You should read the following discussion and analysis in conjunction with our audited combined financial statements prepared in conformity with HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, together with the accompanying notes, set forth in the accountants' report included as Appendix IA to this document. Information presented in this section that is not extracted or derived from the accountants' report has been extracted or derived from unaudited management accounts or other records. You should read the whole of the accountants' report and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our actual results reported in future periods could differ materially from those discussed below. Factors that could cause or contribute to such differences include those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this document.

For the purpose of this section, unless the context otherwise requires, references to 2005, 2006 and 2007 refer to our financial year ended December 31 of such year.

OVERVIEW

We are the leading residential property developer in Henan Province according to the China Real Estate Top 10 Research Team, based on a number of factors including scale, profitability and growth rate. Having engaged in property development activities since the early 1990s, our Directors believe that our focus on residential property development in Henan Province, the most populous province in China, has enabled us to capture the opportunities presented by the province's economic growth. As of March 31, 2008, we had property projects in various stages of development in 19 cities across Henan Province, including 16 prefecture-level cities (地級市) and three county-level cities (縣級市).

For almost 15 years, we have successfully developed residential properties in Henan Province, in particular targeting customers in the mid- to high-end market. Our Directors believe that our success is attributable to our understanding of the residential property market in Henan Province, the leadership of our experienced management team headed by Mr Wu, and our commitment to high-quality design and development and customer service. Many of our residential property developments are integrated residential complexes offering a combination of product types, such as villas, townhouses, and low-rise and high-rise apartment buildings, and we seek to enhance our customers' living experience through the inclusion of amenities such as clubhouses, retail units and landscaped gardens in most of our property developments.

For 2005, 2006 and 2007 our turnover was RMB1,096.0 million, RMB1,261.3 million and RMB1,821.7 million, respectively. Over the same periods, our net profit attributable to equity holders of our Company was RMB55.2 million, RMB141.0 million and RMB165.0 million, respectively.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The financial statements included in Appendix IA to this document and the related financial information included in this section present the combined results of operations of the companies comprising our Group as if our current group structure had been in existence and remained unchanged throughout the period from January 1, 2005 through December 31, 2007 (or since the date of such companies’ incorporation or acquisition, where shorter). In addition, our combined balance sheets have been prepared to present the assets and liabilities of our Group as if our current group structure had been in existence as of the relevant dates. All material intra-group transactions and balances have been eliminated in full on combination.

Because the same ultimate equity holder controlled our Group before and after the Reorganization and consequently there was continuity in terms of the risks and benefits to the ultimate controlling equity holder, our Group’s financial statements have been prepared as a reorganization of businesses under common control. Accordingly, the relevant assets and liabilities of the companies comprising our Group have been recognized at the carrying amounts recognized previously in our Group’s combined financial statements.

RECENT DEVELOPMENTS

In May 2007, we agreed to acquire a 65% interest in Luoyang Zhongya, as part of the Country Star Acquisition. Completion of this acquisition is scheduled to take place on June 30, 2008 according to the terms of the Cooperation Agreements. For details of the Country Star Acquisition, including the conditions precedent to which the acquisition is subject, please refer to the sections headed “History, Development and Group Structure — Recent Developments — Acquisition of Country Star” and “Risk Factors — Risks Relating to Our Business — Our acquisition of new project companies may not be completed within the time currently expected, or at all” in this document.

The financial information of Luoyang Zhongya for 2005, 2006 and 2007 is included in the accountants’ report in Appendix IB to this document. Luoyang Zhongya’s financial statements will be consolidated into our financial statements from the completion date of the Country Star Acquisition. Luoyang Zhongya has a development, known as the Huayang Square (Luoyang) project, which is expected to become one of our major projects. Accordingly, we anticipate that this acquisition will have a significant impact on our results of operations and financial condition.

We currently plan to develop Huayang Square (Luoyang) as a residential and commercial development. Luoyang Zhongya has obtained all the land use rights certificates for the parcels of land in the Huayang Square (Luoyang) project, which has an aggregate site area of approximately 290,171 sq.m and an aggregate planned GFA of approximately 966,945 sq.m. Luoyang Zhongya commenced construction of this project in April 2008 and expects to complete construction in May 2012. For further details of the Huayang Square (Luoyang) project, please refer to the section headed “Business — Other Projects — Huayang Square (Luoyang)” in this document.

SELECTED HISTORICAL FINANCIAL INFORMATION OF OUR GROUP

The following combined income statements for 2005, 2006 and 2007, and the selected combined balance sheet information as of December 31, 2005, 2006 and 2007, are derived from our audited combined financial statements prepared in accordance with HKFRS, which are included in the accountants' report set forth in Appendix IA to this document.

Combined income statement and other financial data

	For the year ended December 31		
	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)
Turnover	1,096,024	1,261,265	1,821,663
Cost of sales	(873,682)	(932,569)	(1,308,374)
Gross profit	**222,342**	**328,696**	**513,289**
Other revenue	17,846	26,754	22,709
Other net (loss)/income	(528)	8,930	854
Selling and marketing expenses	(66,415)	(74,284)	(87,418)
General and administrative expenses	(38,250)	(49,953)	(94,533)
Other operating expenses	(11,532)	(21,168)	(11,729)
Profit from operations	**123,463**	**218,975**	**343,172**
Share of (loss)/profit of jointly controlled entity	(161)	635	(262)
Share of loss of an associate	—	—	(2,315)
Finance costs	(44,546)	(59,053)	(48,873)
Profit before increase in fair value of investment properties and income tax	**78,756**	**160,557**	**291,722**
Increase in fair value of investment properties	21,126	25,089	13,823
Profit before taxation	**99,882**	**185,646**	**305,545**
Income tax	(50,390)	(52,891)	(134,977)
Profit for the year	**49,492**	**132,755**	**170,568**
Attributable to:			
Equity holders of our Company	55,183	141,013	164,988
Minority interests	(5,691)	(8,258)	5,580
Dividends	44,000	20,000	76,612
Basic earnings per share (RMB cents)	[●]	[●]	[●]
Other financial data:			
Net cash used in operating activities	(161,678)	(143,124)	(273,747)

Selected combined balance sheet information

	As of December 31		
	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)
Total assets	**2,481,906**	**3,838,564**	**5,558,522**
Current assets	2,117,004	3,404,310	5,044,793
Including: Cash and cash equivalents	156,046	319,758	399,602
Non-current assets	364,902	434,254	513,729
Including: Investment properties	227,100	274,150	246,600
Total liabilities	**2,280,907**	**3,028,448**	**4,083,721**
Current liabilities	1,893,747	2,515,360	3,634,537
Including: Bank and other loans	485,254	526,146	1,001,273
Non-current liabilities	387,160	513,088	449,184
Including: Bank and other loans	365,018	482,667	384,430
Total equity	**200,999**	**810,116**	**1,474,801**
Attributable to equity holders of our Company	147,621	736,958	1,330,287
Attributable to minority interests	53,378	73,158	144,514

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control, including those set forth below.

Economic growth, speed of urbanization and demand for residential properties in China, particularly in Henan Province

Economic growth, urbanization and improving standards of living have been the main forces driving the increasing market demand for residential properties in China. At the current stage of China's economic development, while the property industry is regarded by the PRC Government as one of China's pillar industries, the property industry is significantly dependent on overall economic growth, including the increase in the purchasing power of Chinese consumers and the resultant demand for residential properties in China. The development of the private sector and increasing urbanization, together with the growth in demand for residential properties, particularly in Henan Province, have in the past contributed to the success of our property developments and to our turnover, which was entirely generated from operations in Henan Province during the Track Record Period. These factors will continue to have a significant impact on our results of operations.

