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Master of Science Thesis number 326

PROPERTY DEVELOPERS IN SWEDEN AND CHINA

A COMPARISON OF Besqab AB AND SUPERSHINE CO., LTD



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Stockholm, January 2006

Acknowledgements

Firstly, we are thankful to our supervisor Hans Lind for his guidance, support and valuable discussions during the period of this thesis.

To a great extent based on the interview for the Sweden of this study, We are grateful to Mr. Freddie Norvell of Besqab AB(Stockholm), for the Sweden part Li Sun and Qi Zhou, SUPERSHINE CO., LTD (Beijing), for their great helps in our work by providing the information of the firm and sharing their experiences of the subject matter. In addition, this thesis is partly inspired by the work “Property companies in Sweden and Germany: A Comparison of Vasakronan AB and Deutsche Bahn AG” which was done by Regina Hardziewski in 2003.

To one of the author, Fei Wang, there is a special thanks goes to my parents for their understanding and mental supporting me to take part in this Master Program, to my brother and sister in law as well to my friends Ming Fang, ZHUZONG REAL ESTATE DEVELOPMENT LTD (Beijing), Wei He SINA Corporation (China, NASDAQ: SINA) for their interests and supports during this thesis. Another author Yujing Yin would like to thank the precious help from his teachers, friends and all the great people met in Sweden. Also, this thesis dedicates my priceless treasure, my family.

Finally, we appreciate our efficient teamwork for this thesis and the encouragement between each other.

Stockholm 2006-01-28

Master of Science Thesis

Title: Property developers in Sweden and China (mainland):
A comparison of Besqab AB and SUPERSHINE CO., LTD
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Department: Department of Real Estate and Construction Management
Thesis Number: Master of Science Thesis No.326
Supervisor: Professor Hans Lind
Keywords: Property developer, Real Estate Industry, State Owned Enterprises

Abstract

This thesis tries to describe, compare and analyze two selected property developers, which are in Sweden (BESQAB PROJEKT & FASTIGHETER AB) and in China (SUPERSHINE CO., LTD). It is based on information about the firms, financial issues, general management issues and respective prospects of future under the background of each economy and market situations.

The comparison shows that the similarities between Besqab and SUPERSHINE are that they have no obvious financing problem; are maintaining their equity/debt ratio around 30% as an acceptable level; partly outsourced their business; taking advantage of the internet and IT technology; effectively managing operational risk and implementing successfully their development strategies under the respective economic situation and market features.

However, the differences between Besqab and SUPERSHINE are more than the similarities. The organization structure of Besqab is more decentralized and flexible than SUPERSHINE. The main financial figures of Besqab seem healthier than SUPERSHINE. SUPERSHINE has more financing channels due to its listed status and established its financial control system which does not systematically exist in Besqab. Besqab outsourced less part of their business because of its more diversified business. SUPERSHINE adopted the Balanced Scorecard as the more specific performance measurement and designed more training programs compared to Besqab. And SUPERSHINE seems to be more exposed to operational risk.

The conclusion demonstrates that the Besqab might expand its financing channels and systemize its financial control system. For SUPERSHINE, the changes in equity ratio should match with fluctuations in total asset, and the accuracy of decision making need to be improved, while the firm might swiftly expand its business to other cities.

PROPERTY DEVELOPERS IN SWEDEN AND CHINA:

A COMPARISON OF BESQAB AB AND SUPERSHINE CO., LTD

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1. Introduction

1.1 Background and Purpose

The communication between Sweden and China become more and more frequent these years in many aspects from daily tourism to business investment, from education to social affair, and from literature to traditional culture from TV to newspaper. The curiosity and seeking for opportunities drive the people to visit the two far and unfamiliar countries.

Sweden is a typical European country which enjoys one of the highest welfare in the world. Although the economy has developed strongly in the past years, Sweden still preserves many treasures in her history from the current globalization and negative culture unification. China is a typical oriental country with brilliant history which could represents the eastern Asian culture to some extend. As the economy has only developed two decades, besides the fast growth in GDP, the tradition from the past seems not popular any more and the people have paid heavy price for the mistakes that have been made. So it is quite necessary to learn their experience and lessons from the west where the modern economy is rooted.

The real estate is the mixture of culture, aestheticism, politics, macro economy and personal behavior. It is interesting to present and compare the two property developers under the each social system. The thesis aims to increases the understanding and communication of real estate development activities between Sweden and China. Besides that two selected property developers are compared in terms of financial, general management issues and future plan, the economy and real estate market are also compared in the thesis.

1.2 Limitation and Scope of the study

To the same kind of data, the two countries statistic authority departments use different angles and methods to collect, categorize, analyze and conclude them, which caused the authors difficulties to accurately compare the statistic data as well as describe and analyze the similarities and differences.

The channels of collection relative data and information are limited, therefore the comparable aspects, contents of the thesis and opinions of the authors are based on the obtainable resources and may not cover all the sides. Especially in chapter 7, the contents stem directly from the interviews of two firms, which reflected the first hand opinions of the insiders toward their own firms.

While capacity of the authors is limited and they have been studied both in China and Sweden, however, the time studied and live in China is much more than that of Sweden, so it is supposed that the authors' knowledge about China is also far more

than that of Sweden. The authors have taken their best efforts to avoid the information asymmetries of the two countries to write this relative impartial thesis.

1.3 Thesis structure

The 1st and 2nd chapters are the general prelude and methodology used of the thesis. The main contents start from chapter 3. In chapter 3, the economy and information of real estate markets in two countries are introduced and compares. From Chapter 4 to 6, the two selected firms are compared with aspects of organization, finance, and general management issues respectively. In the Chapter 7, the future plans and pros/cons of the two firms are presented. In the last chapter, the result of comparison is summarized.

2. Methodology

2.1 Primarily qualitative analysis with secondary quantitative analysis

In the whole thesis, we primarily applied the qualitative method to compare and analyze the different aspects which have been involved in the thesis, then drew the conclusions accordingly, while we adopted quantitative analysis as the secondary method to help us for analysis, especially in the place of related data comparison.

2.2 Data Source

The data that have been collected were through various sources. Factual data about the companies have been gathered from *documentation* including Annual Year Reports, company brochures and from websites of the companies as indicated in the list of references. Those company reports and brochures that are available on the Internet are specified in the list of references, otherwise they may be obtained directly from the company. Specific and sensitive knowledge regarded the companies in which little written information was available have been asked by personal *interviews* or in question by e-mail.

The companies that have been selected in the thesis are not chosen by scientific filtration; but mainly depend on the accessibility, availability and the amount of the information of the companies, which was a criterion of selection. The involved aspects for comparison were chosen because of importance and necessity.

Data concerning the information on economic situation and indicators are from web pages of Statistics Sweden (Statistiska Centralbyrån or SCB); The Central Bank of Sweden (Sveriges Riksbank) and the national bureau of statistics of China (NBS); International Monetary Fund (IMF); Industrial and Commercial Bank of China (ICBC); the Central Bank of China (the People's Bank of China, or PBC). The source of data concerning the situations of current real estate markets in Sweden and China stem from web pages of property market reports of leading real estate advises & consultancies firms and the reports published by the top non-profit academic institutes.

The other source of data comes from dictionaries, related books and articles as well as search engine of Internet such as "Google" by inputting the keywords.

All sources of information are shown in the list of references at the end of this report.

2.3 Currency Exchange

Due to the different currencies between the two countries and the changeable exchange rate in the real world, and according to the long term observation, we decide to adopt the exchange rate between SEK and RMB is 1 to 1 in order to make the monetary data comparability and can be easily understood in the whole thesis and all of the monetary data have been unified as SEK form.

3. Comparison of Real Estate Market

3.1 The Sweden's Real Estate Market

3.1.1 Overview of Swedish Recent Economy History



Nowadays, the kingdom of Sweden is one of the world's most highly developed post-industrial societies and defined by liberal tendencies and a strong national quest for equality, and usually ranks among the top nations about its enviably high standard of living. Its national territorial area is about 450 thousands square kilometers and the population is near 9 millions.

In the early 1990s, the Swedish economy suffered from a severe recession which was caused mainly by a real estate bubble, a major crisis in banking and the cost crisis in companies exposed to international competition. Sweden government had taken actions in order to stabilize the economy including the depreciation of Swedish kronor and offering the opportunity to increase the output. After continuous adjustment, since the mid-1990s the export sector has been booming, acting as the main engine for economic growth. Swedish exports also have proven to be surprisingly robust. A marked shift in the structure of the exports, where services, the IT industry, and telecommunications have taken over from traditional industries such as steel, paper, and pulp, has made the Swedish export sector less vulnerable to international fluctuations. Near the new millennium, affected by the reduction of telecom industry and gloomy global economic growth, the Sweden economy once more experienced a minor downward shift and until now it is still in the process of recovery.

3.1.2 Current Sweden Economy and Economic Tendency Indicators

The Swedish economy is a very open economy with a large scale of international trade, so it has a relative strong correlation with the global economy, in 2005 the global economy is expected to continue to grow and the growth is estimated at approximately 4 per cent. Low interest rates, high corporate profits and stronger developments in the labor market result in both investment and household consumption driving global growth. Inflationary pressure is expected to continue to be subdued in the near future. The international risk assessment is, however, not balanced and the probability of weaker growth than expected is greater than the probability of stronger growth.

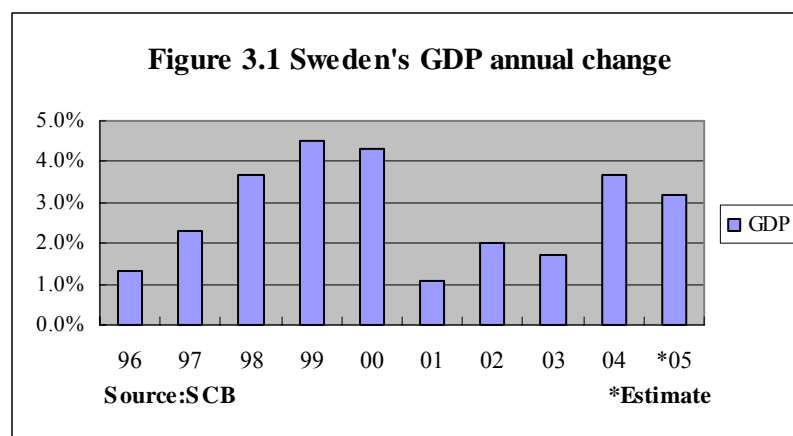
Firstly, oil price rises and the large current account deficit in the United States still constitute the largest threats to growth in the global economy and these risks is likely to persist throughout the next year.

The export-led economic upturn, which began in the euro area during the summer of 2003, was weakened considerably during the second half of 2004. Weaker global growth combined with the appreciation of the euro contributed to exports slowing, and GDP grew by only 2.0 per cent. In 2005, increasing domestic demand is expected to gradually lead to stronger growth, but the growth rate is estimated at only 1.6 per cent this year.

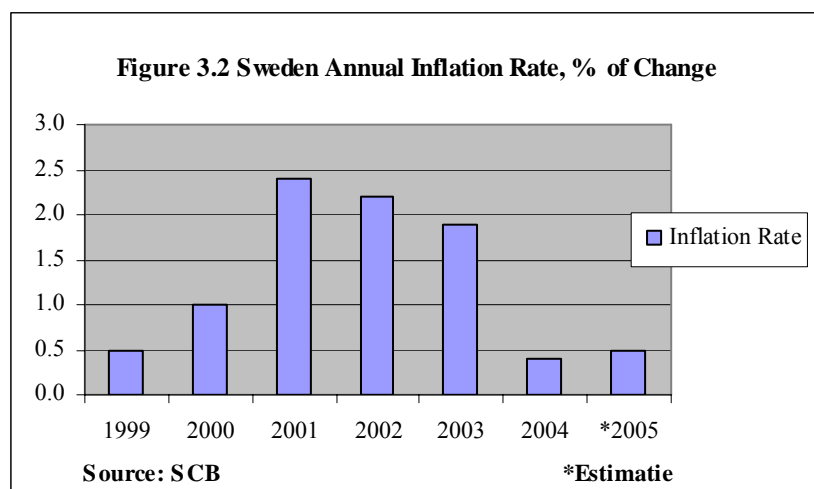
Sweden's GDP growth rate is estimated at 3.2 per cent in 2005 by Statistics Sweden (SCB).

Economic Indicators

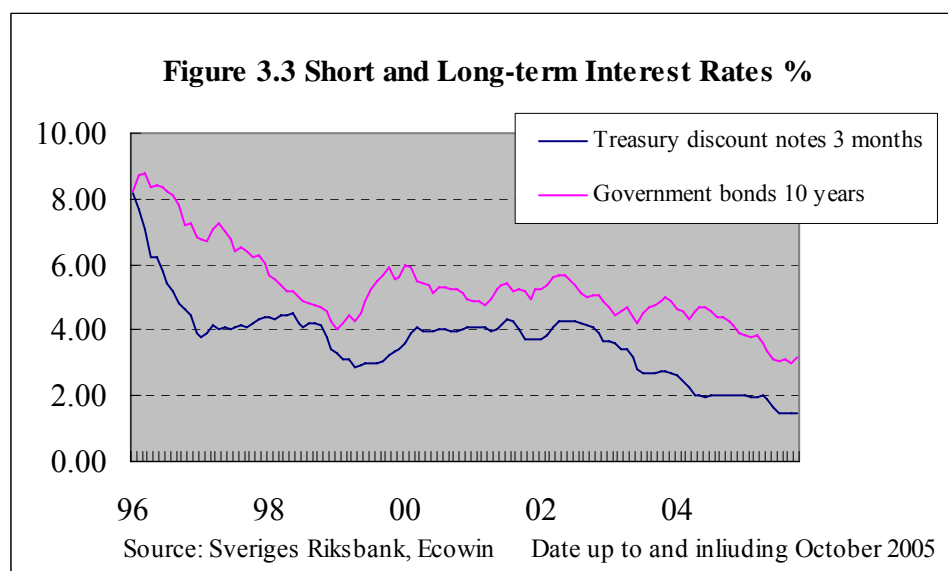
GDP



It is very clear that the Swedish Economy presents a cyclic characteristic during the last decade, and it reached the ceiling in 1999 by the 4.5% growth rate, and because of the burst of the IT bubbles, the economy slowed its steps a little in a few years, the growth rate of GDP slumped after 2000 to only 1.1%, but never stopped to grow. Nowadays it shows the brightening signal under the background of the global economic continuing growth. The Swedish economy is estimated to grow by 3.2 per cent in 2005. Export growth is slowing, but it is expected to make a large contribution to GDP growth in 2005 as well. Domestic demand will, however, play an increasingly important role for growth in 2005. Investment, which began growing rapidly in 2004, is expected to grow at a high rate in 2005.

Inflation Rate

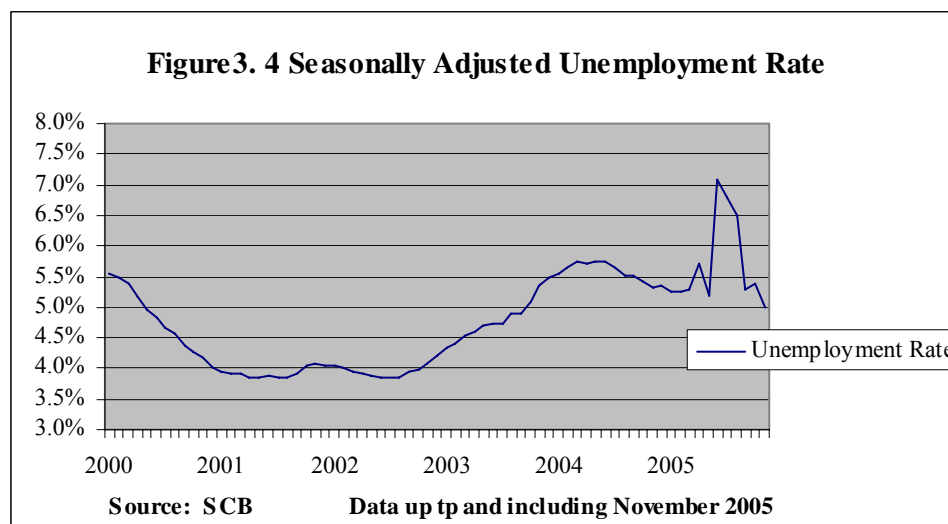
From 1999 to 2001, the inflation rate, measured by the Consumer Price Index (CPI), climbed up gradually, and in the greater part of 2001 and 2002 it exceeded the Riksbank's target of 2 per cent, then after 2001, the rate of inflation has been characterized by a downward trend, especially in 2004, as can be seen in the diagram, it dropped rapidly, and was lower than expected, and it is forecast to continue to be lower than 1 per cent during 2005.

