	Key	The 6 th -26 th floor
1.2	Hotel lobby & other facilities	Approx. 6,000	Sqm	Within the podium
1.3	Connection with the retail	Approx. 600	Sqm	
Sub-total		32,000	Sqm	26 stories
Plot. 2				
3.1	Tourism Related Retail	18,000	Sqm	2 stories
3.2	Residential blocks	63,500	Sqm	Approx. 700 units
3.3	Car Park	800-900	Spaces	Basement
Sub-total		81,500	Sqm	

Room Size Mix Recommendation for Property Hotel & the Residential Blocks

Property Hotel Room Mix for Existing Pearl Tower		
Room Size	Net Area Distribution	No. of Units
70-90m ²	25%	70
Approx. 50 m ²	75%	380

Apartment Mix for Future Development		
Unit Size	Net Area Distribution	No. of Units
180m ² (duplex, 4-br)	3%	About 12
120-150m ² (3-br)	17%	About 80
70-90m ² (2-br)	60%	About 476
Approx. 50 m ² (1-br)	20%	About 254

Residential flat sales price evaluation

Methodology:

At present, there is no new supply of commercial residential properties in Lingshui downtown. Therefore, in order to evaluate the sales price of residential flat component of the subject project, a comparison with other comparable projects in other city's downtown area will be made. Projects in Sanya's downtown would not be suitable for comparison, since the city's development level of Sanya is higher than that of Lingshui. On this basis, comparable projects will be chosen from the downtown area of Wanning City, which is adjacent to Lingshui to the north.

Because the location of Lingshui is better than Wanning in terms of attracting tourists (Wanning is far away from the Sanya airport and not in close proximity to Sanya), it is assumed that after Pearl Coast becomes mature, the economic performance of Lingshui downtown and the tourist number there will exceed those of Wanning downtown. In addition, considering the location of the subject site is considered one of the best sites in Lingshui downtown, after location factor adjustment, the proposed price of residential flat for the subject development may be 15%-25% higher than the price of similar projects in Wangning downtown.

Residential Flat Sales Price Evaluation

Profile on Residential Projects in Wanning Downtown				
Project Name	Project Size	Fitting Standard	Target Buyers	Avg. Sales Prices (at Dec 2009)
Baoan Yelin Bay	GFA: 231,310 m ² 1000 unites	Simple Fitted	Both local residents and mid-low end tourists	3600-4200

Xinglong Linghai Hotspring Gargen	GFA: 3244m ² 406 units	Bare Shell	Tourists 70% Local 30%	3800-4100 4,900 (fitted)
Kaide Hillside Sea	Total GFA: 198000m ² 1113 units	Bare Shell	The retirees from China' cold region; local	2,950-3,500
Wanlilong Gargen	901 units	Bare Shell	Tourists 50% Local 50%	2900-3200

Considering the 10%-20% extra for location advantage, the residential price for the subject development is about: RMB 4000-4800/m²

Shopping Centre Development Suggestion

Tenant Mix	Market Demand	Market Gap	Market Trend	Market Competition	Proposed
Supermarket	✓		✓		3000 m ²
Department Store	✓	✓	✓		6000 m ²
Restaurant	✓		✓	✓	4000 m ² 1 Chinese rest. 2-3 fast food rest.
Recreational	✓	✓	✓		4000 m ²
Entertainment	✓		✓		Bars, café, cinema
Commodities Service	✓	✓	✓		1000 m ²

It is recommended that the shopping centre is built at the last stage of the entire development. The shopping centre targets the following markets: Lingshui local people & catering to the tourist market; local young consumers aged between 20-45 and trendy trends to attract fashion & trend conscious consumer groups.

5.6 Shopping Centre Rental Evaluation

Rental of a shopping Centre is largely dependent on the types of tenants it can attract. In terms of the subject retail development, at the start-up stage, the recommended average rental for the 1st floor is about RMB 70/m² per month and the average rental for the 2nd floor & above is about RMB 25-50/m² per month.