Our Directors believe that recently the property market in China has generally been less buoyant as a result of a number of factors, including regulatory measures adopted by the PRC Government, as described below, and volatility in the PRC stock markets.

Regulatory measures in the real estate industry in China

PRC Government policies and measures regarding property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC Government adjusts its taxation policies and its macro-economic control policies to encourage or restrict property development. Since 2004, the PRC Government has taken various steps to control money supply, credit availability and fixed asset investment with a view to preventing China's economy from expanding too rapidly and to achieving more balanced and sustainable economic growth. In particular, the PRC Government has implemented measures designed to slow the rate of growth in the property market by discouraging speculation in residential property and increasing the supply of affordable housing. Such measures have included those relating to land acquisition, the pre-sale of property, bank financing, taxation, planning and zoning, and building, construction and design. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations. For further details, please refer to the sections headed "Risk Factors — Risks Relating to the Property Sector in the PRC — The regulatory measures adopted from time to time by the PRC Government to curtail the overheating of and foreign investment in the PRC property market could slow down the property industry's growth or cause the property market to decline" and "Industry Overview — The Property Market in the PRC" in this document and the section headed "Summary of PRC Laws Relating to the Property Sector" in Appendix VI to this document.

We are also highly susceptible to regulations or measures that may be adopted by the PBOC restricting bank lending to enterprises, particularly to real estate developers. Moreover, a substantial portion of our purchasers depend on mortgage financing to buy our properties. Regulations or measures adopted by the PRC Government that restrict the ability of purchasers to obtain mortgages or that increase the costs of mortgage financing may decrease market demand for our properties and adversely affect our sales turnover.

Ability to acquire suitable land

Our continuing growth will depend in large part on our ability to secure quality land at prices that can yield reasonable returns. Based on our current development plans, we have sufficient land reserves for approximately the next three to four years. Assuming the PRC economy continues to grow at a relatively high speed and demand for residential properties in China remains strong, we expect that competition among developers for land reserves that are suitable for property development will intensify, driving up land acquisition costs. The public tender, auction and listing-for-sale practice in respect of the grant of State-owned land use rights is also likely to increase competition for development land and to increase land acquisition costs as a result. The recent regulatory requirements by the PRC Government prohibiting land use rights certificates from being issued before the land premium has been fully paid up pursuant to the land use rights grant contract and prohibiting the issue of land use rights certificates covering less than all the relevant land in proportion to the land premium paid are expected to be additional factors increasing the difficulty of obtaining land and further contributing to higher land acquisition costs.

Location and product mix

The location of our projects and the type of properties sold are important factors affecting our results of operations. In general, properties developed in Zhengzhou City incur higher costs than in other cities in Henan Province, primarily due to higher land acquisition cost, but also generate higher turnover and gross profit margin as these projects are usually high-end developments, suiting the provincial capital's higher living standards.

Among the types of properties we sell, villas and townhouses usually afford us higher profit margins than low-rise and high-rise apartments, as they typically have lower development costs and higher sales prices per square meter. Consequently, PRC Government restrictions on the size and type of our units developed may affect our results of operations. We also have recently begun developing commercial properties, which we expect will generally afford us higher profit margins than our residential complexes.

Accordingly, our results of operations and the sources of our cash from operations may vary significantly from period to period, depending on the location of the projects we have completed or sold and the type of products completed or sold in the period.

Pre-sales

Pre-sales constitute the most important source of our operating cash inflow during our project development process. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain conditions and requires us to use the pre-sale proceeds to develop the projects pre-sold. The amount and timing of cash inflow from pre-sales are affected by a number of factors, including timing and other restrictions on pre-sales imposed by the PRC Government, market demand for our properties available for pre-sale and the number of properties available for pre-sale. Reduced cash inflow from pre-sales of properties would increase our reliance on external financing and increase our financing expenses, which could in turn impact our ability to finance our continuing property developments.

Access to capital and cost of financing

Loans from banks and other parties, in addition to equity financing, are an important source of funding for our property developments. As of December 31, 2005, 2006 and 2007, our outstanding loans amounted to RMB850.3 million, RMB1,008.8 million and RMB1,385.7 million, respectively. As commercial banks in China link the interest rates on their bank loans to benchmark lending rates published by the PBOC, increases in such benchmark lending rates have resulted in, and will continue to result in, increases in the interest costs related to our developments.

Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government on bank lending for property development. Please refer to the sections headed “Risk Factors — Risks Relating to our Business — We may not have adequate financing to fund our land acquisitions and property developments and may require additional financing in the form of debt or equity” and “— We face contractual and legal risks relating to the pre-sales of properties, including the risk that property developments are not completed or delivered on time or at all and risks relating to changes in laws and regulations in relation to the pre-sale of properties” and “Industry Overview — The Property Market in the PRC” in this document.

Price volatility of construction materials

Our results of operations are affected by volatility in the price of construction materials. The cost of construction materials, which is generally included in payments to our construction contractors, constitutes the most substantial item among our construction costs, significantly exceeding our construction labor cost and project design cost, and any rise in the cost of construction materials may result in an increase in the fees charged by our construction contractors. In particular, the guidance price of steel issued by the local construction committee (建設委員會) has fluctuated significantly in the past, declining from a quarterly average of RMB3,442 per tonne in 2005 to RMB3,198 per tonne in 2006, before rising to RMB3,626 per tonne in 2007. Despite the efficiencies and pricing advantages of our volume purchases when we purchase ancillary construction materials directly from suppliers, higher costs of any significant construction materials, particularly those purchased by our contractors, will impact our overall construction costs and cost of sales. If we cannot pass any or all of the increased costs on to our customers, our profitability will be adversely affected.

Income Tax

Our income tax expense represents PRC EIT liabilities and LAT paid and accrued by our operating subsidiaries.

EIT

Our PRC EIT has been calculated at the applicable tax rate on our assessable profits for each year during the Track Record Period. The EIT rate generally applicable in the PRC was 33% during the Track Record Period. Under the Enterprise Income Tax Law, a uniform tax rate of 25% applies from January 1, 2008 to all enterprises operating in the PRC, including foreign-owned enterprises which have set up production and operation facilities in the country. This new uniform income tax rate may impact our future deferred tax liabilities and affect our results of operations.

Under the Provisional Measures for Authorized Taxation Method of Real Estate Enterprise Income Tax in Henan Province (Yu Di Shui Fa [2004] No. 89) (《河南省房地產企業所得税核定徵收暫行辦法》(豫地稅發[2004]89號)) promulgated by the Henan Province Local Tax Bureau on March 18, 2004, EIT levied on real estate enterprises in Henan Province may be calculated using the "authorized taxation method" (核定徵收) under which the standard statutory tax rate is assessed against their profit, which for these purposes is deemed to be a figure not lower than 10% of their revenue, depending on the location of the relevant subsidiaries, calculated in accordance with the applicable PRC tax regulations. As an alternative, EIT levied on real estate enterprises in Henan Province may be calculated using the "audited taxation method" (查賬徵收). Real estate enterprises can select the method of tax calculation they adopt, subject to the approval of the local tax authorities. Under the Provisional Measures for Authorized Taxation Method of Real Estate Enterprise Income Tax in Henan Province, the local tax authorities will determine on a case-by-case basis which method to apply. In considering whether to approve an application to use the audited taxation method, the local tax authorities will take into account primarily four prescribed factors: whether the real estate enterprise has systematic operational procedures in place, whether it has a proper financial system, whether it maintains accurate audited accounts and whether it has made timely tax payments. Other factors that the local tax authorities may consider when determining whether an enterprise should use the audited taxation method or the authorized taxation method include whether one of these methods would be likely to enhance the timeliness and convenience of the enterprise's tax payments and whether it would lower the local authorities' tax collection costs. Because an enterprise eligible for the audited taxation method is not obligated to apply for the adoption of that method of taxation and because the local tax authorities, in considering any application, may consider factors wholly extrinsic to the applicant, such as the convenience of tax collection, the use of the authorized taxation method by a real estate enterprise in Henan Province does not imply that the enterprise fails to satisfy any of the four criteria specified in the provisional measures.