Short-term and long-term Interest Rates

The trend of 3-month treasury notes and 10-year government bonds decline, although there are a few fluctuations during the 10 years. The interest rate of the government bonds drops from the top of 8.76% to the bottom of 3.11%, and the interest rate of the

treasury discount notes also decreases apparently from 8.19% to 1.49%. Expectations of an increase in the interest rate have been postponed in the wake of continued low inflation and weak developments in the labor market. Inflation is significantly below the Riksbank's inflation target and the Riksbank has forecasted to rise in 2006.

Seasonally Adjusted Unemployment Rate



N. B. The reason why there is a suddenly changing in 2005 is that in April 2005 a new EU-harmonized Labor Force Survey (LFS) was introduced. This caused a break in comparability over time. In the graph above, data from the new LFS is included as of April 2005.

The unemployment rate decreased from 5.5% in 2000 to below 4% in 2001, but swung up little by little from 2001 till the first half of 2005. The authors can not compare the figures after April 2005 with before, because the a new EU-harmonized Labor Force Survey (LFS) was introduced in the second half of 2005, however, during this period, the unemployment rate firstly climbed up quickly, then slumped dramatically to nearly 5%. The labor market is expected to be strengthened due to (1) strong domestic demand fuelling recruitment needs in the service and construction sectors; (2) rising employment in the local government sector and an increased number of places in labor market policy programs, and unemployment is forecast to be 5.0 % in 2005 and the increased size of labor market policy programs will contribute to falling unemployment rate in the future, but there still are some arguments in this field whether the people in the labor market policy programs should count as the employment, if they were not be accounted, the unemployment rate would be higher in Sweden.

3.1.3 Swedish Real Estate Market

3.1.3.1 The characters of Sweden real estate market

After many years development, Sweden combined with other Nordic countries have formed a mature property market, especially for its property investment market which is among the largest in Europe. And by far it is the largest in the Nordic region, accounting for 50% of the total commercial property value, and Stockholm, Gothenburg and Malmö are the major Sweden's property markets.



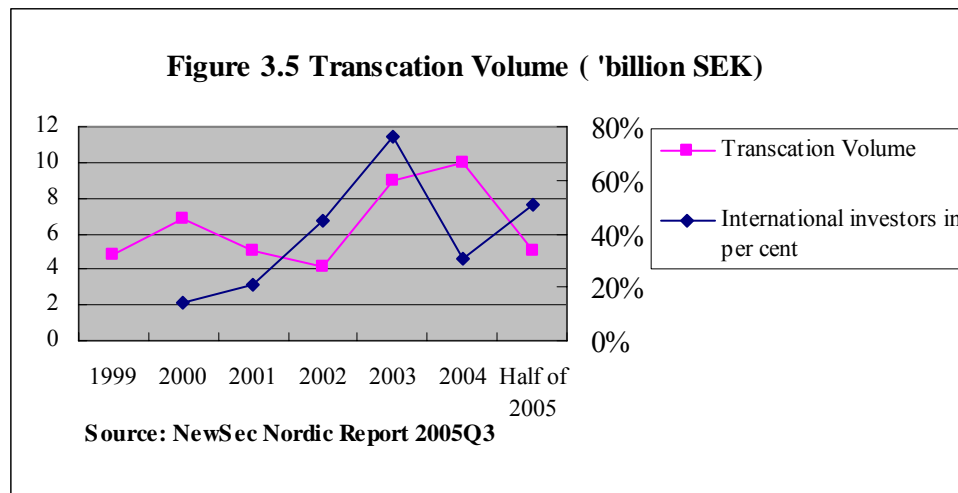
Several characteristics or advantages have made the Swedish property market attractive.

- Combination of low transfer taxes and relatively low costs for tax, legal and other advisory services.
- High market transparency, the legal system is uncomplicated and well established and market information is easily accessible, taking examples: the SFI/IPD property index that further enhances the transparency of the market; the online property database Datscha (www.datscha.com) which is a reliable public information sources,
- Good market liquidity, with a turnover exceeding 15% in Sweden during recent years.
- Good access to property financing

3.1.3.2 Foreign investment accounts for a significant share of market

The total transaction of Swedish property market in 2004 is approximately 93 billion SEK (EUR 10.2 billion). Office, retail and logistic portfolios, as well as large residential portfolios in Sweden, are all segments that are attracting investors. The inflow of FDI (Foreign Direct Investments) to the Swedish property market is the third-largest in Europe. International investors play an increasingly significant role in this investment activity but since 2004 have experienced harder competition from

domestic investors and therefore only accounted for 31% of total property investments in Sweden. In 2003, they accounted for approximately 76% of total property investments in Sweden, an increase from 45% in 2002, 21% in 2001 and 14% in 2000. International investors with total transaction volume of 50 billion SEK have accounted for about 51% of investments up to June in 2005, which indicates that the strong interest in the Swedish property market continues.



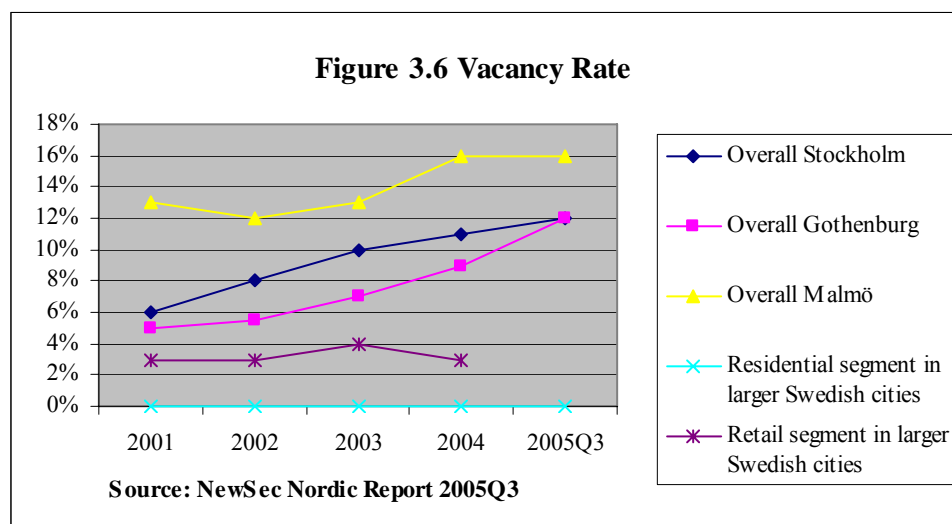
3.1.3.3 Supply could not satisfy the demand for residential property, while the vacancy climbed up in recent years for commercial property

Vacancy Rate

During the recent nearly 5 years, the trend of overall vacancy rate in the main three Swedish cities is climbing-up. The diagram below has showed it clearly.

In the residential segment, most of the major cities have very low vacancy rates, in many cases close to zero. This lack of supply is one reason for that.

In the retail segment, the vacancy rate for retail properties in general has never exceeded 5% during the 5 years, and is relatively stable. The supply of vacant premises is very limited both in big-city shopping centers and in attractive areas in smaller cities.



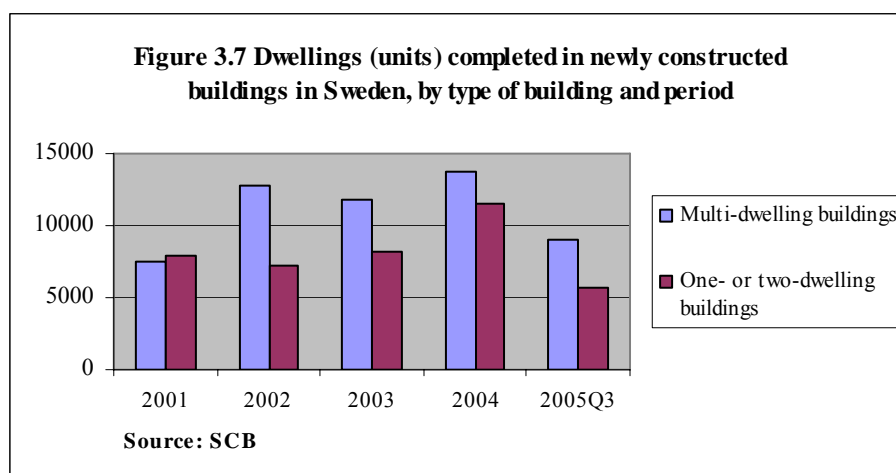
Office space

In Great Stockholm area from year 2001 until 2003, construction activity was high, primarily in Central Stockholm and in prime suburban locations. 260,000 m² of new office space was completed in 2002 and approximately 190,000 m² in 2003. During 2004 the construction activity in Greater Stockholm was lower, a total of 100,000 m² being completed, and the volume of the new supply of office space is much lower further for 2005 than for 2004, are estimated to less than 20,000 m².

In Gothenburg, the construction of new office buildings was significant in 2003 when approximately 110,000 m² was completed, however in 2004 the figure was lower, approximately 30,000 m², and it becomes worse in 2005, only 4500 m² office building has been completed.

In Malmö, building activity has been at a low level during the last five years, with an average yearly new supply of approximately 18,500 m² of office space. Developers are somewhat cautious regarding new construction due to the uncertain business cycle and the changes in office demand, and almost no new construction has been built speculatively. The start of several projects is also dependent on the estimated completion date of the train tunnel, called Citytunneln, in 2011.

Residential property

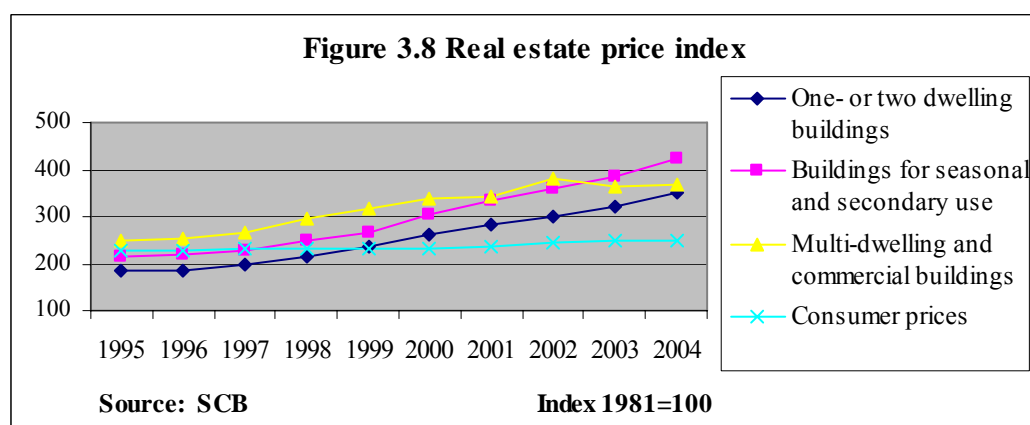


Despite an increase in construction of residential properties in recent years except the construction for one or two-dwelling building in 2002 and for multi-dwelling buildings in 2003 were a little smaller than their respectively last year, production is low and not in line with increases in demand. The total number of newly constructed residential units was approximately 25,000 in 2004, which is the highest number since 2001. However, it still does not cover the strong demand, because the yearly average population increase since 1993 has been approximately 24,500, but rose to 35,700 in 2004.

Retail Property

The market for retail property continues to expand. New supply is high and up to 2010 is expected that 900 000 m² of retail park stock will be constructed and for shopping center the figure is 470 000 m².

3.1.3.4 Property Price soars generally, especially in residential property



The property prices for one or two-dwelling buildings and building for seasonal and secondary use increased moderately and steadily in recent years, however, the price for multi-dwelling and commercial buildings has a little fluctuation, especial in 2003

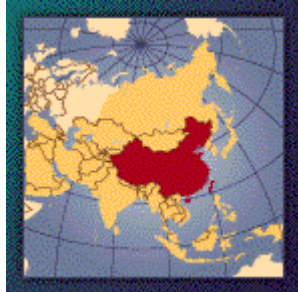
and 2004, there was slightly downturn.

3.1.4 Real Estate Developers in Sweden

The Swedish property developers can be classified into 3 groups in term of their sizes. The first class firms are listed international gigantic developers, such as NCC, Skanska, Peab and JM. Only a few developers are qualified to the first class, but they dominate most of the projects in Sweden. Although the main business is undertaken in Nordic countries, they have already extended their branches to the rest of Europe and the world. The second class developers are smaller than the first class and they concentrate on domestic market, while only a few projects are developed in the neighbor countries. The firm chosen and introduced in this thesis can be classified into the middle size class. The third class is much smaller and usually only a few people work within one firm

3.2 China's Real Estate Market

3.2.1 Overview of China's Recent Economy History



China is the largest developing country in the world, having a total land area of 9.6 million square kilometers and population of 1.3 billion. In the past fifty years since its foundation, the ruins of war have given rise to large-scale economic construction, and the country had attracted worldwide attention.

Since 1978 the People's Republic of China (PRC) government has been reforming its economy from a Soviet-style centrally planned economy to a more market-oriented economy, whereas the system operates within a framework of government control to some extent. This is called "Socialism with Chinese characteristics" and is a type of mixed economy. The economic influence of non-state organizations and individual citizens has been steadily increasing. The authorities switched to a system of household and village responsibility in agriculture in place of the old collectivization, increased the authority of local officials and plant managers in industry, permitted a wide variety of small-scale enterprises in services and light manufacturing, and opened the economy to increased foreign trade and investment. The result has been a quadrupling of GDP since 1978. Measured on a purchasing power parity (PPP) basis, China in 2004 stood as the second-largest economy in the world after the US, although in per capita terms the country is still poor.

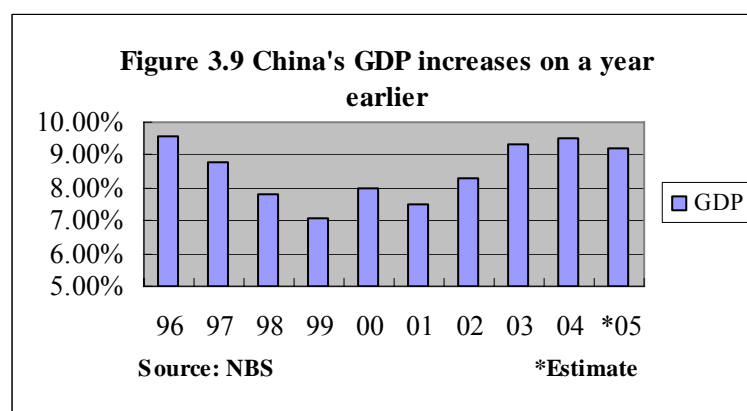
3.2.2 Current Chinese Economy and Economic Tendency Indicators

In the recent two years, China's economy experienced the soft landing and policymakers do seem to be preparing to shift its approach to economic growth. And the China's central bank (the People's Bank of China) raised interest rates for the first time during nine years in the late 2004. It means that the central bank would adopt the tightening of monetary policy. On the July 23rd, 2005, China Central Bank abandoned the yuan's peg to the dollar, which made China have a large of trade surplus since 2002, and introduced a link to a basket of several currencies mainly because of the pressure from the US.

Although there are many challenges, China's planning agency announced that GDP had grown at an annual rate of 9.4% in the first nine months of 2005, causing it to raise its forecast for the full year to 9.2%, from 8.8%. The agency also predicted a record trade surplus of \$79 billion for this year, more than twice last year's, even though the export growth rate has slowed somewhat.

