

## **Gubei International Plaza Investors (GIP) – Rental Update**

July 18th, 2008

Shanghai Vision Asset Management (SVAM) Shanghai can confirm that the rental for GIP has been paid on time and in full to all investors for the first 12 month period even through this tough rental and credit tightening period.

This marks the end of the first year in a three year rental period between you and the Chinese rental management company, Belgravia Hotel Management Co. Ltd (Belgravia), set up to manage the GIP building.

Shanghai Vision Asset Management (SVAM) Shanghai wishes to notify you that it has experienced resistance and late payment of the rental during this first year period and has had to invest many resources into getting these fore-mentioned payments made.

### What happens next?

Shanghai Vision Asset Management (SVAM) Shanghai has enclosed a letter directly from Belgravia Hotel Management Co. Ltd (Belgravia). It is our reading of this letter without prejudice that the rental yield for the remaining 2 year period will be 4% and shall not continue as 6% yield. Otherwise, as stated by Belgravia Hotel Management Co. Ltd (Belgravia), their entity will go into liquidation. (Liquidation would result in a complete halt in any rental payments to zero)

Following independent research, it is the opinion of Shanghai Vision Asset Management (SVAM) Shanghai that the 4% rental yield offered is a strong yield in the current market for the GIP area.

### Next Steps

Shanghai Vision Asset Management (SVAM) Shanghai will continue to process rental payments made and credit them to your Shanghai bank account on your behalf. Please contact any solicitor in Shanghai of your choice if you wish to challenge this new rental offering as SVAM Shanghai feel they have exhausted every opportunity available on your behalf thus far.

*NOTE:* SVAM Shanghai is remunerated on a % of the gross rental income you receive. Therefore it is much incentivised to get the highest rental income paid for you as possible, as mentioned it is our opinion that the 4% yield alternative offered to prevent rental company liquidation, is strong for the GIP area.

Please check our website at [www.shanghaivisionassetmanagement.com](http://www.shanghaivisionassetmanagement.com) for updates about Shanghai, about your investment (s) and about us.



**Belgravia**

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## Dear all investors,

On behalf of Belgravia Hotel Management Co. Ltd (Belgravia), I convey our highest respects and greetings to you. Your properties in Gubei International Plaza have appreciated more than 30% since purchased. The occupancy ratio now is over 90% and all tenants are from Japan. Our professional services are highly praised and our brand has earned great recognition in the market.

Belgravia has managed the properties for one year and we will provide you the management report of last year and audit report from third party accountants. According to the report, you will find out we have paid more rental than received from tenants this year and the company has been running red due to high guaranteed yield burden. If we continue paying 6% yield to you, the company will go into bankruptcy in the next two years. The loss is mainly due to the following factors:

1. We estimated the rental would rise along with real estate price, and the daily rental would reach 0.65-0.7USD/sqm. But the current situation is that the real estate price is rising while the rental is dropping. The average rental now is about 0.45-0.5USD/sqm. The overall yield in Gubei area is about 3%, and the whole market in Shanghai has a lower yield.
2. Based on leasing contract, because the tenants are all Japanese, the rental should be paid by dollar. But, with appreciation of RMB, the real income has dropped by 10%.
3. The operating cost is 30% higher than two years ago.
  - a. As the whole Gubei phase II area takes time to mature, at early stage, we have to provide shuttle bus service and increase the utilization rate. With the soaring of oil price, the cost is increasing;
  - b. Due to the ever increasing high inflation in China, all materials and services are more expensive than before;
  - c. Labor cost has gone up by 20% as compared to two years ago
  - d. The professional and comprehensive maintenance services have gone up as well, such as laundry, satellite TV etc.
4. Japanese customers are loyal and always pay rental on time. They are usually long-stay residents and take good care of the property and its furniture. However, there is not much space to raise rental.

All the factors mentioned above have brought great loss to the company,



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despite the rich experience and excellent management team we have. Although the shareholders have increased the investment and borrowed money from bank to solve the problem, it is still difficult for the company to pay 6% yield.

After the careful evaluation and analysis, we can beat the market and offer our investors with better-than-market yield rate, however not higher than 4%. We wish all the investors can understand and support us. The rest two years, from July 1st, 2008 to June 30th, 2009, we will definitely try our best to guarantee 4% yield. If the market turns better, we will adjust the return to you. We have to solve the problem in this way now, or the company can't keep running, and the tenants will subject to the loss which is also not good for your benefit and property's value.

On the other hand, as the property has appreciated over 30%, we think that sell the property is an alternative way to hedge against risk.

Please accept our apologies and understand the severe situation we face. We will pay you 4% yield in the next two years and add value to the property with all our efforts.

Belgravia Hotel Management Co. Ltd

Managing Director David Wu

Date: 1<sup>st</sup> July, 2008