During the whole or part of the Track Record Period, eight of our subsidiaries used the authorized taxation method to calculate their EIT liabilities[(1)]. Our Directors understand that in 2006, the Urban State Taxation Bureau of Jiyuan City (濟源市城區國家税務局) unified the taxation methods for large property developers in the region. This resulted in CCRE Jiyuan calculating its EIT liabilities using the audited taxation method in 2006 although it had been approved to use the authorized taxation method in 2005. Our PRC legal adviser has confirmed that the unification of the taxation method by the Urban State Taxation Bureau of Jiyuan City was not prohibited by the Provisional Measures for Authorized Taxation Method of Real Estate Enterprise Income Tax in Henan Province because, under the Detailed Rules for the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國税收徵收管理法實施細則》), local tax authorities are authorized to adopt taxation methods suitable for their respective areas, provided that such taxation methods are likely to enhance the timeliness and convenience of tax payments and lower the authorities' tax collection costs. If the EIT payable by our subsidiaries which used the authorized taxation method had instead been calculated according to the audited taxation method during the Track Record Period, we estimate that the additional charge to our Group for EIT would have been approximately RMB6.8 million, RMB23.8 million and RMB30.5 million for 2005, 2006 and 2007, respectively.

We are also required to provide for income tax on the fair value gains on our investment properties, which are recorded as deferred tax liabilities on our combined balance sheets for the period in which the fair value gains are recognized. These deferred tax liabilities will fluctuate from period to period in accordance with the change in the fair value of our investment properties. The change in deferred tax liabilities will be charged to our combined income statement. Moreover, as a result of the EIT rate cut which took effect on January 1, 2008, the future level of our deferred tax liabilities will also be affected. Please refer to the section headed "Risks Factors — Risks Relating to our Business — The relevant PRC tax authorities may challenge the basis on which we calculate our EIT obligations" in this document.

LAT

Under PRC tax laws and regulations, our project companies in the PRC are subject to LAT on the appreciation value of their land and the improvements on the land. Under the audited taxation method, all income from the sale or transfer of State-owned land use rights, and buildings and their attached facilities in the PRC, is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by relevant tax laws. Certain exemptions are available for the sale of ordinary residential houses (普通標準住宅) if the appreciation value does not exceed 20% of the total deductible items, but this exemption does not extend to sales of commercial properties. Under the Notice on Strengthening the Administration of Land Appreciation Tax (Yu Di Shui Han [2004]

(1) The eight subsidiaries are CCRE Puyang, CCRE Jiyuan, CCRE Jiaozuo, CCRE Zhongyuan, CCRE New Town, CCRE Henan, CCRE Xinyang and CCRE Xinxiang.

No. 125) (《關於加強土地增值稅管理工作的通知》 (豫地稅函[2004]125號)) promulgated by the Henan Province Local Tax Bureau (河南省地方稅務局) on June 16, 2004, the amount of LAT payable in Henan Province can be calculated using the authorized taxation method instead of the audited taxation method. Property developers are permitted to select the method of tax calculation they adopt, subject to the approval of the local tax authorities. Under the authorized taxation method, LAT liabilities are based on a fixed rate, which ranged from 0.7% to 3.5% of the proceeds from pre-sales of the properties, depending on the city in which the enterprise was located, during the Track Record Period.

Property developers are normally required to file tax returns with the relevant authorities within seven days from the date the property sale or transfer contract is signed, and the LAT is payable within the period specified by the local tax authorities. However, with the approval of the relevant tax authorities, real estate enterprises may file tax returns for LAT on a regular basis if they have a consistently high volume of transactions which makes it impracticable to file a tax return for each sale or transfer. Our Group is approved by the relevant tax authorities to file tax returns for LAT on a monthly basis and to settle our LAT liabilities for each month prior to the tenth day of the immediately following month.

During the Track Record Period, we estimated and made provisions for the full amount of LAT for which we were liable in accordance with the relevant PRC tax laws and regulations, and we paid the provisions each year based on the audited taxation method or the authorized taxation method, as applicable. For 2005, 2006 and 2007, we made LAT payments in the amount of approximately RMB9.7 million, RMB15.7 million and RMB39.1 million, respectively, and we made provisions for LAT in the amount of approximately RMB14.0 million, RMB14.3 million and RMB53.1 million, respectively. The LAT liabilities for 17 of our subsidiaries were calculated using the authorized taxation method during the whole or part of the Track Record Period. Our other subsidiaries used the audited taxation method to calculate their tax liability. The method of calculating LAT liability may differ for a subsidiary from year to year because we can choose to apply for an alternative taxation method or because the authorities fail to approve the taxation method for which the subsidiary applies. If the LAT payable by our subsidiaries which used the authorized taxation method had instead been calculated according to the audited taxation method during the Track Record Period, we estimate that the additional charge to our Group for LAT would have been approximately RMB6.4 million, RMB39.1 million and RMB43.9 million for 2005, 2006 and 2007, respectively.

As of the Latest Practicable Date, our LAT provisions and payments were in material compliance with LAT laws and regulations.

Fair value adjustment of investment properties

In accordance with HKAS40, the Hong Kong Accounting Standard for investment properties issued by the Hong Kong Institute of Certified Public Accountants, investment properties may be recognized by using either the fair value model or the cost model. We have chosen to recognize investment properties at their fair values because we are of the view that periodic fair value adjustments in accordance with prevailing market conditions provide a more up-to-date picture of the value of our investment properties. In 2005, 2006 and 2007, our Group recorded upward fair value adjustments on our investment properties, amounting to approximately RMB21.1 million, RMB25.1 million, and RMB13.8 million, respectively, in our combined income statements (which contributed to the related deferred tax expenses for these years).

Our investment properties under development are stated at cost less impairment loss until construction or development is completed, at which time they are reclassified as investment properties at fair value. Any difference between the fair value of an investment property at completion and its previous carrying amount is recognized in our income statement in the year of completion.

Reclassifying properties as investment properties has generally contributed to our revaluation surpluses and thus to the profit shown in our income statement. During the Track Record Period, the only reclassifications we made of properties to investment properties were of properties that previously had been under development and thus classified as investment properties under development. In 2005 and 2006, the recategorization of these properties upon their completion contributed RMB8.1 million and RMB3.5 million, respectively, to our revaluation surpluses. No investment properties were completed in 2007. Other than our investment properties under development, which will be reclassified as investment properties upon their completion, we currently have no intention of reclassifying any of our properties, including properties held for sale and properties under development for sale, as investment properties.

In light of the above, prospective investors should be aware that upward fair value adjustments, which reflect, among other things, unrealized capital gains in the value of our investment properties at the relevant balance sheet dates and sometimes arise upon the reclassification of our properties as investment properties, are not profit generated from day-to-day rental income from our investment properties, are largely dependent on the conditions prevailing in the property markets, and do not generate cash inflow to our Group for dividend distribution to our Shareholders unless such investment properties are disposed of and the capital gains are realized. Moreover, prospective investors should be aware that property values are subject to market fluctuations, and we cannot assure you that our Group will be able to continue to record favorable fair value adjustments on investment properties in similar amounts or at all in the future. Should there be any severe downward fair value adjustments on our investment properties in the future, our results of operations may be materially and adversely affected.