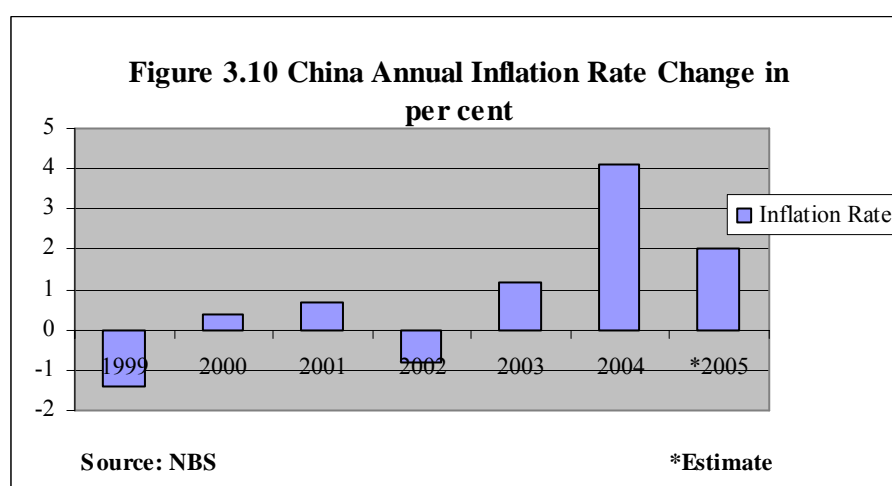
Economic indicators

GDP



The Chinese nominal Gross Domestic Product (GDP) growth fluctuated during the ten years, and there was a bottom between 1998 and 2001. Reasons for these are that the Asian financial crisis affected the Chinese economy, for example the currency (RMB) value has been maintained by the government, which caused the export fall, and many other domestic problems resulting from economic reforming such as employment pressure due to the resettlement of off-job works from state-owned enterprises (SOEs). Despite all of the problems, the Chinese government improved investment quality, stimulating effective demand in the expanding domestic market; for example, actively promoting the reformation of the house system in order to stimulate housing construction and increasing export activities, so after 2001, the economy situation turned up, and the increasing rates of GDP are relatively stable.

Inflation Rate (CPI)

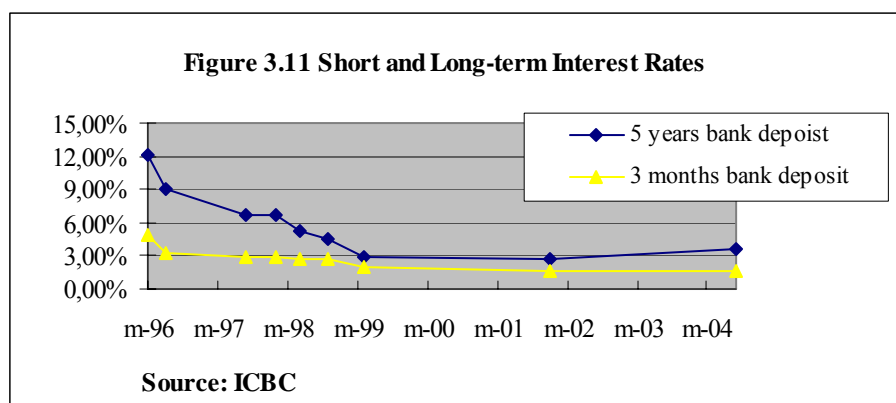


The inflation rate fluctuates slightly from 1999 to 2003, and there were two times minus figures in 1999 and 2002, then it increased rapidly in 2004 due to overheat

investment in fixed asset, after restrained the lending and investment by the new central government policies, inflation rate has dropped and been estimate near 2% in 2005.

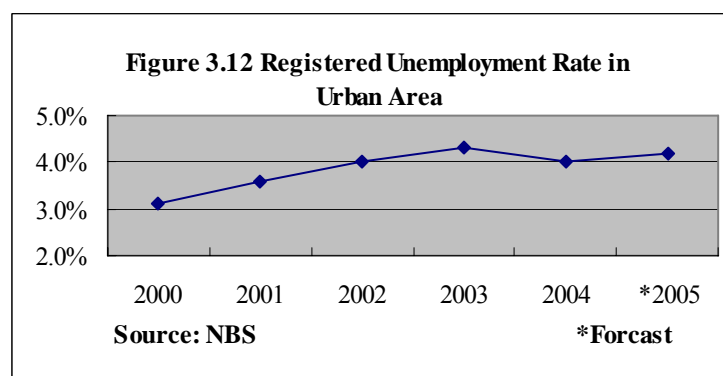
Short-term and long-term Interest Rates

3 months bank deposit (short-term interest rate) and 5 years (long-term interest rate)



The short-term and long-term interest rates have experienced 7 times. They declined from short-term of 4.86% and long-term of 12.06% in May 1996 to 1.71% and 2.79% in Feb 2002 when it touched the bottom of the history, and for the first time the Central Bank of China increased the interest rate of long-term to 3.60% in Oct 2004, the short-term, however, is no changing. Now both of them are forecasted to rise in the futher.

Registered Unemployment Rate



The number of people who are employed by the state-owned enterprises (SOEs) and urban collective-owned enterprises (COEs) decreased in recent years, so this causes the registered unemployment rate in urban area to rise gradually except in 2004. The registered urban unemployment rate at the end of 2005 is expected to be 4.2 percent, according to the report of China's development plan [3rd Quarter, 2005].

However, there is a serious weakness in the statistics, a method used by the National Bureau of Statistics of China (NBS), the Chinese unemployment rate adopted urban registered unemployment index, which those who registered with the government were included in the unemployment figures, but excluded most of the unemployed residents that failed to register, especially the rural labors, If NBS used the investigation method which are widely adopted by the international practice, the Chinese unemployment rate will be expected twice as high as the one currently provided.

The good news is that Chinese government will announce its unemployment rate using the investigation method starting from the latter half of next year to replace the current urban registered unemployment index.

3.2.3 Current Real Estate Market

3.2.3.1 The characteristics of China's real estate market

Having experienced twenty years development, the real estate market of China is still an immature market and at the beginning period of development. Due to the weak economic foundation and uneven development, the major property markets are located in the eastern and coastal areas and the main cities, where the market value of the properties account for the majority of the value in China's real estate market.

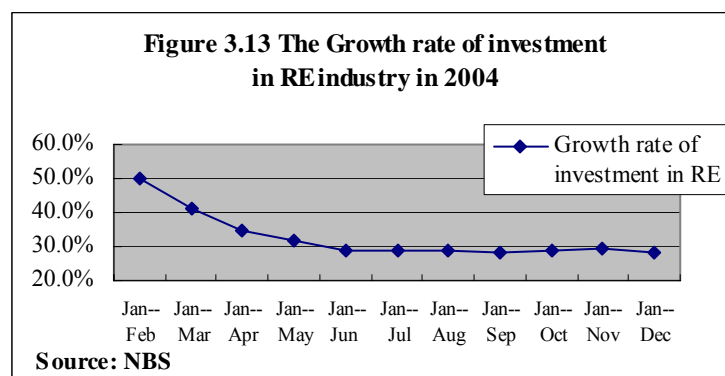


The most characteristics or attractive aspects of Chinese real estate are:

- Relatively stable economic situation compared to other developing countries.
- Huge potential demand for commercial, logistic and residential properties.
- Multi-centered structure with several diversified economic regions
- Low human resources cost for construction.
- Expectation of Chinese currency (renminbi or RMB) appreciation.

3.2.3.2 Growth rate of domestic investment in RE industry declines a little and overseas fund entered into the hot regional property market

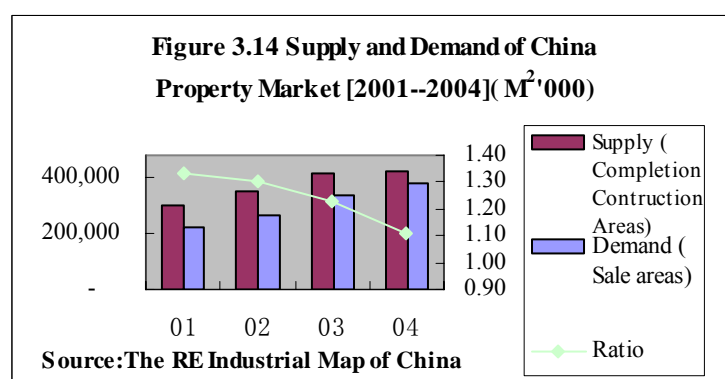
Domestic investment in RE industry in 2004 amounted to SEK1.3158 trillion, which is more 28.1% higher than the last year, however the growth rate in 2004 declined with 2.2%, compared to the figure in 2003. In addition, the growth rate of investment in RE industry from Jan to Dec in 2004 decreased dramatically. So the tendency of investment in RE industry is predicted to decline slowly in the future.



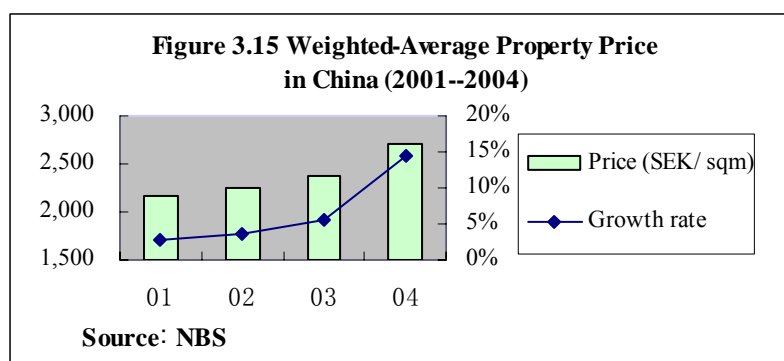
On the other hand, China has been absorbing the largest amount of Foreign Direct Investment (FDI), compared to other developing countries, during the last twenty years, however until July 2003, FDI did not enter into RE industry in a large scale. Fund of Morgan Stanley Realty is the first foreign fund, which invested in office property in Shanghai. And FDI increased by 22.5% to SEK 14.26 billion in RE industry in 2004, but it still only accounts for approximately 1-2% of the total investment in China RE market.

3.2.3.3 Close to equilibrium between supply and demand on the property market

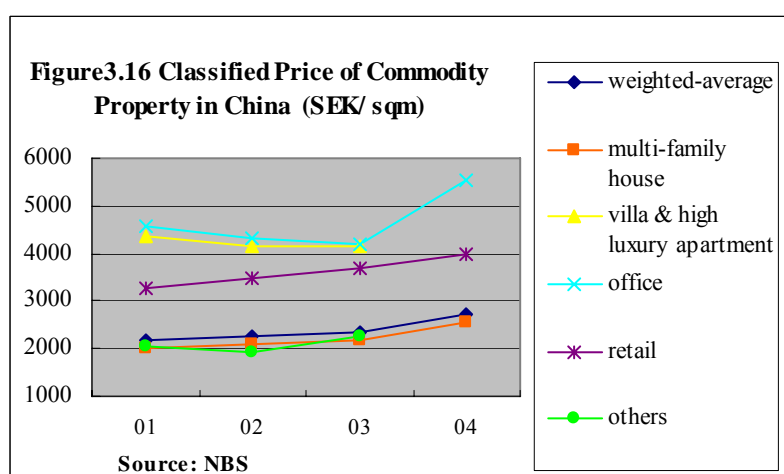
The growth rate of supply of property has decreased, while the growth rate of demand of property becomes stronger, which makes the supply and demand near the equilibrium. The ratio between supply and demand of the property market declined from 1.33 in 2001 to 1.11 in 2004, the gap between the supply and demand continues to decrease, and the consumption is prosperous from 2001 to 2004.



3.2.3.4 Property price soars, especially in Office and family-house market



The weighted-average price of property grew rapidly; especially in 2004 it increased by 14.3% year-on-year. And the office market there was an unpredictable rise in the view of the whole, other type of properties rose gradually except the villa & high luxury apartment.



3.2.4 Real Estate Developers in China

There are approximately 37 000 property developers in China at the end of 2003, and they are classified into 5 ranks in term of their own qualities and scales that the projects had been developed by them. Among them there are 413 the 1st class property developers, which only accounts for 1,21%, and 2989 the 2nd class property developers, which are nearly 10%, the rest are all the 3rd class, 4th class and undetermined class developers which are really small scale or new ones.

Among the 413 the 1st class property developers, only 58 of them are listed developers in China, while all the projects developed by them are in China and none of them are international developers.

Listed Real Estate firms

Firstly, looking briefly at the short history of China's Stock market, in 1989, Chinese government decided to establish two national stock exchanges. The Shanghai Stock Exchange (SHSE) was inaugurated in December 1990, and the Shenzhen Stock Exchange (SZSE) opened in April 1991. Up to now, SHSE and SZSE list more than 1,400 companies with a combined market capitalization of SEK 4 trillion (2005) (30% of GDP), rivaling the Hong Kong Stock Exchange as Asia's second-largest stock market behind the Tokyo Stock Exchange.

The selected firm in the thesis lists in SZSE, so it is necessary to introduce more about SZSE. It includes 543 listed companies, Stock market value amounts to SEK 906.82 billion, up to November 2005 average P/E Ratio is near 16, however, the initial public offering (IPO) activity in SZSE was suspended from September 2000 as the Chinese government pondered merging its bourses into a single exchange in Shanghai and launch a Nasdaq-style second board in Shenzhen. And on August 2004, the China Securities Regulatory Commission (CSRC) has approved the proposal and SZSE became the board serviced for small and middle enterprises (SME) with well-defined core business and hi-tech contents.

There are 58 real estate firms are listed on the SHSE and SZSE by the end of November 2005 (China mainland, the listed real estate firms in Hong Kong, Taiwan and Macao are not counted). Among these 58 firms, there are 28 A-share (which is only for the domestic legal investors for trading) firms and 4 B-share (which is offered and traded on the Exchange, which designates domestic or overseas securities dealers as specially licensed brokers to accept foreign investors' consignment for trading) firms listed on the SHSE, and there are 22 A-share firms and 4 B-share firms listed on the SZSE. The chosen firm in this thesis is an A-share listed firm on the SZSE.

3.3 Comparison of Real Estate Market

3.3.1 Economy Situation



| |  Sweden |  China |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Basic situation | National territorial area 450 000 square kilometers Population 9 millions | National territorial area 9 600 000 square kilometers Population 1,3 billions |
| Economic situation | International risk weakens Swedish economy growth Swedish economy in recovery phase after the downturn | The global economy have a increasing effect in China Keeping a relatively stable economic growth rate |
| Economic indicators (2005) | | |
| Growth rate of GDP, % | 3,2 | 9,2 |
| Inflation Rate,% | 0,5 | 2 |
| Short-term interest Rates % | 1,5 (3 months) | 1,7 (3 months) |
| Long-term interest Rates % | 3,2 (10 years) | 3,6 (5 years) |
| Unemployment rate in % | 5 (higher in reality) | 4,2 (8-9 in reality) |

Table 3.1 Comparison of current economy situations in Sweden and China, 2005

Sweden is a rich and post-industrial country compared with a still poor and young market-oriented economy country of China (GDP per capita in Sweden is about 25 times of China in 2004). However, the Chinese economic growth in recent years is considered as a miracle to the world. The average GDP growth since new millennium is around 8% compared to 2,7% in Sweden. Secondly, Sweden tracks the global economic closely and more rapidly reflects the external volatility, while China often intervenes in the economy by the macro policy when the outside changes. In recent years, the inflation in Sweden fell noticeable from over 2,4% to around 0,5%, while it fluctuated around 2% and even showed a deflation in a few of the previous years in China. Furthermore, the interest rate in Sweden down-swung continuously, while in China it raised a little but still maintained in a low level. Last but not the least, due to the previous statistic method used, the current unemployment in China is severely underestimated; the actual unemployment is much higher than it is in Sweden.