5.7 Options Evaluation

	Option 1	Option
Pros	<ul style="list-style-type: none"> ● Sales price for serviced apartment can be RMB 2200-2500/m² higher than regular residential flat (4400-4800 RMB/m² currently), despite being only RMB 1000/m² higher on the construction cost (for fitting out). ● All components can be sold out so that developer can withdraw from this project after sales. 	<p>Lower investment risk - a 4 star hotel is more suitable for the market and sold as property hotel will help to get the money return fast; for the future development, it is the first residential development with ancillary facilities in Lingshui, which will be able to attract both local people and long-stay tourists.</p>
Cons	<p>Higher investment risk – as serviced apartment sales will be slow before the maturation of Lingshui property market, despite property price is already on a very high level around the coastline area.</p>	<ul style="list-style-type: none"> ● Lower return - because of the lower sales price of residential component in comparison to serviced apartment component. ● Annual fix return to the buyers of property hotel will cut down the developer's profit. ● Difficult to sell the shopping mall as a development

Investment objective and risk appetite of developer are the 2 main consideration factors when selection the suitable option for this project.

Option 1 would be more suitable if the developer can bear higher risk for a longer term development in order to get a better return. Option 2 would be more suitable if the developer wanted to lower the risk with a lower return.

6 PROJECT CONCLUSIONS

The real estate and tourism markets in Hainan are interconnected; hence the vigorous development of the tourism market will lead to increasing demand for holiday properties.

Between the years 2004 to 2009, the total number of visitors to Sanya grew at 15% per year, with domestic visitor numbers increasing more quickly. In the first three quarters of 2009, because of the global economic crisis, the number of foreign visitors declined by 31.6%, while the number of domestic visitor increased 14.8%, which contribute to the steady growth of total visitor number.

On the other hand, the international profile of Sanya and Lingshui will be raised by a series of actions and policies to build the “International Tourism Island”.

A strong internal demand and the raise of international profile give us full confidence in the future development of Hainan tourism Lingshui is adjacent to the key tourism city tourism. Sanya, and the Pearl Coast is developing by some famous developers with their bright plans, so we also believe Lingshui’s future is bright.

The average price of holiday residential property have continued to record strong annual growth by 20-40% in the past 6 years in Sanya, and the sea-view property price has leveled or even surpassed the property price in some first tier cities in China. Forecasting showed that the property price growth may begin to slow down in current high level.

China central government has made 3 warnings in December 2009 on the soaring property price and announced measures to curb on the fast-rising housing price on 14 Dec 09. In short-term, these measures will stabilize the real estate market, but robust demand for Hainan property will continue to support price growth in the medium to long terms.

To conclude, it may be beneficial to the Client if the subject development was postponed to two years later or until Lingshui's property market has entered into a more mature development phase.

7 Bibliography

(1991). Economic reform and macroeconomic management. Teoksessa M. Blejer. Washington: International Monetary Fund.

China Daily. (21. 7 2010). Haettu 20. 8 2010 osoitteesta http://www.chinadaily.com.cn/dfpd/hainan/2010-07-21/content_602644.html

(2008). China economic & trade news digest. Hong Kong: China economic & trade news digest.

(2008). China economic forecast and outlook. Beijing: China economic forecast and outlook.

(2009). China economic review. London: Alain Charles Publishing Ltd.

China Real Estate News. (21. 6 2010). Haettu 17. 8 2010 osoitteesta <http://www.chinarealestatenews.com/news/2010-06-21/31583/>

(1995). Feasibility of improving market information in the APEC region. Singapore: Fisheries Working Group.

Greer, G. E. (1997). Investment analysis for real estate decisions. Shanghai: Shanghai Republic.

Hainan Statistics Bureau. (2007). Hainan Statistics of Year 2007. Hainan: Hainan Statistics Bureau.

Hainan Statistics Bureau. (2008). *Hainan Statistics of Year 2008*. Hainan: Hainan Statistics Bureau.

Hainan Statistics Bureau. (2009). *Hainan Statistics of Year 2009*. Hainan: Hainan Statistics Bureau.

Industries, C. C. (2005). *A Guide of Investment to Hainan Island*. Beijing.

(2003). economic & business representations in foreign countries and trade contacts handbook. Teoksessa I. S. Oleynik. Washington: International Business Publications,.

(2009). Statistical yearbook of Hainan. Hainan.

(2005). A research on real estate development in Hainan . Teoksessa X. M. Wei. Beijing: Beijing University.