Interim fluctuation of results of operations

Our results of operations tend to fluctuate from period to period. The number of property developments that a developer can undertake during any particular period is limited by the substantial amount of capital required to fund land acquisitions and to pay construction costs, as well as by the supply of land. It may take many months, or sometimes years, before any pre-sale of property occurs in a property development. Although the pre-sale of a property generates positive cash flow for us in the period in which it is made, no sale is recognized in respect of a property until its development has been completed or the property has been sold, whichever occurs later. As construction timetables vary, turnover in a particular period depends in part on the number of properties completed in the period; and as market demand is not stable, turnover also depends on the number of completed properties sold in the period. Effective management of our revenue stream depends on our ability to gauge, at the launch of a particular project, the expected demand in the market at the anticipated time of completion. As a consequence, our results of operations may fluctuate in the future.

In addition, in recent years we began to develop larger-scale property developments and, as a result, we now typically develop properties in multiple phases over the course of several years.

Generally, the sales prices of properties in such larger-scale developments tend to increase as the overall development nears completion thus offering a more established residential community to the purchasers. The proceeds from the pre-sale of our properties is recorded as receipts in advance when we have executed the pre-sale contract but have not yet received the completion certificate, while our revenue from the sale of our properties is recognized upon the later of the completion of the property, measured as receipt of the completion certificate, and the execution of the sale contract. Receipt of the completion certificate and execution of the sale contract normally occur several months to one year after the commencement of pre-sales. Because the length of time it takes to complete our projects varies depending on a variety of factors, such as the GFA of the project and the type of property constructed, and because the time of year that our projects are completed also varies, our results of operations may fluctuate significantly from period to period. As a consequence, our results of operations may fluctuate and our interim results may not proportionally reflect our annual results.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our combined financial statements for 2005, 2006 and 2007, which have been prepared in accordance with HKFRS. Our reported financial condition and results of operations are sensitive to accounting methods and assumptions and estimates that underlie the preparation of the financial statements. We continually evaluate our estimates and assumptions and base them on historical experience and on various other factors that our Directors believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results typically differ from these estimates. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

The selection of critical accounting policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our Directors believe the following critical accounting policies are among those that involve the most significant judgments and estimates used in the preparation of our combined financial statements.

Revenue recognition

Turnover consists primarily of the proceeds from property development, comprising both property sales and property leasing, after the elimination of transactions among the companies currently comprising our Group and excluding business tax and other sales-related taxes.

Revenue from the sale of a property is recognized when the significant risks and rewards of ownership of the property are transferred to the purchaser, which occurs upon the later of the execution of the relevant sale contract and the completion of the property (which is deemed to occur upon receipt of the completion certificate), provided the collectibility of the related receivable is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included under current liabilities in our combined balance sheet as receipts in advance.

Revenue arising from property leasing is recognized in our income statements in equal instalments over the periods covered by the respective lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in our income statements as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

When the outcome of a construction contract can be estimated reliably, revenue from the contract is recognized by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that the costs incurred to date bears to the estimated total costs of the contract.

Development costs

During construction, development costs of properties to be sold are recorded under inventories in our balance sheet as properties under development for sale and are transferred to our income statement upon recognition of the revenue from the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by our Group in amounts based on our management's estimates.

When developing properties, we typically divide the development projects into phases. Costs directly related to the development of a particular phase are recorded as costs of that phase. Costs that are common to phases are allocated to individual phases in proportion to the saleable area.

Inventories

Inventories consist of (i) properties held for future development and under development for sale and (ii) completed properties. Inventories remaining unsold at the end of each financial period are stated at the lower of cost and net realizable value. Cost of inventories comprises construction costs, the costs of obtaining land use rights, and capitalized borrowing costs. Net realizable value of inventories is determined by reference to, and by management's estimates of, the expected sales prices based on the proceeds from other properties sold in the ordinary course of business, less the estimated costs to be incurred in selling the properties based on prevailing marketing conditions and, in the case of properties under development, the anticipated costs to completion.

Investment properties

Our investment properties comprise land and buildings that we own and hold for rental income or for capital appreciation. We record our investment properties as non-current assets on our balance sheet at their fair value. The valuations of our investment properties are carried out by a qualified independent firm of surveyors on an open-market value basis, calculated by reference to net rental income and allowing for reversionary income potential. As part of the valuation process, we supply the independent professional surveyor with a variety of information, including the leases existing on our investment properties and our estimate as to when and whether the lease terms may be extended, for the surveyor to use as a basis of its valuation. Such valuations involve estimates on the part of the surveyors, as well as judgment on the part of our management team in concluding that the method of valuation reflects current market conditions and can be relied upon.

Investment properties under development

We make impairment provisions for investment properties under development taking into account our management's estimates of the recoverable amounts from such properties. These recoverable amounts have been determined based on value-in-use calculations, which involves the exercise of professional judgment and requires the use of certain bases and assumptions with respect to various factors, including the latest market information and past experience.

Income tax

We are subject to income tax, including LAT on development projects in the PRC and EIT in the PRC and other jurisdictions. We use significant judgment in determining the provisions for income tax, as the calculations of such provisions depend on estimates of the ultimate tax determinations and are therefore subject to uncertainty.

LAT

Under PRC tax laws and regulations, our properties developed for sale are subject to LAT, which is collectible by the local tax authorities and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, calculated as the sale proceeds of properties less deductible expenditures including the acquisition cost of land use rights, borrowing costs and all property development expenditure. Some of our properties are subject to LAT levied at a different rate, which ranged from 0.7% to 3.5% over the Track Record Period, set by the relevant tax authority using the authorized taxation method, as detailed in "— Factors Affecting our Results of Operations — Income Tax — LAT" above. We estimate and make provisions for the amount of LAT payable under the applicable laws and regulations and recognize this as an income tax expense in our combined income statement together with the recognition of revenue from the sale of our properties. Because at the time we recognize revenue we may not have completed the entire phase of the relevant project or the project as a whole, our estimate of LAT provisions at the time of such delivery requires us to use significant judgment with respect to, among other things, the total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and the total amount of various deductible items. Our net profit in the relevant periods will be affected if the ultimate tax determination differs from the amounts that were initially recorded. Please refer to the sections headed "Summary of PRC Laws Relating to the Property Sector — Legal Supervision Relating to Property Sector in the PRC — Major Taxes Applicable to Property Developers — Land Appreciation Tax" in Appendix VI to this document and the section headed "Risk Factors — Risks Relating to our Business — The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations" in this document.

Deferred tax

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax assets in respect of tax losses carried forward are recognized and measured based on the expected manner of realization or settlement of the carrying amounts of the assets, using tax rates enacted or substantially enacted as of the balance sheet date. Future taxable profits that may support the recognition of deferred assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same tax authority and the same taxable entity and are expected to be reversed either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. In determining the carrying amounts of deferred assets, we estimate future taxable profits, which involves a number of assumptions relating to the operating environment of our Group and requires a significant level of judgment exercised by our Directors. Any change in these assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognized, and hence our net profit, in future years.

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

Turnover

Turnover represents income that arises in the course of our ordinary activity, net of business tax, after eliminating intra-group transactions. During the Track Record Period, we derived substantially all of our turnover from property sales, with a small portion derived from property rental and construction contracts.