3.3.2 The real estate market



| |  Sweden |  China |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Real estate market | | |
| Characters of real estate market | <p>Low transfer taxes and costs</p> <p>High market transparency and market information</p> <p>Good market liquidity</p> <p>Good access to financing</p> | <p>Relatively stable economic situation compare to other developing countries.</p> <p>Huge potential demand for commercial, logistic and residential properties.</p> <p>Multi-centered structure with several diversified economic regions</p> <p>Low human resources cost for construction.</p> <p>Expectation of Chinese currency (renminbi or RMB) appreciation</p> |
| Investment | FDI accounts for 50% of the transations | FDI only occupies 1-2% the volume of investment |
| Demand and supply | <p>Vacancy Rate In the residential segment, the vacancy rate is nearly 0 In the retail segment, the vacancy rate is below 5% In the overall , the vacancy rates are different in different cities, the trend is increasing in recent years and fluctuates between 12% to 16% in 2005</p> <p>Office space The construction activity for office becomes lower and lower in recent years in the main cities</p> <p>Residential property The supply is lower than the demand</p> <p>Retail Property The supply is still rising</p> | <p>The ratio between supply and demand of the property market declined from 1.33 in 2001 to 1.11 in 2004</p> <p>It indicates that the demand and supply more and more close to the equilibrium</p> |
| Property Price | <p>The price index of multi-dwelling and commercial buildings has a slight downturn</p> <p>The price index of one or two-dwelling buildings and building for seasonal and secondary use are growing</p> | <p>The weighted-average price of property grew rapidly and in 2004 it reaches nearly 2700 SEK per sqm.</p> <p>In office market there was an unpredictable rise in the view of the whole, and the average price of is about 5700 SEK per sqm.</p> <p>Other type of properties rose gradually except the villa & high luxury apartment, such as the average mutli-family house price is nearly 2500 SEK per sqm in China.</p> |

Table 3.2 Comparison of real estate market in Sweden and China

Concerning the characteristics of the real estate market, Sweden and China present totally different pictures for each. Sweden shows its mature and efficient property market with the high market transparency, liquidity and quality information or the low transfer costs, on the counterpart, China presents its great attractive market potential in the market scale, the human resource cost for construction and currency revaluation.

There are different definitions at the investment part for the countries, the investment in Sweden means how much capital invests in the properties that have existed in the market since its property market has been developed, therefore, the investment is a transaction volume. However, in China property market is at the beginning of a development period, so the term of investment means how much capital have been used for the land exploited and building construction, so it is not a transaction volume, but an actual capitals utilizing volume. Therefore it is not so more significant to compare these two volumes by figures, but the changing rate is more important for the two kinds of investment, because it can indicates the gravity of the market activity.

In addition, the Swedish property market is much more international than China's, the FDI (Foreign Direct Investment) accounts for a substantial portion of total transaction in RE industry in recent years in Sweden, especially in 2003; in that year 76% of total investments come from oversea country, such as the Germany, UK and USA. However, until now, this percentage of FDI invested in China is trivial, which is just 1-2% of total investment volume, and the investors mainly come from Hong Kong, Taiwan or USA, who have studied the Chinese market for a long time. And the foreign investors for different countries have a strong regional character.

From the table 3.2, it is very hard to compare with the aspect of demand and supply in both countries directly, because the two countries statistic authority departments, leading real estate advises & consultancies firms and the top non-profit academic institutes do not use the same angle to collect, categorize, analyze and conclude the same kind of data. The Swedish part presents much more specific information, such as the vacancy rate, than its Chinese counterpart; because they have classified and arranged the data by the property type and area, which make them easily analyzed and can be drawn much more accurate conclusions. While the Chinese part only adopt a general ratio, which the authors can find, between supply and demand of the property market to indicate the trend of supply and demand in the property market.

Not is it easy to compare to each others directly in this aspect, the authors still can deduce something from two sides, the property markets in the two countries are in different phases of business cycle, the situation in Sweden seems at the bottom of the cycle and predicts that it will enter into accelerating recovery phase. On the counterpart, property market of China has reached its top, the general ratio of supply and demand decreases and more close to 1, the equilibrium point, than before.

The figure of property price in Sweden is much higher than that in China, if only compared by the numbers.

From 2001 to 2004, the price of commercial property fluctuated a little in Sweden and can be seen as the tiny amplified inflation (CPI), while the price of residential property increased 20% approximately. In China, the weighted-average property price raises 25% in the same period, especially the price of residential property increased dramatically.

There are two opposing explanation of the increasing property price in China. Morgan Stanley Realty predicts that a big bubble existed in current China real estate market, especially in a few big cities. The property price growth in China is not based on stable economic factors; the growth of property price is much faster than that of households' disposable income; too many speculative behaviors in the real estate sectors are reflected by the high turnover rate. Meanwhile, some researchers argue that the huge demand for housing caused by the population base number would continue in the future and the government has adopted more strict land supply policy, which will lead to prices soaring.

Nowadays, property price in Sweden fluctuates in a relative normal level. The investors have learnt many lessons from the real estate crisis in early 1990s; they are more rational and discreet to the investment in real estate sector than investors in China who take most efforts to pursuit excessive profits; the banks also perform their roles correctly to the borrowers in case of avoiding the same mistake as in early 1990s. By far there is no obvious signal of change in the market and most people believe that there is a stable market without bubbles.

3.3.3 Real estate developers



| |  Sweden |  China |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Real Estate Developers | They have been classified into three group by theirs sizes, and there is no clear statistic data to record how many property developers there are in Sweden | They are classified into 5 ranks in term of their own qualities and scales that the projects had been developed by them, and there are approximately 37 000 property developers in China |

Table 3.3 Comparison of real estate developers in Sweden and China

The rank of property developer in Sweden has three classes, however there are five in China, and although there is no clearly statistics about the number of developer in Sweden, it should be lower than the number in China. Furthermore, none of the Chinese developers is an international one. On the counterpart, there are several international gigantic property developers in Sweden, and so the general qualities of

the property developers are probably better than China.

3.3.4 Records of Market performance


For each country, there is an index that records the market performance. Found in 1997, the Swedish Property Index and Investment Property Database (SPI/IPD) offer property owners key market statistics and a yardstick to measure their portfolio returns against, which makes it possible to compare property investment with other asset classes, such as equities and bonds as well as property markets abroad.

In China, there is not a uniformed index like SPI, which could present the yield clearly and compare with other assets. But there are many unofficial indices such as Zhong Fang Index, Soufun Index, and the monthly Domestic Property Prosperity Index (DPPI), which track the trend of real estate market movement and frequency of market activities. However, these types of indices don't reveal any other detailed information except the general situation and neither accepted by the public. The investors could not use them as their benchmark of investment.

4. Introduction of the Firms

4.1 Sweden (BESQAB PROJEKT & FASTIGHETER AB)

4.1.1 Introduction of this Firm

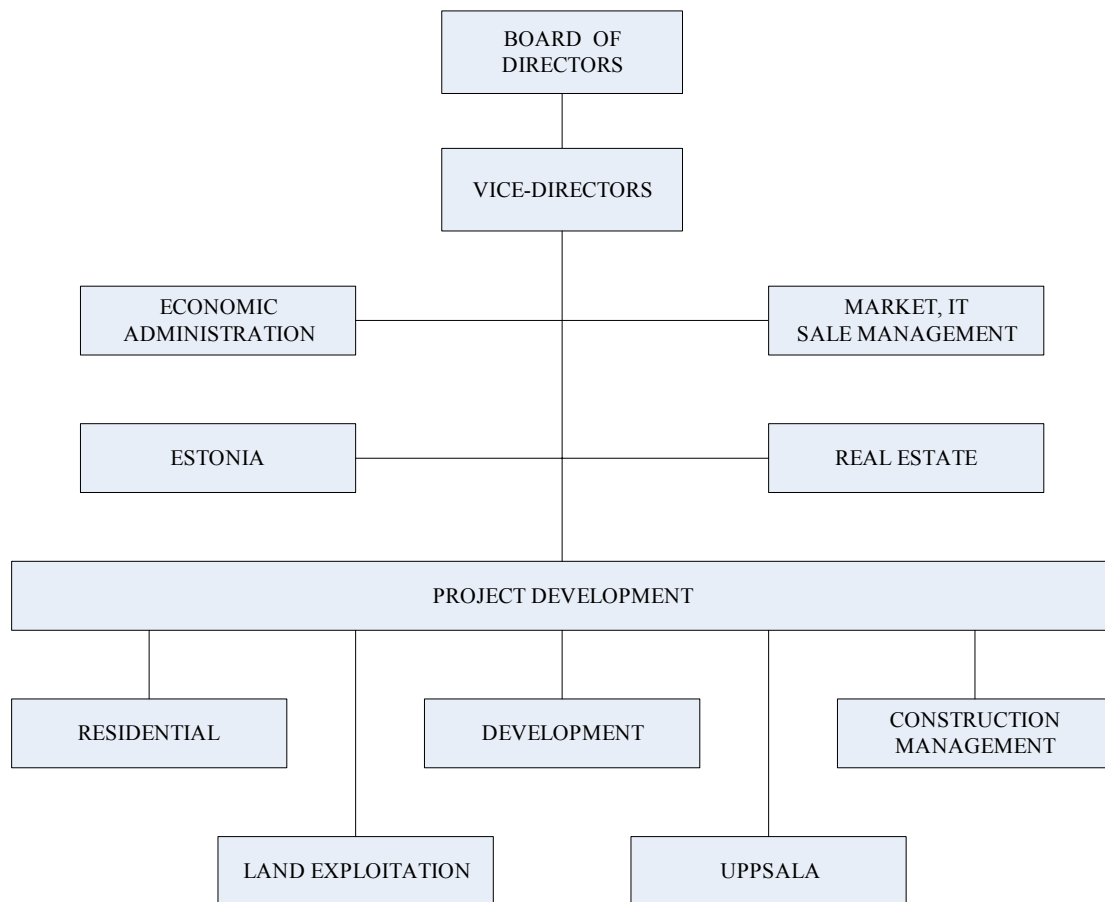
 BESQAB PROJEKT & FASTIGHETER AB was founded in 1988 and was 17 years old until the end of 2005. It is not a listed property developer and mainly develops residential buildings including apartments and townhouses. The projects in which Besqab have been involved encompassed approximately 2,500 apartments (nearly 250,000 square meters) and 75,000 square meters of office space and every one of them is unique. Although Besqab is a small developer, it is a cross-country firm because it has its branch office in Tallinn, Estonia. The head office lies in Täby, Stockholm

In order to effectively provide solutions from start to finish, Besqab concentrates on four business areas: Project Development (working with the entire real estate process from detail planning and production to sales and administration), Development Consulting (offering external real estate owners their knowledge in the areas of planning, economic and technical analysis, real estate questions as well as property appraisal.), Construction Management (project leadership with total responsibility for the entire construction process) and Real Estate Management.



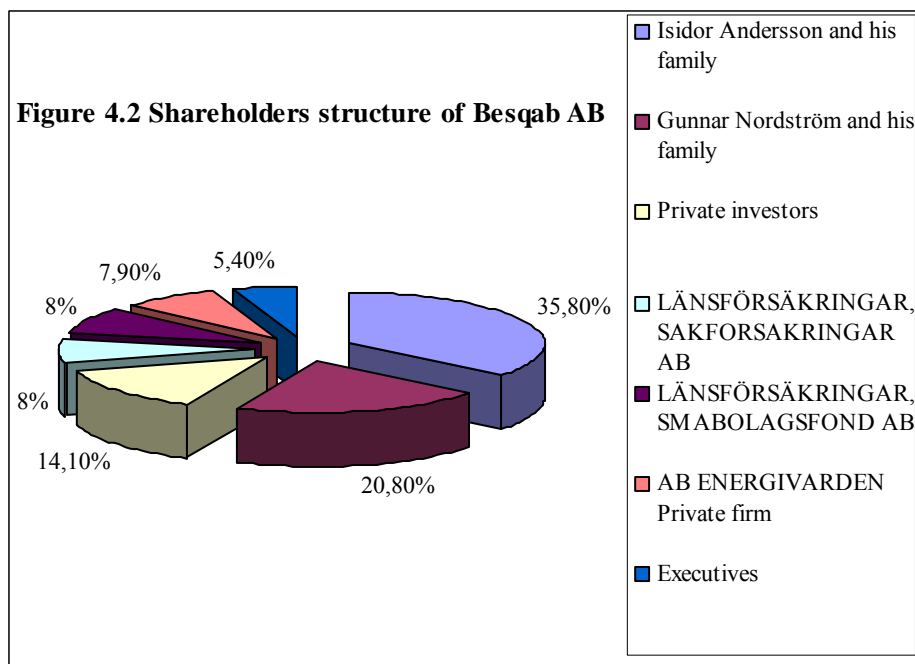
4.1.2 Organization

Figure 4.1 Besqab Organization Structure



The organization structure of Besqab is based on its business types and areas. Due to the practical issue, the branches of Estonia and Uppsala offices are not at the same level, and Estonia office is to some extent more important than the one in Uppsala.

4.1.3 Ownership structure



The Isidor Andersson and his family is one of the main owners of Besqab. They hold 35.8% of the capital share and approximately 60% of the vote stock, while the rest of vote stock spreads among the other shareholders. The Gunnar Nordström and his family are the second large capital shareholders. The other small private investors totally accounts for the third large shareholder, following by two insurance institutions and one private firm. The rest of capital shares are hold by the executives of the firm.

4.1.4 Introduction of projects of BESQAB AB

Project 1 Residential **Brf Majgläntan, Ritorp, Solna, Sweden**

Brf Majgläntan is located in Solna, which offers comfortable apartments with vicinity to both town and nature and not far from Ulriksdals and Hagaparken, The sizes of apartments vary from 35 m² to 92.5 m². The rooms are finished with both smart design and modern standard. With bus or commuter train, the resident can commute to city center conveniently. Furthermore, several schools and preschools exist in surrounding area and it is not far away to shopping centers.



Project 2 Residential **Pelgulinn, Heina 23B/Pebre 1, Tallinn, Estonia**

2 apartment buildings with 3-and 3½-storeyed will be completed by the end of 2006 in Pelgulinn district, the conner of Heina and Pebre streets. There are total of 21 two-, three- and four-room apartments with areas 42 – 114 m². Most of the apartments have balcony, some apartments are built through two floors.

The project is built with genuine architectural taste to fit with the cultural and environment of the existing area. Heina building is rendered and the façade of Pebre building has stained boarding, while the roofs are covered with rolled zinc plates and bases are covered with thin limestone plates.



Project 3 Mixed-use Office and Residential **Roosikrantsi nr 9, Tallinn, Estonia**

Besqab acted as both project developer and construction manager. The project included new construction of office and housing complex of 9 500 m², which is built for Schweizer Rück, one of the World's largest insurance companies and it was completed in 1998.

4.2 China (SUPERSHINE CO., LTD)

4.2.1 Introduction of this Firm

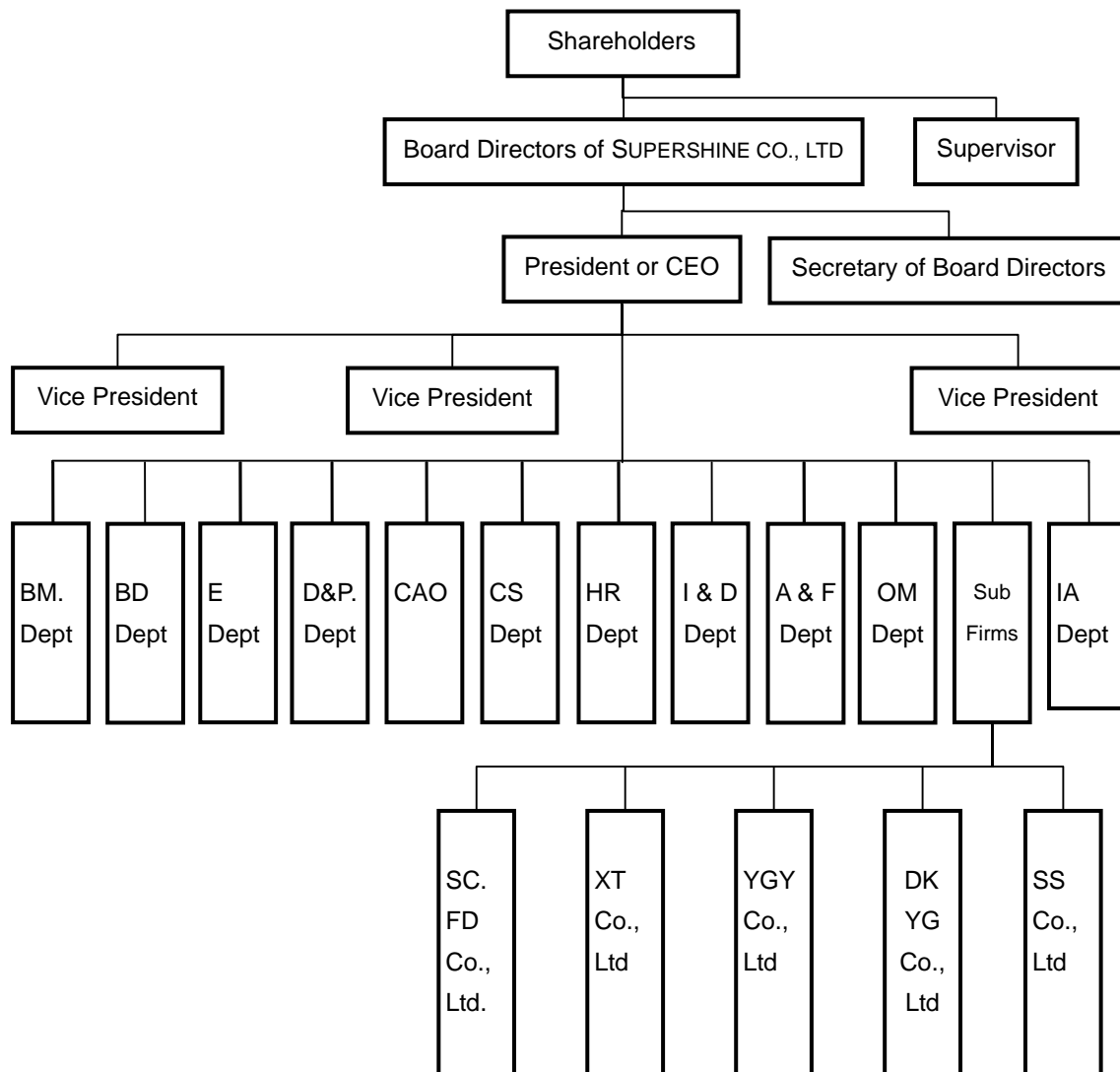


SUPERSHINE CO., LTD is one of the listed property developer in China, Stock code is 000608. Because of the short history of the stock market and RE industry in China (mainland), the company is a very young one and is only 8 year old, however it grows rapidly since it was born in the golden development period [reference to the appendix I] of RE industry in China. Its main owner is Beijing Capital Land Ltd, which is a listed property developer in the Hong Kong Stock Market. SUPERSHINE focuses on medium- and high- grade property market, such as single-family villa or luxury apartment, and the Grade-A office, retail and five-star hotel. Most of its properties locate in Beijing. Up to now, the number of projects that have been developed by SUPERSHINE is 6 and the total floor space is approximately 1,000,000 m². And SUPERSHINE has expanded its business to other main cities in China recently, such as Tianjin, Chengdu Shenyang this is due to the strict administrative fiat about ceasing construction between the middle of 2007 and 2008 for the Summer Olympic Game by Beijing municipal government. Furthermore, now it is making greater effort to improve the efficiency and management level with the increasing scale.



4.2.2 Organization

Figure 4.3 Corporate structure of SUPERSHINE



Abbreviation:

Budget Management Department =
 Business Development Department =
 Engineering Department =
 Design & Promotion Department =
 Chief Architecture office =
 Customer Service Department =
 Human Resources Department =
 Investment & Development Department =
 Accounting & Finance Department =
 Operation Management Department =
 Internal Auditing Department =
 Subsidiary Firms =
 Beijing SCFD Real Estate Development Co., Ltd =
 Beijing XT Real Estate Development Co., Ltd =
 Beijing YGY Real Estate Development Co., Ltd =

BM Dept
 B.D. Dept
 E. Dept
 D&P Dept
 CAO
 CS Dept
 HR Dept
 I&D Dept
 A&F Dept
 OP Dept
 IA Dept
 Sub Firms
 SCFD Co., Ltd
 XT Co., Ltd
 YGY Co., Ltd

Beijing DKYG Real Estate Development Co., Ltd =
Beijing SS Property management Co., Ltd =

DKYG Co., Ltd
SS Co., Ltd

This is a typical structure of listed firms in China; the centralized organization includes supervisor, board director, secretary of the director and subsidiary departments which are divided by the different functions, and SUPERSHINE's five subsidiary firms.

4.2.3 Ownership Structure

SUPERSHINE CO., LTD is a subsidiary of Beijing Capital Land Ltd (BCL), which is a listed property developer in the Hong Kong Stock Market since 2003 and it owned by Beijing Capital Group, which is a large-sized state-owned enterprise, was set up in October, 1995 as a result of the consolidation of seventeen economic entities originally controlled by the Development Planning Commission, Finance Bureau and General Office of the Beijing Municipal Government. Therefore, SUPERSHINE can keep a keen and competitive relation with the most important local government in China. This relationship is a key factor to get success in the China under Chinese market economic characteristics.

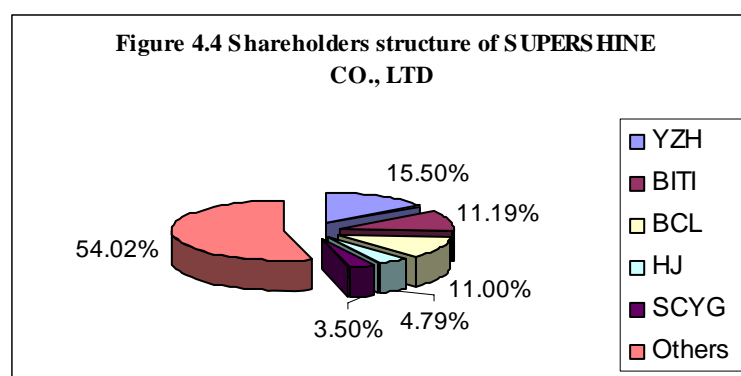
The Top 5 Shareholders of SUPERSHINE CO., LTD

| | |
|-----------------------------------------------------|------|
| Beijing YZH Real Estate Development Co., Ltd | YZH |
| Beijing International Trust and Investment Co., Ltd | BITI |
| Beijing Capital Land Ltd | BCL |
| Beijing HJ Real Estate Development Co., Ltd | HJ |
| Beijing SCYG Real Estate Development Co., Ltd | SCYG |

| Shareholders | Percent in Share Capital | Type of shares |
|--------------|--------------------------|------------------------|
| YZH | 15,50% | Domestic Legal Persons |
| BITI | 11,19% | State-owned |
| BCL | 11,00% | Domestic Legal Persons |
| HJ | 4,79% | Domestic Legal Persons |
| SCYG | 3,50% | Domestic Legal Persons |

Table 4.1 Main Owners of SUPERSHINE CO., LTD

The ownership structure of SUPERSHINE CO., LTD



Although the BCL only holds 11% of share capital of SUPERSHINE, it is the actual controller or holder, because the 15.50% share of YZH holding was transited from BCL under the strategy of A-share IPO of BCL.

Subsidiary Corporation of SUPERSHINE CO., LTD

| | |
|-----------------------------------------------|------|
| Beijing SCFD Real Estate Development Co., Ltd | SCFD |
| Beijing XT Real Estate Development Co., Ltd | XT |
| Beijing YGY Real Estate Development Co., Ltd | YG |
| Beijing DKYG Real Estate Development Co., Ltd | DKYG |
| Beijing SS Property management Co., Ltd | SS |

| Subsidiary Firms | Main Business | Share Capital (RMB) | Capital From SUPERSHINE CO., LTD (RMB, %) | |
|------------------|-----------------------------------------------------------------|---------------------|-------------------------------------------|-----|
| SCFD | Property development selling and leasing of commercial property | 60 000 000 | 55 000 000 | 92% |
| XT | | 55 180 000 | 31 035 000 | 57% |
| YG | | 72 190 000 | 46 924 000 | 65% |
| DKYG | | 60 000 000 | 51 000 000 | 85% |
| SS | Property management | 3 000 000 | 540 000 | 18% |

Table 4.2 Subsidiary Corporations of SUPERSHINE CO., LTD

4.2.4 Introduction of projects of SUPERSHINE CO., LTD

Project1 Residential **Sunny Scenic View, Beijing**

Located in the middle part of Huangsi Street on the Central Axis of Beijing, it has a

very good geographical position and an excellent environment of human culture. The planned floor space is almost 300 000 square meters and it was completed at the end of 2004. The project was developed by Beijing SCFD Real Estate Development Co., Ltd, a subsidiary of SUPERSHINE. The accumulated sales revenue of it is 1 487 822 000 SEK, while the investment is 1 272 650 000 SEK up to now.



Project 2 Residential **Upper East Side, Beijing**

It is located in the famous Yansha-Lidu business Circle where many foreign institutes and organization gather, and there is an appealing natural environment, surrounded by the green belt of the North Fourth Ring Road and is adjacent to the Bahe River. So it is a true international community in Beijing. The project was developed by Beijing XT Real Estate Development Co., Ltd, a subsidiary of SUPERSHINE, and it covers an area of 43.75 hectares, and the total floor space is nearly 720 000 square meters. XT has invested 1 776 216 000 SEK on this project until now, and amount of construction floor areas are 270 000 square meters. Part of this project is mortgaged to the bank as collateral for 200 000 000 SEK.



Project 3 Mixed-use Office and Retail **Supershine Plaza, Beijing**

Located in the intersection of Xizhiwenwai Street and Zhanlan Road in Beijing, opposite to Beijing the International Exhibition Center, it is a business and office complex. The project was developed by Beijing YGY Real Estate Development Co., Ltd, a subsidiary of SUPERSHINE. After it was completed in the end of 2004, besides being itself office premise, Huatang Yokota Store Co., Ltd accepted a 20-year lease of all shopping areas and related facilities. Other parts of the Plaza are operated on a lease as office including China Sugar Trade Co., Ltd that has signed a 10 years lease for 7 stories of the Plaza. The advantage of the project lies in the stable long-term income, which increases the proportion of owned properties and reduces the operational risk of the firm and becomes a stable source of profit for the firm. Additionally, part of the building is mortgaged to the bank as collateral for 200 000 000 SEK.



4.3 Comparison of General Organization

| | Besqab | SUPERSHINE |
|--------------------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Year of foundation | 1988 | 1997 |
| Firm type | Private | State-owned and listed |
| Developed areas(000'm ²) | 325 | 1 000 |
| Type of property | Residential, Office | Residential , Office, Retail, Hotel |
| Business fields | Project Development, Development Consulting Construction Management Real Estate Management | Project Development Real Estate Management |
| Subsidiary firms | None | 5 |

Table 4.3 Subsidiary Corporation of SUPERSHINE CO., LTD

Besqab was founded in 1988 by previous staffs of two national-wide property developers in Sweden, and the firms successfully overcome the coming difficult days in early 90s. The Chinese firm SUPERSHINE established in 1997 and developed itself in the golden period [reference to the appendix I] of Chinese real estate industry. The main owners of Besqab are the insurance firms and private investors, while SUPERSHINE is owned indirectly by the state and main shareholders are other state-owned property developers.

Until the end of 2005, the Swedish firm has already developed 325 000 m² in floor space which are mainly residential and office property and extended the business to its neighbor country Estonia. Besides the project development, the firm also has other business including development consulting, construction management and real estate management, which diversify the revenue of Besqab. Compared with the Swedish firm, the SUPERSHINE mainly concentrates on property development, however has more types of property, which includes single-family villa and apartments that are both residential, office, retail and hotel. And the floor space have been developed by SUPERSHINE is about 1 million m².

In addition, the Chinese firm has five subsidiary firms; four of them are developers and one is specialized in real estate management. The firm SUPERSHINE itself is also a subsidiary of Beijing Capital Land Ltd (BCL), which is a listed property developer in the Hong Kong Stock Market.

4.3.2 Organization

The main difference of the two firms in this aspect lies in the different management ideas which determine the different organization structure. Besqab is more

decentralized than SUPERSHINE, because the organization structure of the Besqab is mainly on the basis of the business types and projects locations, but not the functions of department of the firm (like SUPERSHINE), which indicates that the business departments and local offices have relatively more flexible and powerful than SUPERSHINE's functionary departments and its subsidiaries.

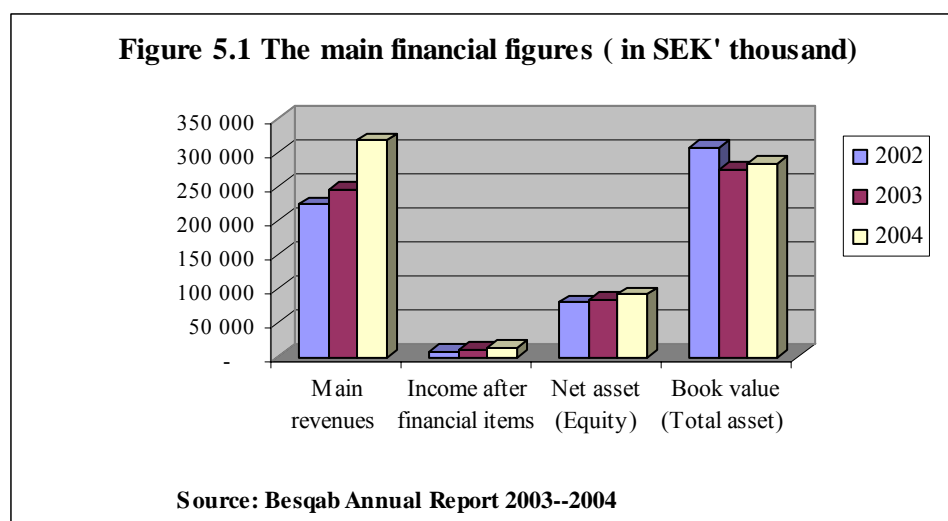
5. Comparison of Financial Issues

5.1 Sweden (BESQAB PROJEKT & FASTIGHETER AB)

5.1.1 Financial Review

| In SEK' thousand | 2004 | 2003 | 2002 | Change in % (2003-2004) | Change in % (2002-2003) |
|-----------------------------------|---------|---------|---------|----------------------------|----------------------------|
| Main revenues | 316 800 | 245 200 | 222 900 | 29 | 10 |
| Income after financial items | 14 700 | 10 300 | 7 900 | 43 | 30 |
| Cash flow from current operations | 24 591 | 18 614 | -146 | 32 | |
| Net asset (Equity) | 91 840 | 84 489 | 80 135 | 9 | 5 |
| Book value (Total asset) | 284 208 | 275 234 | 306 719 | 3 | -10 |
| Equity / assets ratio, % | 32,3 | 30,7 | 26,1 | - | - |

Table 5.1 Main financial figures of Besqab



Besqab's *main revenue* increases slowly during the recent 3 years, which shows the good operational performance of it, and its main revenue is not dependent on one business area (property development), but stems from its four business areas, which make the revenue diversified and minimize the operational risk.

The growth rate of *income after the financial items* rises dramatically from 2002 to 2004 and especially went up by 43% year-on-year in 2004.

The situations of the *cash flow* from current operations has grown by 32% and amounts to 24 591 thousands SEK in 2004, and converts from a negative figure to a positive in 2003, which indicate that Besqab has a robust business.

As well as the main revenue, the *equity* rose slowly under Besqab careful and successful operation and management.

The *total asset* goes up and down in the 3 years; it decreased by 10% in 2003, then increased by 3% in 2004.

The *equity/asset* ratios during the 3 years still keep on the level of nearly 30% to Besqab and has been improved gradually from 26,1% in 2002 to 32,3% in 2004, which can help Besqab to easily find finance from banks.