Turnover in our property development segment consists of the proceeds from the sale of our properties. As we derive substantially all of our total turnover from property development, our results of operations for a given period are dependent upon the type and GFA of properties we have completed and sold during that period, the market demand for those properties and the price we obtain from the pre-sale or sale of the properties. Conditions in the property markets in which we operate change from period to period and are affected significantly by the general economic, political and regulatory developments in the PRC, particularly in Henan Province. For further details of the effect these factors have on our results of operations, please refer to the section headed “ — Factors Affecting Our Results of Operations — Economic growth, speed of urbanization and demand for residential properties in China, particularly in Henan Province” above.

In 2005, 2006 and 2007, we recognized revenue from the sale of properties in an amount of RMB1,090.8 million, RMB1,250.4 million and RMB1,663.0 million, respectively, in connection with the delivery of an aggregate GFA of approximately 353,068 sq.m., 394,101 sq.m. and 495,069 sq.m., respectively, representing an average realized sales price per square meter (calculated by dividing the turnover from property development by the aggregate GFA completed and sold) of RMB3,089, RMB3,173 and RMB3,359, respectively. Consistent with industry practice in the PRC, after satisfying the conditions for pre-sales set out in PRC laws and regulations, we often enter into pre-sale contracts with customers while the relevant properties are still under development. Please refer to the section headed “Business — Property Development — Pre-sale” in this document. Typically there is a difference of between several months and a year from the time we commence pre-selling properties under development to the completion of the properties. We do not recognize any revenue from the pre-sale of our properties until the development of such properties is completed (upon receipt of the completion certificate), even though the purchase price for a property is usually paid in stages prior to the completion of the property. Before the completion of pre-sold properties, deposits and purchase prices or portions thereof received from our customers are recorded as receipts in advance, which is a current liability on our combined balance sheet.

Also recorded as receipts in advance are the proceeds from properties sold or pre-sold subject to lease-back arrangements with a put option, whereby we agree to lease the property back from the purchaser at a specified rent and the purchaser retains an option to sell the property back to us following the expiration of the lease period (which is typically three years beginning from two or three months after the date of sale or date of completion of the property, as applicable) at the same amount as the price the purchaser paid for the relevant property or, in certain cases, with a premium of 10%. During the lease period, our Group bears the risk of property price fluctuations and has continuing involvement in the management of the properties. We do not recognize revenue from these sales until the significant risks and reward of ownership have been transferred to the buyers, which occurs when the relevant repurchase periods have expired without the repurchase option being exercised.

Our rental income represents recurring turnover from our investment properties, which has historically been generated from the rental of kindergarten and school facilities, retail units and car parking spaces and was generally recognized in our income statement in equal instalments over the periods covered by the respective lease terms over the Track Record Period. For 2005, 2006 and 2007, our turnover generated from rental properties amounted to RMB5.2 million, RMB10.8 million and RMB17.7 million, respectively.

In relation to one project, we recognize revenue generated from a construction contract. We were engaged by the Department of Land and Resources of Henan Province (河南省國土資源廳) under a contract in 2007 to manage the development of the Capital Garden Project, the details of which are set forth in the section of this document headed "Business — Other projects". For accounting purposes, our revenue from this project is regarded, in the accountants' report in Appendix IA to this document, as revenue arising from a construction contract. Revenue from such a contract is recognized by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract, when the outcome of a construction contract can be estimated reliably. When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that will probably be recoverable. For 2007, our turnover from construction contracts amounted to RMB141.0 million.

Cost of sales

Cost of sales mainly comprises the costs we incur directly in relation to our property development activities. The principal component of our cost of sales is the cost of properties sold, which includes the direct costs of construction and development, the cost of acquiring land, and capitalized borrowing costs on related borrowed funds during the period of construction.

The table below sets forth information relating to the cost of properties sold for each period during the Track Record Period.

	For the year ended December 31					
	2005		2006		2007	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Construction & development costs	612,714	*70.2*	700,537	*75.1*	881,236	*75.2*
Land acquisition costs	220,343	*25.2*	180,814	*19.4*	228,110	*19.4*
Capitalized borrowing costs	4,537	*0.5*	19,752	*2.1*	20,937	*1.8*
Others*	35,773	*4.1*	31,151	*3.4*	42,167	*3.6*
Total	873,367	*100.0*	932,254	*100.0*	1,172,450	*100.0*
Cost per sq.m. of GFA sold	2,474		2,366		2,368	

* "Others" comprises overhead costs of project management.

Our cost of properties sold mainly comprises construction and development costs and land acquisition costs, which together accounted for approximately 95% of our cost of properties sold during the Track Record Period. As a proportion of our total cost of properties sold, construction and development costs increased in each period, from 70.2% in 2005 to 75.2% in 2007, while land acquisition costs decreased as a proportion of the total, from 25.2% to 19.4%, between these years. These movements were principally attributable to an increasing proportion of our property developments being situated outside Zhengzhou City, which lowered the contribution of land acquisition costs to the total cost of sales.

We recognize the cost of sales of our properties for a given period to the extent that revenue from such properties has been recognized in that period. Properties under development and completed properties held for sale are included in our combined balance sheets at the lower of cost and net realizable value, each as described above under "— Critical Accounting Policies". Cost of sales incurred in connection with work under construction contracts is recognized incrementally depending on the stage of the construction. The components of our cost of sales may change in any given year based on the type and location of properties completed and sold. Please refer to the section headed "Business — Property Development" in this document.

Construction and development costs

Construction and development costs include all of the costs for the design and construction of a project, including payments to third-party contractors and designers and the cost of construction materials. Historically, construction material costs have been a major cause of fluctuations in our construction costs. Please refer to the section headed "— Factors Affecting Our Results of Operations — Price volatility of construction materials" above. Price movements of other supplies in relation to property developments, including ventilation systems, plant watering systems, elevators and interior decoration materials, may also increase our construction and development costs. Costs associated with the design and construction of a building's foundation are a particularly significant component of our construction and development costs and vary not only according to the area and height of the building but also according to the geological conditions of the site. The foundation design and construction process for developments in different localities and the respective costs incurred may vary considerably. Construction costs of a property development may therefore be higher if the conditions of a site require more complex designs and processes or more expensive materials to provide the necessary foundational support.

In addition, with the overall improvement in living standards in the PRC as well as the PRC Government's recent policies aiming to increase the wages of migrant workers, we expect the trend of increasing labor costs to continue in the near future, which in turn will increase our construction and development costs.

Land acquisition costs

Land acquisition costs include costs relating to the acquisition of rights to occupy, use and develop land, including land premiums (which are incurred in connection with a land grant from the PRC Government or land obtained in the secondary market by transfer, cooperative arrangement or corporate acquisition), the applicable deed tax associated with the acquisition of land, and other land-related taxes and government surcharges. Our land acquisition costs are influenced by a number of factors, including the location of the property, market conditions, the project's plot ratios, the approved use of the land and our method of acquisition, whether through PRC Government-organized tenders, auctions or listings-for-sale, through private sale transactions or through the acquisition of other companies that hold land use rights. Land acquisition costs are also affected by changes in PRC regulations.

Capitalized borrowing costs

We capitalize a portion of our cost of borrowing to the extent that such costs are directly attributable to the construction of a particular project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project, which predates the receipt of a permit for commencement of construction work, until the physical completion of construction. For any given project, the finance costs incurred after completing the construction of a project are not capitalized but are instead accounted for in our combined income statements as finance costs in the period in which they are incurred. Where the duration of a loan is longer than the time to completion of the project, we are unable to capitalize the total interest costs related to the project for the period after completion. Fluctuations in the amount and timing of capitalization from period to period will affect our finance costs.