5.1.2 Stock Information

Total share number

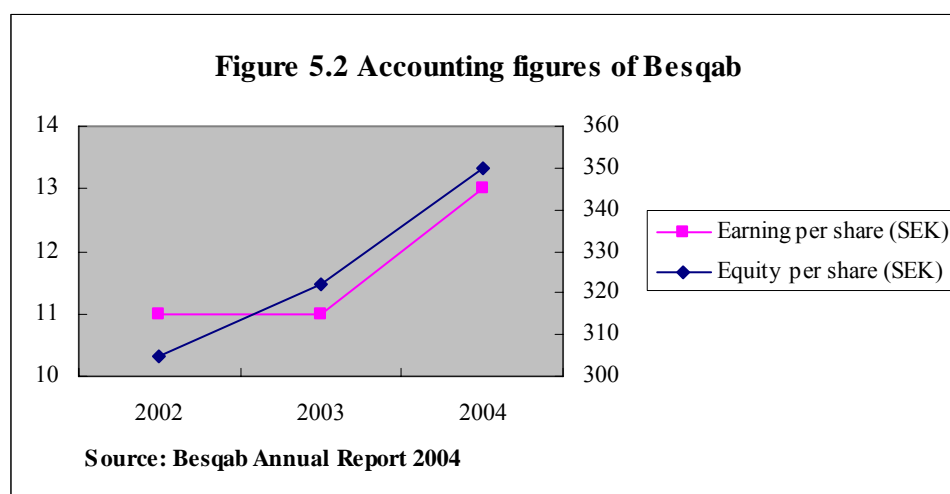
The total number of shares is 262 500 and all of the shares are tradable.

Share types

There are two kinds of Stock A and B in Besqab, Stock A is the vote stock which represents the vote percentage of the owners among the whole owners, however the Stock B is the capital stock that shows the percentage of the owners occupy among the whole shares, and the vote majority owners actually control Besqab, but not the capital majority The Isidor Andersson and his family hold 42% of the capital share and approximately 60% of the vote stock. They are the main owner of the firm.

| Accounting figures | 2002 | 2003 | 2004 |
|-------------------------|------|------|------|
| Earning per share (SEK) | 11 | 11 | 13 |
| Equity per share (SEK) | 305 | 322 | 350 |

Table 5.2 Accounting figures of Besqab



The earning per share (EPS) in 2002 and 2003 are the same and grows up 2 SEK in 2004, it indicates that the profitability of Besqab has heightened and the operation situation of Besqab is bright and efficient.

The equity per share climbs from 305 SEK per share in 2002 up to 350 SEK per share in 2004, and also shows the up-growing trend of Besqab in recent years.

5.1.3 Financing Channels

To Besqab, the loan from banks is its only financing channel since it's good reputation in the market, creditable records in the banks and the strong profitability make it easy obtain the loans from banks, however, it still consider the alternative ways of financing as well such as domestic or foreign investment companies who like to put money in its business. It seems that Besqab never worry about its financing problem.

5.1.4 Financial Control System

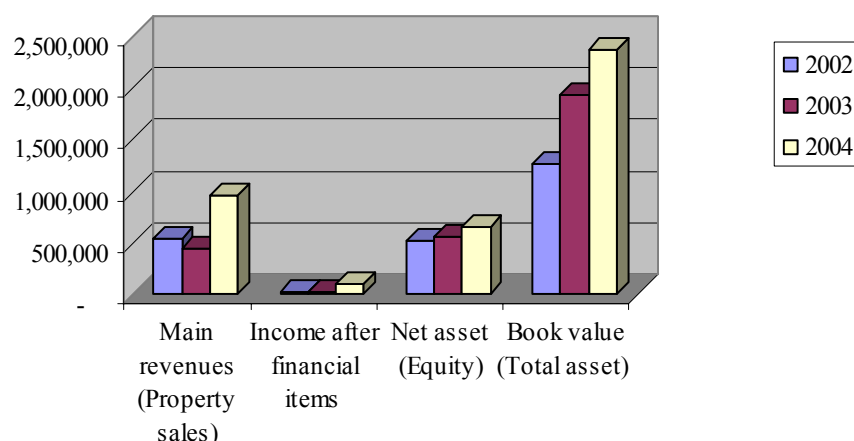
As a small firm, Besqab has not systematically set up any financial control system for itself, but its senior executives have a very strong awareness to take care of its cash flow which make it support firm's operation and utilize efficiently the capital, and try their best to keep the *equity/asset* ratio stabilized at the level of nearly 30%, etc. All of these target at the long-run development of the firm.

5.2 China (SUPERSHINE CO., LTD)

5.2.1 Financial Review

| In SEK' thousand | 2004 | 2003 | 2002 | Change in % (2003-2004) | Change in % (2002-2003) |
|----------------------------------|-----------|-----------|-----------|----------------------------|----------------------------|
| Main revenues (Property sales) | 956 214 | 455 262 | 548 794 | 110 | -17 |
| Income after financial items | 108 787 | 36 367 | 33 271 | 199 | 9 |
| Cash flow from current operation | 1 002 090 | 449 868 | 711 093 | 123 | -37 |
| Net asset (Equity) | 660 679 | 555 742 | 518 864 | 19 | 7 |
| Book value (Total asset) | 2 381 832 | 1 930 307 | 1 273 593 | 23 | 52 |
| Equity / assets ratio, % | 28 | 29 | 41 | - | - |

Table 5.3 Main financial figures of SUPERSHINE

Figure 5.3 The main financial figures (in SEK' thousand)

Sources: Supershine Annual Report 2002--2004

SUPERSHINE's *main revenues* fluctuated during the 3 years, the main reason are Chinese accounting principles by how to confirm the revenues, and the old projects are near the end, while the new projects were still at the beginning phase in 2003, so the main revenues dropped. In 2004 the new properties have begun to sell and the revenues increased dramatically. And if applies the general accepted accounting principles (GAAP), the main revenues will be more stable.

The *income after the financial items* rose from 2002 to 2004 and especially went up by 199% year-on-year to 1,002,090 thousands SEK in 2004. This increase is mainly attributable to the new property sales.

The situations of the *cash flow* from current operations are similar with the main revenues during the 3 years, grew by 123% year-on year in 2004 after a 37% drop a year ago, The fluctuation is due to the interim of projects and the problem with accounting principles

The *equity* increased gradually and amounted to 660,679 thousands SEK in 2004, up 19% year-on-year after a 7% growth in 2003. It shows that SUPERSHINE has gained the accumulated capital from the operations.

With the expansion of scale of SUPERSHINE, the *total asset* was always increasing and amounted to nearly 2,400 millions SEK in 2004, however, the *equity/asset ratio* of it was decreasing, whereas the equity grew as well.

The main Liabilities of SUPERSHINE are account payables which are owed to construction firms and mortgage loans of banks. Compared to the average equity/asset ratio of property developers in China, which is 24.2% [reference to The Development Report of China's Real Estate 2005] in 2003, the ratio of SUPERSHINE is higher and

healthy. It is because SUPERSHINE has a good performance in the profit aspect, so it can alleviate its burden on the liability, while accumulating its own capital and using self-financing to develop new properties. The advantage of the firm is that it does not rely on the banks excessively, which is very important for a firm in a mixed economy country as China, because the government still has a strong role in the market, and the higher equity/asset ratio makes this firm immune from change of administrative fiat to some extent, compared with the low equity/asset ratio of property developers.

5.2.2 Stock Information

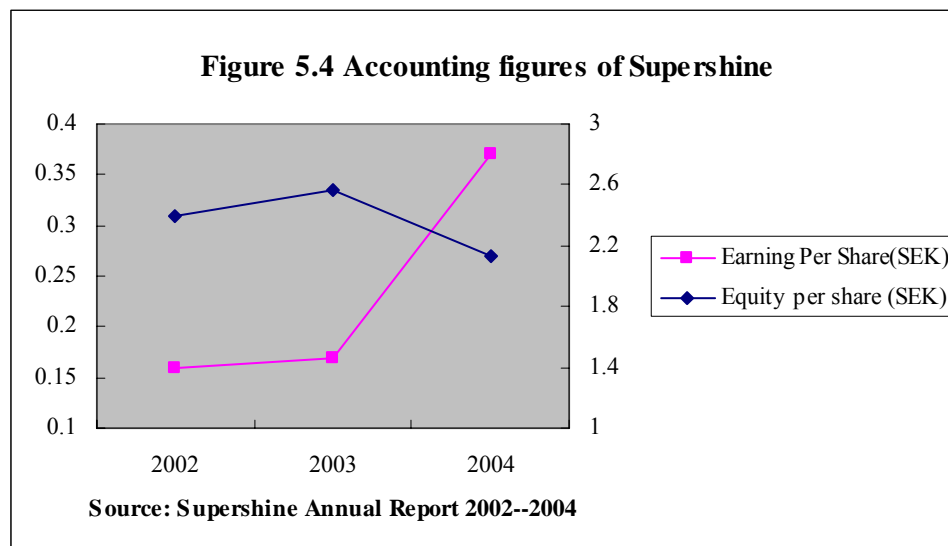
Share structure

| | |
|--------------------------------------------------|-------------|
| Non-tradable shares or non-public shares | 155 539 188 |
| State-owned shares | 32 677 400 |
| Legal personal shares | 122 861 788 |
| Foreign Legal Person shares | 0 |
| Tradable shares or public shares | 136 501 092 |
| Common shares | 136 501 092 |
| Qualified Foreign Institutional Investors (QFII) | 0 |
| Total shares | 292 040 280 |

There are 292 040 280 shares in its equity, however, 155 539 188 shares, which occupy 53.26%, could not be traded on the market, neither be held by the public. The non-tradable shares are held by the state or domestic legal persons currently, but nowadays the government is implementing a reform which makes those non-tradable shares tradable in the public market, and compensates for the public shareholders in other ways except in cash. It is noticeable that the shares held by top 5 shareholders of SUPERSHINE are all non-public shares.

| Accounting figures | 2002 | 2003 | 2004 |
|------------------------|------|------|------|
| Earning Per Share(SEK) | 0,16 | 0,17 | 0,37 |
| Equity per share (SEK) | 2,4 | 2,56 | 2,13 |

Table 5.4 Accounting figures of SUPERSHINE



The earning per share (EPS) grows in the recent 3 years, especially is there a rapid increase from 0,17 SEK in 2003 to 0,37 SEK in 2004, it is because the new properties have begun to sell which causes earning to increase dramatically.

Because the growth rate of the expansion shares in 2004 is much quicker than that of equity, the equity per share has an obviously drop in 2004 and converts the rising trend from 2002 to 2003.

5.2.3 Financing Channels

As a listed property developer company, the financing by debt or equity is important to SUPERSHINE, because RE industry is a capital-intensive industry. In China, firms' financing by the expansion of share capital is not only influenced by trend of whole stock market but frequently intervened by the supervision authority (CSRC). So this way did succeed only one time since the firm listed on the stock market in 1998, but SUPERSHINE is making an effort to finance once more by this way from now on.

The loans from banks are considered to be the main resource of debt financing. Due to the good credit records and excellent profitability compared with other the property developers; SUPERSHINE is a golden customer to banks. The types of the properties that SUPERSHINE developed have been approved by banks, even after the central government puts forward to a series new strict administrative fiat to restrain the loans to RE industry. At the same time, SUPERSHINE is seeking for other financing channels like join-venture capitals from other firms; issuing corporate bonds or funds; secondary non-public open, etc.

5.2.4 Financial Control System

The firm has established its financial control system in three aspects. Firstly, financial targets/plan, examples include earning per share, income after financial items, main revenue (main operation income), and the ratio between the profits and costs, etc. The second is cost control; SUPERSHINE has its own budget management department which is mainly responsible for estimating, evaluating, implementing and supervising the construction cost. Thirdly, the cash flow control which estimates the asynchronous payments and revenues generated during different phases of the developed projects, at the same time implements the estimations to distribute the tasks of the investment and sale in order to balance the cash inflow and outflow, and makes the limited capitals to be utilized efficiently.

5.3 Comparison of Financial Issues

| | Besqab | SUPERSHINE |
|---------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------|
| Financial performance (2002 to 2004) | Steadily growing | Quickly expands |
| Stock Type | Unlisted | Listed |
| Equity Ratio 2005 | 32.3% | 28% |
| Obvious financing problem? | No | No |
| Financing Channels | Bank, Joint-venture Capitals | Bank, Stock market, Joint-venture Capitals Secondary non-public open |
| Financial Control System | Not systematically setup, keep the equity ratio around 30% | 1 Financial targets 2 Cost control 3 Cash flow control |

Table 5.5 Comparison of financial issue between Besqab and SUPERSHINE

From the financial data in the both firms, the two firms are in the growth phase, just the Besqab grows slowly, and however, SUPERSHINE quickly expands. On the other hand, the Besqab grows more stably and healthy than the SUPERSHINE, for example: the trend of equity/asset ratio which can indicate the credit capacity of a firm in Besqab is increasing, on the contrary, it is decreasing in SUPERSHINE.

Both stocks of the firms perform well with aspect of growing in earning per share in recent years. However, the stock of Besqab does not list in the public stock exchange due to the relative small business scale, and all the stocks in Besqab are tradable. Because of "the stock market with Chinese characteristics", the stocks in SUPERSHINE has been categorized into two types; non- tradable shares and tradable shares, furthermore the non-tradable shares (53.26%) are more than the tradable ones, which indicates SUPERSHINE is a state- owned property developer.

The state and institutions hold more than half of total shares in most listed firms of China, but those shares held by them are non-tradable in public market, and on the average, only 48% of total shares of Chinese listed real estate firms can be traded on stock exchanges.

The *equity/asset ratio* of SUPERSHINE declined since 2002, but still been maintained close to 30%, which is a little similar to the ratio of Besqab. Both firms thought the 70 % of *liability/asset* ratio is acceptable in that current situation. In contrast with SUPERSHINE, most of the property developers in China are considered relying on the bank excessively irrespective of whether the firm is listed or not, and the average *liability ratio* is 75.8% in 2004. The reason can be explained as below: (1) For those listed firm, such as SUPERSHINE, the way of financing from stock market dose not achieve the expectation due to strict regulation in expansion of equity and current depressed stock market situation. (2) The public financing channel is relative narrow in China. For example, Chinese corporate bond market is trivial in the whole financial market. In Sweden, the *equity ratio* varied from 23% to 38% among the national wide property developers (**NCC** 23%, **Peab** 23.3%, **Skanska** 27.3%, **JM** 38%) in 2005, for the median sized developer, 30% of *equity ratio* is ordinary. In general, the developers would not change its *liability (equity) ratio* too much as long as they operate normally.

The loans from bank are considered as the first financing channels for both of the firms. In Sweden, the current low interest rate stimulates the investment in real estate industry and Besqab would benefit from the positive market situation. Besides the loan from bank, the firm also seeks for the domestic or foreign investors if the new projects need to be financed. Compared to SUPERSHINE because of the good market performance and its good relationship with local authority, it could also obtain loans easily although the government restricts the new loan in real estate industry. As a listed company, the SUPERSHINE can also absorb the capital from stock market; however, this way does not work as the expectation due to the restriction of equity expansion regulations in China. In addition, the firm is seeking for other financing channels such as join-venture capitals from other firms; secondary non-public open, etc.

The Besqab has not set up a systematic financial control system, but the firm try to keep its equity/asset ratio around 30% in the long run when balance its financial target. Compared with Besqab, the financial control system of SUPERSHINE is relatively clear and it consists of three aspects: financial targets, cost control, cash flow control. Firstly, various financial targets are mapped out and evaluated. Secondly, the cost control is conducted by a specific department within the firm during operation. At last, the cash flow control during different stages would guarantee that it is utilizing the current assets maximally.

6. Comparison of General Management Issues

6.1 Sweden (BESQAB PROJEKT & FASTIGHETER AB)

6.1.1 Outsourcing

Definition of outsourcing

Outsourcing is often defined as the delegation of non-core operations or jobs from internal production within a business to an external entity (such as a subcontractor) that specializes in that operation. Outsourcing is a business decision that is often made to lower costs or focus on core competences. [Wikipedia]

In the process of property development, there are so many phases which include site selection, feasibility study, design, finance, construction, marketing, property operations, sale and the law consultancy throughout process. And in each of the phase, there are several detailed operations, and the whole process is listed below:

Site selection: brokers, title company, market consultants.

Feasibility study: market analyst, economic consultants, mortgage brokers and banks, engineers.

Design: land planner, architects, landscape, surveyors, soil engineers, structural engineers, environmental consultants, contractors, parking consultants.

Finance: mortgage brokers and bankers, construction lenders, permanent lenders, insurance companies, appraisers.