Other revenue

Other revenue consists primarily of interest income on bank deposits, government subsidies granted, property management fees relating to the property management business conducted by Jianye Property Management which we disposed of in 2006, license income from the licensing of the Jianye trade name to a technology company before it stopped using this trade name in September 2005, and dividend income from unlisted equity securities.

During the Track Record Period, the unlisted equity securities that we owned, together with the value of the securities, were as follows:

Name of company	Nature of business	December 31 2005 (RMB'000)	December 31 2006 (RMB'000)	December 31 2007 (RMB'000)
Henan Tianming Properties Development Company Limited	Property developer	10,000	5,000	—
Shanghai Zhongcheng Lian Meng Investment Management Company Limited	Investment in property	8,600	8,600	8,600
Zhengzhou Lianhe Properties Limited	Property developer	6,800	6,800	6,800
Jianye Entertainment	Catering and entertainment	500	—	—
Jianye Education	Operation of educational network	2,000	—	—
Others	—	41	—	—
Total		**27,941**	**20,400**	**15,400**

The unlisted equity securities in respect of which we received dividend income during the Track Record Period were shares in Shanghai Zhongcheng Lian Meng Investment Management Company Limited, in which we made an early-stage investment in anticipation of synergies accompanying the expected geographic expansion of our operations.

Other net loss or income

Other net loss or income consists primarily of gain on the disposal of a subsidiary, compensation from a tenant that delayed its move into a leased property, losses realized on the disposal of fixed assets, net exchange losses and losses realized on the disposal of debt securities.

Selling and marketing expenses

Selling and marketing expenses include advertising and promotional expenses relating to the sale and rental of our properties (including the sponsorship of the national major league Henan Construction Football Club Company Limited and advertisements in newspapers, on outdoor advertising boards and on radio broadcasts), selling and marketing staff expenses and other selling-related expenses. Our selling and marketing expenses in any period are affected by the proportion of newly introduced developments in that period. We expect our marketing and selling expenses to continue to increase in absolute amount, as we have multiple projects that will be released to the market periodically in the near future. Certain projects, such as Forest Peninsula (Zhengzhou) and U-town (Zhengzhou), may incur greater marketing expenses to reach potential purchasers of a higher income level in Zhengzhou City, where costs are generally higher.

General and administrative expenses

General and administrative expenses include primarily administrative staff costs, traveling and entertainment expenses, other professional fees, and general office expenses.

Other operating expenses

Other operating expenses include primarily property maintenance expenses, property management costs incurred by our property management company before its disposal in 2006, costs for supplying heat and hot water services to our properties sold and events organized by our Jianye Club.

Share of profit or loss of a jointly controlled entity

Share of profit or loss of a jointly controlled entity, which is an entity over which we share joint control with other investors, represents our profit or loss after taxation that is attributable to our interest in a jointly controlled entity pursuant to the relevant joint venture agreement. Until December 2007, we had a 50% interest in CCRE Zhongyuan, which had not yet commenced operations.

Share of loss of an associate

Share of loss of an associate represents capital contributions we make to St. Andrews Zhengzhou. In August 2007, in order to facilitate our acquisition of CCRE St. Andrews, which provided us with land for what we anticipate will be a substantial development project, we acquired a 40% interest in St. Andrews Zhengzhou, which operates on a site adjacent to the CCRE St. Andrews land. We subsequently made an additional capital contribution of RMB27.6 million to St. Andrews Zhengzhou in October 2007.

Finance costs

Finance costs include primarily interest on borrowings and payments of rent under lease-back arrangements with a put option, net of borrowing costs capitalized into properties under development, and interest on advances from customers.

Rent payments under the lease-back arrangements with a put option are included as a cost of finance because under these arrangements, the risks and rewards associated with ownership of the properties have not been transferred to the buyers and we in effect retain ownership. The rent is in substance the cost of obtaining funds on the property (i.e., the receipts in advance), and thus the related expense is treated in our accounts as a payment of interest rather than rent.

Advances from customers consist of the proceeds from the pre-sale of properties and from lease-back arrangements with a put option. For further information on the accounting treatment of our lease-back arrangements with a put option, please refer to "— Description of Certain Income Statement Items — Turnover" above.

Increase in fair value of investment properties

Increase in fair value of investment properties represents changes in such value arising from (1) adjustments to existing investment properties in accordance with prevailing market conditions, (2) the net effect of purchases and sales of investment properties and (3) the recategorization of properties from (a) investment properties under development when development of the properties has been completed or (b) inventories (including properties under development for sale or completed properties held for sale) upon a decision to change the designated use of the property. For further details regarding the method for determining the fair value of our investment properties, please refer to the section headed "— Critical Accounting Policies— Investment Properties" above.

The following table shows the increases in the fair value of our investment properties, broken down by property type, over the Track Record Period:

	For the year ended December 31								
	2005			2006			2007		
	No. of proper-ties	Total GFA	Increase in fair value	No. of proper-ties	Total GFA	Increase in fair value	No. of proper-ties	Total GFA	Increase in fair value
		(sq. m.)	(RMB'000)		(sq. m.)	(RMB'000)		(sq. m.)	(RMB'000)
Existing investment properties									
Kindergartens and schools	8	47,593	10,400	9	48,927	15,450	10	52,662	8,450
Clubhouses	1	9,889	2,600	2	13,736	6,100	1	3,847	1,600
Total attributable to existing investment properties	9	57,482	13,000	11	62,663	21,550	11	56,509	10,050
Investment properties completed during the year	2	5,181	8,126	2	5,069	3,539	—	—	—
Properties acquired during the year	—	—	—	—	—	—	1*	1,972	3,773
Total	**11**	**62,663**	**21,126**	**13**	**67,732**	**25,089**	**12**	**58,481**	**13,823**

* In 2007, CCRE Puyang acquired a kindergarten from an Independent Third Party.

The following table shows the increases in the fair value of our investment properties, broken down by project, over the Track Record Period:

	For the year ended December 31					
	2005		2006		2007	
	Total GFA	Fair value gain	Total GFA	Fair value gain	Total GFA	Fair value gain
	(sq.m.)	(RMB'000)	(sq.m.)	(RMB'000)	(sq.m.)	(RMB'000)
Jianye City Garden (Zhengzhou)	30,678	7,400	30,678	10,400	20,789	3,500
Jinshui Garden (Zhengzhou)	21,877	5,100	21,877	7,000	21,877	3,600
Forest Peninsula (Luoyang)	3,847	5,662	3,847	2,400	3,847	1,600
Green Garden (Xinxiang)	1,334	2,464	1,334	600	—	—
Green Garden (Shangqiu)	1,565	100	1,565	250	1,565	250
Green Garden (Zhumadian)	3,362	400	3,362	900	3,362	400
U-Town (Zhengzhou)	—	—	2,811	213	2,811	500
Forest Peninsula (Jiyuan)	—	—	2,258	3,326	2,258	200
Green Garden (Puyang)	—	—	—	—	1,972	3,773
Total	**62,663**	**21,126**	**67,732**	**25,089**	**58,481**	**13,823**

Income tax

Income tax represents provisions for EIT and LAT. Under the authorized taxation method, the EIT liabilities of our PRC subsidiaries are generally calculated as a pre-determined percentage of their revenue, and LAT liabilities are generally calculated as a fixed rate of the proceeds from pre-sales of properties. Under the audited taxation method, the EIT liabilities of our subsidiaries are calculated with reference to their actual profit, and LAT liabilities are calculated at rates ranging from 30% to 60% of the appreciation value of the subsidiaries' land. For further details of these tax calculation methods, please refer to the section headed "— Factors Affecting our Results of Operations — Income tax" above.

Minority interests

Minority interests represent third-party interests in our non-wholly-owned subsidiaries. Our project companies generally incur losses before they complete the properties they develop, due to the initial capital expenditure and administrative costs, a portion of which is attributable to our minority shareholders.

COMBINED RESULTS OF OPERATIONS

The following table shows the line items of our combined income statements, expressed in absolute figures and as a percentage of turnover, for 2005, 2006 and 2007:

Income Statement Data	For the year ended December 31					
	2005		2006		2007	
	(RMB'000)	(Percentage of turnover)	(RMB'000)	(Percentage of turnover)	(RMB'000)	(Percentage of turnover)
Turnover	1,096,024	*100.0*	1,261,265	*100.0*	1,821,663	*100.0*
Cost of sales	(873,682)	*79.7*	(932,569)	*73.9*	(1,308,374)	*71.8*
Gross profit	222,342	*20.3*	328,696	*26.1*	513,289	*28.2*
Other revenue	17,846	*1.6*	26,754	*2.1*	22,709	*1.2*
Other net (loss)/income	(528)	*0.0*	8,930	*0.7*	854	*0.0*
Selling and marketing expenses	(66,415)	*6.1*	(74,284)	*5.9*	(87,418)	*4.8*
General and administrative expenses	(38,250)	*3.5*	(49,953)	*4.0*	(94,533)	*5.2*
Other operating expenses	(11,532)	*1.0*	(21,168)	*1.7*	(11,729)	*0.6*
Profit from operations	123,463	*11.3*	218,975	*17.3*	343,172	*18.8*
Share of (loss)/profit of a jointly controlled entity	(161)	*0.0*	635	*0.1*	(262)	*0.0*
Share of loss of an associate	—	—	—	—	(2,315)	*0.1*
Finance costs	(44,546)	*4.1*	(59,053)	*4.7*	(48,873)	*2.7*
Profit before increase in fair value of investment properties and income tax	78,756	*7.2*	160,557	*12.7*	291,722	*16.0*
Increase in fair value of investment properties	21,126	*1.9*	25,089	*2.0*	13,823	*0.8*
Profit before taxation	99,882	*9.1*	185,646	*14.7*	305,545	*16.8*
Income tax	(50,390)	*4.6*	(52,891)	*4.2*	(134,977)	*7.4*
Profit for the year	49,492	*4.5*	132,755	*10.5*	170,568	*9.4*
Profit attributable to equity holders of our Company	55,183	*5.0*	141,013	*11.1*	164,988	*9.1*
(Loss)/profit attributable to minority interests	(5,691)	*0.5*	(8,258)	*0.6*	5,580	*0.3*
Dividends	44,000	*4.0*	20,000	*1.6*	76,612	*4.2*

2007 compared to 2006

Turnover

From 2006 to 2007, our turnover increased by RMB560.4 million, or 44.4%, from RMB1,261.3 million to RMB1,821.7 million. This increase was principally attributable to a 100,968 sq.m., or 25.6%, increase in total GFA sold, from 394,101 sq.m. in 2006 to 495,069 sq.m. in 2007, as well a 5.9% rise in the average selling price per square meter of our properties, which was largely driven by a general improvement in demand for properties in Henan Province and an increase in the proportion of higher-end properties sold. The average selling price of our properties increased from RMB3,173 per sq.m. in 2006 to RMB3,359 per sq.m. in 2007. Contributing to our increase in turnover was RMB141.0 million of revenue generated from our engagement by the Department of Land and Resources of Henan Province to manage the development of the Capital Garden Project.

Set forth in the table below is the turnover generated from each of our projects in which we sold properties in 2006 and 2007 and the percentage of our total turnover from property sales in these years represented by each project.

	2006		2007	
Project	**Turnover**	**Percentage of total turnover from property sales**	**Turnover**	**Percentage of total turnover from property sales**
	(RMB'000)	**(%)**	**(RMB'000)**	**(%)**
U-Town (Zhengzhou)	437,325	*35.0*	171,399	*10.3*
Forest Peninsula (Zhengzhou)	112,114	*9.0*	341,716	*20.6*
Forest Peninsula (Zhumadian)	59,195	*4.7*	53,758	*3.2*
Forest Peninsula (Jiyuan)	73,506	*5.9*	69,105	*4.2*
Green Garden (Zhumadian)	18,570	*1.5*	577	*0.1*
Sanmenxia SOHO	108,284	*8.6*	7,514	*0.5*
Green Garden (Sanmenxia)	8,086	*0.6*	4,234	*0.3*
Palladio Luxurious House (Xuchang)	47,330	*3.8*	50,562	*3.0*
Main Lake (Xuchang)	—	—	88,597	*5.3*
Forest Peninsula (Luoyang)	58,994	*4.7*	102,757	*6.2*
Forest Peninsula (Pingdingshan)	167,810	*13.4*	156,766	*9.4*
Forest Peninsula (Luohe)	48,410	*3.9*	113,783	*6.8*
Green Garden (Xinxiang)	62,396	*5.0*	46,618	*2.8*
Forest Peninsula (Shangqiu)	16,256	*1.3*	13,387	*0.8*
Green Garden (Shangqiu)	387	*0.1*	—	—
Taohua Island (Nanyang)	2,658	*0.2*	—	—
Sweet-Scented Osmanthus Garden (Shangqiu)	—	—	86,275	*5.2*
Guihua House Construction (Anyang)	28,205	*2.2*	1,716	*0.1*
Forest Peninsula (Jiaozuo)	—	—	110,003	*6.6*
Gentlest Lake (Luoyang)	—	—	185,035	*11.1*
Forest Peninsula (Xinyang)	—	—	56,729	*3.4*
Others	923	*0.1*	2,435	*0.1*
Total	**1,250,449**	**100.0**	**1,662,966**	**100.0**

Cost of sales

Our cost of sales increased by RMB375.8 million, or 40.3%, from RMB932.6 million in 2006 to RMB1,308.4 million in 2007. This increase was primarily due to higher construction and development costs recognized, which rose generally in line with an increase in the total GFA of properties sold. Also contributing to the increase in our cost of sales were the additional construction costs incurred in connection with our Capital Garden project. Our land costs per square meter remained largely unchanged in 2007, and our construction and development costs per square meter were also largely stable. As a percentage of total turnover, our cost of sales decreased from 73.9% in 2006 to 71.8% in 2007, mainly as a consequence of a greater proportion of higher-end properties sold.

Gross profit

As a result of the factors discussed above, our gross profit increased by RMB184.6 million, or 56.2%, from RMB328.7 million in 2006 to RMB513.3 million in 2007. Between these years, our gross profit margin increased from 26.1% to 28.2%, principally driven by the increase in the proportion of higher-end properties sold.

Other revenue

Our other revenue decreased by RMB4.1 million, or 15.1%, from RMB26.8 million for 2006 to RMB22.7 million for 2007. This decline primarily reflected an RMB8.0 million decrease in government subsidies in comparison with the incentives granted to us in 2006 in connection with several new projects and a RMB4.8 million decrease in property management fees that we stopped collecting subsequent to the disposal of our property management business in August 2006. These decreases were partially offset by a RMB7.4 million increase in interest income from bank deposits arising from higher levels of pre-sale proceeds and from a capital contribution by CapitaLand, together with a RMB1.3 million increase in dividend income from an unlisted property development company in which our Group held an 8.6% interest.