Construction: architects, general contractors, engineers, landscape architect, construction management.

Marketing: brokers, public relation firms, advertising agencies, graphic artists.

Property operations: real estate management.

Sale: Brokers, appraisers.

Throughout process: Lawyers.

Actually, no one of the developers can be expert in all of these areas; neither is Besqab. Besqab's core business areas including premise planning, economic and technical analysis, property appraisal, construction management, production to sales and administration as well as real estate management. Except these, it sources out other non-core business areas especially in structural architecture, construction

architecture and landscape planning, where it will invite architects, therefore, Besqab partly sources out its operations to external entities or third parties.

6.1.2 Internet and IT used

The internet and IT are widely and deeply applied in the Nordic countries. The computers and internet are used quite frequently within Besqab. Every employee has one computer at least and the firm has its own website which has been designed friendly to visitors. Besqab mainly uses the web to advertise their projects and attract the potential customers who will select and compare with their requirements by the web briefly. The service center of the firm has set up a specific webpage of a customer feedback system. The customers can submit their own interest through it and will be invited when the selling period starts if the projects are similar to their interest. Besqab also has an intranet that services for internal working process.

6.1.3 Human Resource Management

6.1.3.1 Basic Staff Situation

Introduction

Besqab has 42 staffs and 75% of them are men, the other 25% are women at the end of the 2005. The average age of them is 41-year old, and in 2005 it has absorbed 5 new employees and lost 1 person who wanted to create his own company, but do not join its competitors. Actually, Besqab does not accurately measure the average-employment-year of its staff, however most of its staffs have worked for it nearly 5 to 10 years. Among the 42 staff, 3 of them are chief managers the firm, 25 of them are in charge of project management, 4 of them work with the real estate affairs, 1 person is responsible for Estonia market, 4 of them are market support staff and 5 of them are economical and administration staff.

Education Background

Approximately 75% - 80% of the personnel have a high education background.

The Board Directors of Besqab

There are 7 people as the board of directors of Besqab and they are responsible for different business areas, and six of them come from the firm **JM** and one of them had worked for **SKANSKA**. (**JM** and **SKANSKA** both are national-wide property developers in Sweden.)

6.1.3.2 Performance Measurement

Jensen and Meckling (1986) [Reference to Azasu. S. (2004) Incentive plans and real estate firms- a literature review] describe performance measurement as a process of attributing value weights to various levels of performance to represent the magnitude of achievement on each measure. Neely (1995) [Reference to Azasu. S. (2004) Incentive plans and real estate firms- a literature review] defines a performance

measure as a “metric used to quantify the efficiency and/or effectiveness of an action”. Typically, within an organization, a collection of metrics are used, forming a “performance measurement system”. The performance measurement system is not only the basis for determining who qualifies for rewards but even more importantly a reflection of the goals and strategies of the entire organization (Woodford & Maes 2002) [Reference to Azasu. S. (2004) Incentive plans and real estate firms- a literature review]

The staffs in Besqab have two hours at one time every year to communicate with his or her closest manager to review their one year works including the achievements and contributions to Besqab, how will they do in the next year and their thoughts and suggestions for the firm.

In order to motivate their employees, if there are profits after one year operation, Besqab will give everyone a bonus or rewards which is dependant on their own percentage of the amount of the whole profits.

6.1.3.4 Staff Training

There is no special staff training plan for Besqab. The personnel who it need should be strong skilled employees if Besqab want to survive in the tough competitive environment because it is a small firm and its competitors are all the nation-wide and hold relatively more resources than it, so one of its advantages is that Besqab has a better staffs or work teams than its competitors.

6.1.4 Operational Risk Management

As a small firm, Besqab has strong risk awareness, because if there is a failed project, it would possibly face the risk of bankruptcy, and so it operates carefully its business no matter whether it is in a good or bad situation.

As a small developer, the most operational risk is a bad sales volume, so it firstly adopts presale strategy to ensure that projects are successful. When the presale volume reaches 20% of the total volume, it will begin to develop the project in the good year, and if it achieves 50% during the downturn. The second is that it sets up its own customer feedback system by the internet, and obtains the preference of the customers, which will help it satisfy the demand and make a correct decision concerning its operations.

And at any time, financing is always a problem for the RE industry, not only for big developers, but for small ones, however, under the current situation in Sweden, the low interest rate for loans, no government regulations to restrain the lending and Besqab's good reputation, make the risk of financing restrain low for it. And for some projects, the firm chooses to cooperate with other developers or foreign capital to avoid financial risk.

Furthermore, Besqab regularly meets with politicians in order to know the latest government's thoughts and just prepares for what is going on. At the same time, the firm detects the market situation, as long as finding changes; it can swiftly convert their current business to another due to the relative small size and diversified business areas.

Last but not the least; the firm could purchase insurance from insurance company in order to avoid the loss to its customers if projects fail in the process. However, so far the firm did not experience any severe crisis due to its good operation and awareness of market.

6.2 China (SUPERSHINE CO., LTD)

6.2.1 Outsourcing

SUPERSHINE is partly outsourced as well as other developers, among all of the business areas related to property development; it can do site selection, feasibility study, part of finance based on its financing channels, part of the real estate management because its subsidiary property management firm only has the qualification to manage below middle level properties, and part of the law issues by itself. Other business areas are well outsourced. Especially in the marketing area, because it is very notable whether successful or not for a development project in China is mainly dependent on its marketing capacity beside the location of the project.

6.2.2 Internet and IT used

All the employees of the firm are required to use computers efficiently and there is an intranet built in 2005 when they moved to their new premise, which makes possible to share and publish information swiftly between different departments within in the firm. Every employee is limited to his own relevant information in this system. The using of computers is very common in this firm; the ratio of computers and employees is close to 1 which is much higher than other RE firms in China. However, there is no software specifically designed or optimized for the firm's operation. During the writing of the thesis, the firm has finally presented its own website which supplies information to the shareholders and potential house buyers.

6.2.3 Human Resource Management

6.2.3.1 Basic Staff Situation

Introduction

Up to October 2005, SUPERSHINE has 97 personnel, of who one third were women and two thirds were men. The average age of them is 33 and the average period of

employment was 4 years. 71 of them are technical staff, 13 people are employed as sales management personnel, 6 of them are financial staff, and the rest 7 people are doing administrative work.

Education Background

Staff who hold the master degree or PhD are 10, 59 of them are with a bachelor degree, and the rest 18 personnel have the diploma of tertiary education.

The Board Director of SUPERSHINE

There are 7 people in the board. The board director of SUPERSHINE is Tang Jun who is 46 years old and graduated with a MBA degree. This man has a strong political background at early years. Before joining SUPERSHINE, he worked as a government officer in Beijing Planning Committee, and also serviced as a senior manager in its subsidiary: Beijing Multiple-investment Corporation.

6.2.3.2 Performance Measurement

SUPERSHINE has been trying to create an environment of concentrated-staff management, make the staff aware of their personal developments accompanied with the growth of the firm. SUPERSHINE assesses the performances of employees through various channels, different levels and criteria, including immediate managers/supervisors giving written judgment of subordinates in quarter and investigation of the remarks from related departments' managers and employees, etc.

SUPERSHINE adopts the Balanced Scorecard which is a hybrid measures which combine financial and non-financial measures to match the performance measurement. Financial measures are extracted from the statements issued by the firm on its financial performance, however, non-financial performance measures are not resultant strictly from financial records. Examples include product quality, customer satisfaction, market share and employee satisfaction, etc. So all the non-financial performance measures are normally used jointly with financial performance measurement and are considered better for the firm towards the long-term goals than short-term profits.

SUPERSHINE establishes a "line of sight" between performance and rewards by the measurement of balanced scorecard. The departments and employees who get higher scores will be awarded bonus, oversea travel, or more training and studying opportunities etc.

6.2.3.3 Staff Training

There are enough opportunities supplied to the staff for their vocational training by SUPERSHINE. For example, the training programs are specific and designed to satisfy different level of employees. To the junior employees, basic knowledge and skill trainings, like corporate finance and accounting, the real estate market analysis are

required; to the middle level managers, the skill of communication and execution is emphasized; and for the senior executives, training program will focus particularly on decision making and strategies development.

6.2.4 Operational Risk Management

The executives in SUPERSHIN still do not have enough awareness of risk management, partly due to immature management behavior, partly because SUPERSHINE is a very young company that was set up in the golden period [reference to the appendix I] of Chinese RE industry development, so it never experienced a downturn of China's real estate market.

Nowadays, the price of housing soared in the main urban areas, so central government puts forward a series new administrative fiat's including decreasing the lands supply, restraining investment and lending to RE industry, ceasing the interest subsidy on the mortgage loans to houses buyers and increasing the transaction cost in order to stabilize price and keep down the overheated real estate market.

Under current situation, SUPERSHINE has begun to utilize its reservation lands to develop the new properties in order to keep its performance in the stock market. Because of the firm's customer target group, during its whole growth history, is the rich customers who are relatively not so sensitive to adjusted policies especially in the aspect of the increasing transaction cost, and make the firm avoid the market risk relatively easily. On the other hand, SUPERSHINE as a listed company that can endeavor to seek more financing channels for its projects, such as join-venture capitals from other firms; issuing corporate bonds; secondary non-public open, etc. These make the governmental policies have a minimum negative effect on the firm.

6.3 Comparison of Management Issues

6.3.1 Outsourcing

Besqab and SUPERSHINE both partly source out their business to the third parties, the difference is that the detailed outsourcing aspects in the two firms are different, and the table below lists the comparison.

| | Besqab | SUPERSHINE |
|------------------------------------|-------------------|-------------------|
| Site selection | Done by itself | Done by itself |
| Feasibility study | Done by itself | Done by itself |
| Design | Partly outsourced | Outsourced |
| Finance | Outsourced | Partly outsourced |
| Construction | Partly outsourced | Outsourced |
| Marketing | Partly outsourced | Outsourced |
| Property operations | Partly outsourced | Partly outsourced |
| Sale | Partly outsourced | Outsourced |
| Throughout process: Lawyers | Outsourced | Partly outsourced |

Table 6.1 Comparison of the outsourcing between Besqab and SUPERSHINE

6.3.2 Internet and IT used

The internet and computers are used frequently in both Besqab and SUPERSHINE. The website of Besqab presents much general information of the firm itself and designed friendly to the visitors, while there are some specific detailed websites designed for each project it developed. The SUPERSHINE has just presented its website in Chinese language, while English version is still under construction and it is quite convenient for the investors to obtain the financial report directly of the firm. Meanwhile, some of the projects developed by the firm are advertised thoroughly in their each own specific website.

In addition, both of the firms have their own intranet which the staff can log on by their owner username and password in order to secure the inner information and data of the two firms.

6.3.3 Human Resource Management

| Current Staff Situation | Besqab | SUPERSHINE |
|-------------------------|---------------|-------------------|
| Total number of staff | 42 | 97 |
| Gender ratio M/F | 75% / 25% | 67% / 33% |
| Average Age | 41 | 33 |
| Average years worked | 5-10 | 4 |
| Board of directors | 7 | 7 |
| Chief managers | 7% | 4% |
| Technical staff | 71% | 73% |

| | | |
|--------------------------------|-----|-----|
| Market staff | 10% | 13% |
| Financial Administrative stuff | 12% | 9% |

Table 6.2 Comparison of human resources management between Besqab and SUPERSHINE

There is 42 and 97 formal staff in Besqab and SUPERSHINE respectively. However, the business carried out by the later is much larger than the former. The reason for this is the Chinese firm outsource more business than the Swedish firm and the subsidiary firm of the Chinese firm could share lots of projects with it.

The education background is high in both of the two firms, while employees in the Chinese firm are much younger and relatively less work experience compared with the Swedish firm.

The Staff structure is quite similar between the two firms. The technical and market staff which refer to project manager, development analyst, and marketing analyst, etc account for more than 80% of the total in both firms. The position of every employee is defined clearly. In the website of Besqab, the firm lists the position, photos and emails all of its 42 employees for visitors which is deserved praise for its transparency.

The performance measurement is essential for a firm's human resource management. To Besqab, the performance is measured by the completion of missions and contributions to the firm and the personnel adopt face to face way to communicate with the immediate manager to get the direct opinions, and everyone will share the profits from the reception to the senior manager. The Chinese firm SUPERSHINE adopts the famous Balanced Scorecard which is quite popular among large modern companies. It evaluates the performance of the staff through both financial and non-financial aspects by the written judgment and remarks from the immediate manager or supervisor and related departments' managers and employees. The employee who obtains high scores will be awarded in bonus, traveling and training opportunities.

In contrast with Besqab, SUPERSHINE seems more emphasized in the staff training, and there are several training programs which are designed to keep the vivacity and competitiveness for different level of staff. Besqab would also arrange a few tours or parties to increase the cohesion within the firm.

6.3.4 Operational Risk Management

In the business field, the risk could be defined as the quantifiable likelihood of loss or less-than-expected returns [Investorwords], which usually described synonymously with probability of the undesired outcome or negative effect. The term risk management refers the decision-making process involving considerations of political, social, economic and engineering factors with relevant risk assessments relating to a

potential hazard so as to develop, analyze and compare options and to select the optimal response for safety from that hazard. Essentially risk management is the combination of three steps: risk evaluation; emission and exposure control; risk monitoring. [Hyperdictionary]

The risk of real estate development can be classified into 4 major areas: the politic risk, market risk, financial risk and technical risk. The boundaries of the 4 types of risk usually are not defined strictly and one factor could be the reason of another.

| | Besqab | SUPERSHINE |
|----------------|---------------|-------------------|
| Political risk | Low | Middle |
| Market risk | Low | Low |
| Financial risk | Middle | Low |
| Technical risk | Low | Low |

Table 6.3 Comparison of risk between Besqab and SUPERSHINE

Political risk

Political risk is the risk associated with potential changes in political parties and governmental policies that may negatively effect an investment position. The political situation in both Sweden and China is stable in recent years which create a healthy and steady environment for the economy to growth. The Besqab tracks the decision of government tightly and often talks to the related politicians about the possible changing in the land policy and regulation in order to increase the understanding and diminish the uncertainty. In China, the political environment is not as transparent as in Sweden, while the industries could often be intervened by the macro policy. Especially in RE industry, the policy usually changes suddenly without notification in advance of several days. In the autumn of 2003, the central government adopted a strict lands supply policy in order to cool down the market and curb irrational investment. In recent years, the firm has to develop new projects on its owned land reservation.

Market risk

The market risk refers to that the value of investments may decline over a given time period mainly because of economic changes, business cycle or other events that impact on most of the participations in the market. The RE industry could be affected by the market risk significantly in terms of the frequency of economic activities, the change in vacancy rate, the sale volume, the trend of price and rent etc.

The economy figures are growing steady in recent years in both of the two countries, while the future is also forecasted optimistically. The two firms would benefit from the robust growth in the economy. In the case of the business downturn, Besqab could convert its main business from the capital intensive business, the development of projects, to the knowledge intensive construction management and consultants, since

they are really experienced in the Swedish RE industry. A severe economic recession did not happen in China in last two decades and the real estate crisis only happened 10 years ago in a few secondary cities. Nowadays, in most of cities in China, the property market presents a vivid picture with vigorous growth.

Financial risk

The financial risk in the real estate development is the uncertainty of the changes in interest rate, the credit availability, and exchange rate if international business is carried out. In Sweden, the current low interest rate for loans encourages the lending to industries and Besqab can easily finance itself in this positive situation. Moreover, the good credit record of the firm could also lower its financial risk. However, as a small firm, the financing channels of Besqab are still relatively narrow. Compared with Besqab, the SUPERSHINE faced the financial regulation which is restricted by restraining in investment and lending to RE industry, increasing in transaction cost. However, as a listed company, the Chinese firm has many financing channels and clear target groups in the market, which could efficiently diminish the negative effects.

Technical risk

The Technical risk refers to the delay of completion, the construction deficiency or failure in marketing the products during the development, which is generally the technical risk faced by a specific firm. For the Swedish firm, it could contract with insurance institution to prevent this type of loss. For example, if a project could not find enough buyers, the negotiated insurance company would purchases the rest. In China, the property developers including SUPERSHINE do not purchase the insurance for their customers, whereas, the customers are compulsory to buy it for the mortgage banks in order to prevent the possible loss to the banks.

7. Prospect for the Future

7.1 Prospect for the Future

Until now, the growth of Besqab is stable and gradual. The firm does not plan any big action or tremendous change in the near future. Every step Besqab walked forwards is considered carefully to avoid risk, and the aim of the firm is to operate well and slowly grow.

SUPERSHINE has already developed a large scale of projects, and has abundant experience in management and development. Because all the projects are located in Beijing, the firm is more competitive in terms of regional advantages and it has the strategy to expand its business to other main cities in China recently, so it will continue to grow rapidly in the near future.

7.2 Advantage and Disadvantage

Besqab

The advantages of Besqab are obvious. At the early, the founders of the firm came from a few of the biggest developers in Sweden who are experienced and specialized in this field. Then the well educated and professional founders formed a small elite team. The accurate and timely decision making are benefited by the clear and efficient organization. The success of the firm is also due to the accurate position of itself in the market. When it grows as a middle size developer in Sweden, the firm concentrate on the quality of its products, such as smart designs, customer oriented service. Due to its diversified business strategy, in the bad time, Besqab could convert its business from development to consultancy or construction management easily.

The size is also a disadvantage of Besqab. The relatively small size may limit the competitiveness to other big firms and confine itself from larger projects with more profit. In addition, the middle and small size firms would be much more vulnerable in an economic crisis compared with the large firms. There is no obvious deficiency specifically for the firm itself which is proved by the brilliant market performance in recent years.

SUPERSHINE

SUPERSHINE has not only the concentrated-staff management but also various training programs that have been supplied to the staff. The main stream of employees is around thirties years old with strong education background, and most of them are highly responsible for their duties. Furthermore the firm makes use of all kind of opportunities to enhance the cohesion of the employees, the sprit of team-work and the loyalty to firm.

Due to the successful projects, SUPERSHINE got the praise by the public media and

the name or logo of the firm has its brand effect. The customers, who have bought the property that was developed by SUPERSHINE, were pleased to recommend their friends or relatives to purchase it as well.

The creative atmosphere is always prevailing in the firm. When a new project is developed, the firm will always give a concept for its advertising strategy, such as “warmly and cozy family”, “CBD elite”, “new urbanism”, “international and globalization in Beijing” etc.

However, because of the relative stable real estate market in Beijing and the high entrance threshold of this industry in China, SUPERSHINE could not engage in a perfectly competitive market, so it has a lack of risk awareness.

Another drawback is the accuracy and correctness of decision could not be tested efficiently. Sometimes, the decision making can not be checked by whether a project is successful or not, but more depends on the financial indices. To SUPERSHINE, it is not an integrated index system about the formulation of financial targets/plans, the maximum of profit, and the most efficiency solutions, etc.

Many listed property developers do not only invest in a single market area where the firm is located, but also have entered into other cities. These firms have accumulated many experiences and knowledge of cross-region development. However, SUPERSHINE, compared to them, is just an “elementary student” who is in the beginning stage.

8. Conclusion of Comparison

8.1 Summary of Result

For the economy situation, in recent years, Sweden experienced a minor downturn shift and still in recovery and China has a relatively stable growth in GDP. However, China is still a developing country compared to the rich and post-industrial Sweden. And Sweden tracks the globe economy closely, while China is merging into the global economy. In the details the inflation rate, the short and long term interest rates are similar and on a low level in both countries, which show the influence of globalization, except that the unemployment rate in China is underestimated compared with the publicized figure and actual higher than it in Sweden.

The Swedish RE market presents the features of a mature market with transparency and liquidity, while the RE market in China reflects the overheated state with huge potential demand in current beginning phase. The foreign investment in Sweden RE market account for much higher portion compared with China. The vacancy rate of commercial property is climbing up but demand for housing is still unsatisfied even though new construction increased in Sweden. The supply of property would be more close to equilibrium from a surplus in China. The property price, whatever the type, increased significantly overall in China, but varied in different property types in Sweden. There is a specific property index annually summarizing the RE market in Sweden, but not a unified index accepted by the public yet in China.

Two RE developers are selected in Sweden and China respectively. The Swedish firm Besqab is a relatively middle sized private firm specialized in residential and office property. The Chinese firm SUPERSHINE is a large state-owned listed company with five subsidiary firms concentrated on residential, office and hotel. Besides project development, the development consulting, construction management and real estate management are also carried out by Besqab, while the SUPERSHINE and its sub-firms mainly act as developers and the business of real estate management is undertaken by one of its sub-firms.

On the aspect of organization structure, due to the different management ideas, Besqab is more decentralized than SUPERSHINE, because the organization structure of the Besqab is mainly on the basis of the business types and projects locations, which indicates that the business departments and local offices have relatively more flexible and are much powerful than SUPERSHINE's functionary departments and subsidiaries which actually service different projects.

To the financial issues, various financial figures and stock performance of the two firms indicated the successful operation and achievement of the respective strategy in each market recently. Meanwhile, the two firms maintained their equity/debt ratio around 30% as an acceptable level simultaneously.

For the financing aspect, both of the two firms don't have any obvious financing problem. The loan from bank is the prior option for them and joint-venture capital will be considered as supplement. The amount of absorbed capital from the stock market does not work effectively as the expectation of SUPERSHINE. The Besqab does not systematically setup its financial control system, but it would keep the equity/asset ratio around 30% as a long term target. The SUPERSHINE establishes its financial control system through three aspects: financial targets, cost control and cash flow control.

Besqab and SUPERSHINE both partly source out their business to the third parties and just the detailed outsourcing aspects in the two firms are different.

Both companies have set up intranet and use the internet and computers frequently. Their websites not only advertised the projects developed but also emphasized the relationship with investors. In addition, the service center of Besqab set a specific webpage concerning of customer feedback.

The number of employee in SUPERSHINE is about two times that of Besqab, and the business carried out by the Chinese firm is much larger than Besqab. The education background is high in both two firms, but the staff of SUPERSHINE is much younger. The structure of occupation is quite similar between the two firms while the technical and market personnel are the majority. Both two firms adopted the performance related payment and SUPERSHINE chose the Balanced Scorecard as the more specific achievement measurement. And compared to Besqab, SUPERSHINE designed more training programs for its staff.

The operational risk management is implemented effectively in the two firms. The risk in business of Besqab seems lower than SUPERSHINE due to the stable business environment in Sweden and the good awareness in market of Besqab itself.

For the prospect of future, both of two firms believe the coming years will be still bright for themselves. Besqab takes a prudent and discreet attitude towards its future development, while SUPERSHINE decides to expand its projects to a large scale and possibly extend its business in other cities of China.

8.2 Advices of Author

Although there are many heterogeneous aspects between the two firms, the operation and market performance of them is quite successful under each political and economy situation, and there is no obvious deficiency existed. For Besqab, the authors suggest that the best strategy for them is actually taking effort to keep current strategy with every step of operation, meanwhile exploring the possible financing channels in order to enhance its competitive position with larger developers. For SUPERSHINE, the changes in equity ratio should be better in line with fluctuations in total asset; and

accuracy of decision making should be improved; the firm might take faster steps to expand to other cities because of the strict administrative fiat about ceasing construction between the middle of 2007 and 2008 for the Summer Olympic Game by Beijing municipal government.

During the writing of this thesis, the impressive parts are not only the different aspects between the two firms, but also the excellent public information system and transparent business environment the Swedish firms enjoyed. For example, the authors could easily obtain Swedish detailed economic figures in any possible periods without language barrier from various websites of government departments. However, the same data collecting procedure of China takes almost tenfold with the difficulty due to the delayed in publication or confidential to public. The authority in China really needs to enhance the accessibility of official information to the public.

Meanwhile, the improvement of the business environment is also vital to the prospective of one industry, including legislation and rational administration. In China, the restriction and regulation in business activity still curb the development of markets. The shadows of the previous Soviet-style centrally planned model still exist and negatively affect the current economy; the state monopolized in some markets due to the huge profit; the corruption problems leading to unfair competition. All the deficiency needs to be overcome in the future in order to establish a healthy business atmosphere.

Last but not least, the contribution of firms themselves to the industry is also important and related to its successful future. Taking Sweden as example, the idea of the Swedish Property Index (SPI/IPD) is originated by 12 major property owners in order to offer the convenience of investing in real estate industry. The real estate companies in China could also co-operate in such non-commercial projects. Although there might not be a huge profit immediately, the benefit would be profound in the long run.

8.3 Suggestions for Further Research

This thesis provides a general panorama of the economy, the real estate market and two typical real estate developers in Sweden and China. The selected aspects of are limited to the information that have collected, which means that the authors take efforts to present what is comparable and acquirable. For some aspects, such as the exact wage levels, the real profit, which might be confidential to a firm, the authors are limited to obtain the relevant information and have to exclude them in the thesis. The readers who interested in the title of comparison between Sweden and China property developers may continue the work by adding aspects if the data and information are accessible, or just write about a few aspects but in depth. Meanwhile, the aim of work can be expanded to a great extend, such as comparison of property developers between Asian and Nordic countries, the real estate management

companies of Europe and Asia etc.

The thesis itself is partly inspired by the work done by a previous student of KTH. The authors of this thesis sincerely hope that the relevant topics could be continued, furthermore, the studying of communication between different areas and cultures in the world could be increased in the future.

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Appendices

Appendix I: History of China' Real Estate Development

China's real estate industry has developed from almost nothing since 1978 to become one of the most important sectors of the economy. Value added produced by the real estate industry in 2004 amounted to SEK1,3 trillion, accounting for nearly 10 percent of GDP. China's real estate industry has experienced five periods of development over the past fifty- five years.

Period I : Real estate industry was in a state of dormancy (from 1949 to 1978).

After China independence, all of the lands, housing and other production materials including the private-owned ones became state-owned or collective-owned properties by different approaches. Allocation of land and housing as welfare were free of charge. So China RE industry did not exist any more.

Period II : Theory breakthrough and testing phase (from 1978 to 1991)

Some Chinese economic scholars brought forward the conceptions, according to which house is a kind of commodity and land use right is a kind of real property right. Both of them are apparent to understand nowadays, but at that rigid-control time, this theory is a historical breakthrough in Chinese real estate development. After that, the state council proposed a new policy for the transferability of land use right in the free market. The Special Economic Zones Office, under the State Council, was delegated to test the in the four open cities of Shanghai, Tianjin, Guangzhou, and Shenzhen.

Period III : Irrational and overheating development and policy control phase (From1992 to 1995)

Housing reform was taken wholly in 1992 in China. The real estate industry developed dramatically, the highest rate of increasing investment a month in real estate sector was even 146.9%, so there was a obviously a "bubble" in real estate in urban areas. After the government partly changed the policy, real estate industry experienced a downturn.

Period IV : Relatively stable development phase (From 1995 to 2002)

With the in-depth housing reform and the increasing income of household, houses had become a new and hot consumption point for families, furthermore with ceasing the welfare housing system in which the government provided nearly free housing for urban residents until the late 1998 and supporting financing service to the house-buyers from banks, real estate began a golden development period, and became a important part of the GDP in China.

Period V: New administrative fiat for the new “bubble” (From 2003 to now)

Because the previous stimulus package (including increasing expenditure on housing), the price of housing soared in main urban areas especially in Shanghai, Beijing, Hangzhou, Guangzhou, etc. So the central government puts forward a series of new administrative fiat once more in order to stabilize prices while restraining investment and lending.

Appendix II: Interview questions with SUPERSHINE and BESQAB



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The Department of Real Estate and Construction Management
Beijing, China
September 27, 2005

INTERVIEW QUESTIONS WITH SUPERSHINE CO., LTD

2005-10-12, Beijing, Ms. Li Sun and Mr. Qi Zhou.

About the firm

- 1.) What is the current situation on the real estate market in mainland of China? And how will SUPERSHINE CO., LTD react in this situation? How can you value the current position of SUPERSHINE CO., LTD among the Chinese listed real estate companies (the listed real estate companies in Hong Kong, Tai Wan and Macao are not included)?
- 2.) Generally, could you introduce the history of your firm to us? For examples, how many property projects has SUPERSHINE CO., LTD been developed? How many square meters properties have been developed by SUPERSHINE CO., LTD? Is the company specialized on a certain type of properties?
- 3.) Who is the main owner and what is the ownership structure of SUPERSHINE CO., LTD?
- 4.) How does the stock of your firm perform in the market recent years? How about the changes of earning per share and price? What is the estimated β of this stock?

Financial situation and management

- 5.) How about the balance sheet of asset? Is there a large change about the liability ratio in recent years?
- 6.) How much of the main operation income and net profit change in recent years?
- 7.) Does your firm prefer debt or equity financed?
- 8.) Do you have a finance control system? What are the financial and non-financial targets?
- 9.) How does the firm react to negative macro policy? Such as rising interest rate, credit restrain etc.

Human Resource

- 10.) How is the job satisfaction and motivation measured? How to evaluate the achievements of the employee?

- 11.) How does the skill of your employees develop from the training programs?
- 12.) How high is the absence rate because of sickness?
- 13.) What is the number of employees? How is the disposition men/women?
- 14.) What is the average age of the employees and their education background?
- 15.) Does the company have an incentive and bonus wage system for their employees? How much does the wage payment account for the total debt?

Management issues

- 16.) Is the method of outsourcing used?
- 17.) How much is internet and IT used in the company? How many computers do you have?
- 18.) Which methods of market valuation are used?
- 19.) How is risk management implemented?

Prospect for the future

- 20.) What are the strategies to strengthen the competitiveness or what is advantage of your company compared to other competitors?
- 21.) And based on the successful and unsuccessful projects, what kind of experience have you learnt from the history?
- 21.) What are the strong or weak points of your competitors?
Is there a plan for the future development of your firm?



Royal Institute of Technology (KTH)
The Department of Real Estate and Construction Management
Stockholm, Sweden
December 21, 2005

INTERVIEW QUESTIONS WITH BESQAB AB

2005-12-21 Stockholm, Mr. Freddie Norvell

About the firm

- 1.) What is the current situation on the real estate market in Sweden? And how will BESQAB AB react in this situation? e.g., the demand/supply, the investment, the price, the vacancy rate
- 2.) Generally, could you introduce the history of your firm to us? For examples, how many property projects has BESQAB AB been developed? Could you introduce some of the projects to us? What is the main revenue of BESQAB? How many square meters properties have been developed by BESQAB AB? Is the company specialized on a certain type of properties?
- 3.) Who is the main owner and what is the ownership structure of BESQAB AB? And what is the organization structure of BESQAB AB?

Financial situation and management

- 4.) How about the balance sheet of asset? Is there a large change about the debt ratio in recent years?
- 5.) How much of the main operation revenue, income after financial items, cash flow from current operation, net asset and book value in recent years?
- 6.) How about your share structure? How about the changes of earning per share and price?
- 7.) Does your firm prefer debt or equity financed? What are BESQAB's financing channels?
- 8.) Do you have a finance control system? What are the financial and non-financial targets?
- 9.) How does the firm react to negative fiscal and monetary policy? Such as rising interest rate, credit restrain or something like that.

Human resource

- 10.) What is the number of employees? How is the proportion between men and women?
- 11.) What is the average age of the employees and their education background?
- 12.) How high is the absence rate because of sickness?
- 13.) Does BESQAB have its staff training plan? Could you give us some details about it?
- 14.) Could you introduce BESQAB's performance measurement for its staff to us? How is the job satisfaction and motivation measured?
- 15.) Does the company have an incentive plan for their employees? Such as bonus wage system, etc.

Management issues

- 16.) Is BESQAB an outsourced firm?
- 17.) How much is internet and IT used in the company? How many computers do you have?
- 18.) Which methods of market valuation are used?
- 19.) How is operational risk management implemented? Such as: when BESQAB faces the changeable outside environment? The risk includes politic risk, market risk, financial risk, technical risk

Prospect for the future

- 20.) What are the strategies to strengthen the competitiveness or what is advantage of your company compared to other competitors?
- 21.) And based on the successful and unsuccessful projects, what kind of experience have you learnt from the history?
- 22.) What are the strong or weak points of your competitors? Is there a plan for the future development of your firm?