Other net income

Our other net income decreased by RMB8.0 million, or 90.4%, from RMB8.9 million in 2006 to RMB0.9 million in 2007. This decline primarily reflected a RMB12.3 million decrease in gains on the disposal of subsidiaries, which was partially offset by a RMB2.5 million payment from a customer as compensation for delayed occupancy of leased properties and a RMB1.6 million improvement in results on the disposal of property, plant and equipment.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB13.1 million, or 17.7%, from RMB74.3 million in 2006 to RMB87.4 million in 2007, which was mainly due to greater advertising and promotional activities in connection with our new properties developed for sale and our sponsorship of the Henan Construction Football Club Company Limited and to higher salary expenses as our marketing department recruited additional staff for our expansion.

General and administrative expenses

Our general and administrative expenses increased by RMB44.5 million, or 89.2%, from RMB50.0 million in 2006 to RMB94.5 million in 2007, principally as a consequence of an internal reorganization, in which employees previously assigned to project companies and other entities within our Group were moved to our headquarters in order to provide more centralized control over our project operations. Part of this increase in general and administrative expenses was also related to higher employee compensation expenses for our administrative personnel following larger performance bonuses and a rise in headcount to support the expansion of our operations.

Other operating expenses

Our other operating expenses declined by RMB9.5 million, or 44.6%, from RMB21.2 million in 2006 to RMB11.7 million in 2007, principally as a consequence of a RMB5.9 million decrease in property management costs following the disposal of Jianye Property Management in August 2006 and a decrease of RMB4.1 million in property maintenance expenses following the completion of the Jinshui Garden renovations in 2006, described below. This decline in other operating expenses was partially offset by a RMB1.8 million increase in costs related to the organization of events for residents by our Jianye Club.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RMB124.2 million, from RMB219.0 million in 2006 to RMB343.2 million in 2007. Our operating margin (operating profit expressed as a percentage of total turnover) increased from 17.3% to 18.8%.

Share of loss and profit of a jointly controlled entity

Our share of profit of a jointly controlled entity declined by RMB0.9 million, from a RMB0.6 million gain in 2006 to a RMB0.3 million loss in 2007, a decline which was mainly attributable to a decrease in interest income received by CCRE Zhongyuan following repayment by Zhongyuan Trust of a loan from CCRE Zhongyuan.

Share of loss of an associate

In 2007, we lost RMB2.3 million on our investment in St. Andrews Zhengzhou, representing operating expenses incurred by the company in its early stages before revenue was generated.

Finance costs

Our finance costs decreased by RMB10.2 million, or 17.2%, from RMB59.1 million in 2006 to RMB48.9 million in 2007, mainly on account of an increase in the capitalization of our borrowing costs, offset partially by a RMB24.1 million increase in gross borrowing costs as a result of higher borrowings to fund the development of additional projects and higher interest payments following an increase in interest rates. Our total borrowing costs capitalized in 2007 were RMB78.0 million, up from RMB43.7 million in 2006.

Increase in fair value of investment properties

The fair value of our investment properties increased by RMB13.8 million in 2007, which was a 44.9% smaller rise than in 2006. Of the RMB13.8 million increase, RMB3.8 million was attributable to a newly acquired investment property. The increase in the value of our existing investment properties was roughly in line with the rate of inflation in 2007.

Profit before taxation

As a result of the factors discussed above, our profit before taxation increased by RMB119.9 million, or 64.6%, from RMB185.6 million in 2006 to RMB305.5 million in 2007.

Income tax

Our income tax increased by RMB82.1 million, or 155.2%, from RMB52.9 million in 2006 to RMB135.0 million in 2007. Our provision for EIT increased by RMB57.9 million, or 115.9%, from RMB50.0 million to RMB107.9 million largely as a result of higher sales volume, combined with an increased proportion of profit generated by subsidiaries using the audited taxation method to calculate their EIT liabilities. Our LAT rose by RMB38.8 million, or 271.3%, from RMB14.3 million to RMB53.1 million largely as a result of higher sales volume coupled with a change in the LAT rate to which our subsidiaries were subject under the authorized taxation method, which increased from a range of between 0.7% and 1.0% to a range of between 1.5% and 3.5%.

Profit for the year

As a cumulative effect of the foregoing factors, our profit for the year, after income tax, increased by RMB37.8 million, or 28.5%, from RMB132.8 million in 2006 to RMB170.6 million in 2007.

Minority interests

Profit attributable to minority shareholders of our non-wholly-owned subsidiaries increased by RMB13.9 million, from a loss of RMB8.3 million in 2006 to a profit of RMB5.6 million in 2007, driven by the improved profitability of our existing non-wholly-owned subsidiaries in 2007, particularly CCRE Xinyang, which was partially offset by losses attributable to non-wholly-owned subsidiaries newly established in 2007.

2006 compared to 2005

Turnover

Our turnover increased by RMB165.3 million, or 15.1%, from RMB1,096.0 million in 2005 to RMB1,261.3 million in 2006. This increase was principally due to a 41,033 sq.m., or 11.6%, increase in total GFA completed and sold in 2006, as well as an increase in the average selling price of our properties completed and sold, largely driven by a general increase in demand for properties in Henan Province. The average selling price of our properties increased by 2.7%, from RMB3,089 per sq.m. in 2005 to RMB3,173 per sq.m. in 2006, which was less than the 11% increase in the average selling price of residential properties in Henan Province between these periods. This differential in the rate of increase was driven largely by the fact that we recognized more revenue in 2005 from the sale of properties in Zhengzhou City, where the average selling price of properties is higher than in other cities in Henan Province, whereas in 2006 we recognized more revenue from the sale of properties in prefecture-level cities. Furthermore, given that the timing of the pre-sale of our properties, at which point the selling price is determined, does not necessarily fall in the same year as the timing of the revenue recognition, the average selling price of our properties for any given year may not reflect the general increase in the average selling price in the market in that year.

Set forth in the table below is the turnover generated from each of our projects in which we sold properties in 2005 and 2006 and the percentage of our total turnover from property sales in these years represented by each project.

	2005		2006	
Project	Turnover	Percentage of total turnover from property sales	Turnover	Percentage of total turnover from property sales
	(RMB'000)	(%)	(RMB'000)	(%)
Forest Peninsula (Jiyuan)	—	—	73,506	*5.9*
U-Town (Zhengzhou)	198,262	*18.2*	437,325	*35.0*
Forest Peninsula (Zhengzhou)	434,981	*39.9*	112,114	*9.0*
Home Universe (Zhengzhou)	39,667	*3.6*	—	—
Forest Peninsula (Zhumadian)	—	—	59,195	*4.7*
Green Garden (Zhumadian)	33,378	*3.0*	18,570	*1.5*
Sanmenxia SOHO	—	—	108,284	*8.6*
Green Garden (Sanmenxia)	37,999	*3.5*	8,086	*0.6*
Palladio Luxurious House (Xuchang)	—	—	47,330	*3.8*
Forest Peninsula (Pingdingshan)	—	—	167,810	*13.4*
Forest Peninsula (Luoyang)	106,600	*9.8*	58,994	*4.7*
Forest Peninsula (Luohe)	—	—	48,410	*3.9*
Green Garden (Xinxiang)	54,913	*5.0*	62,396	*5.0*
Forest Peninsula (Shangqiu)	26,055	*2.4*	16,256	*1.3*
Green Garden (Shangqiu)	14,737	*1.3*	387	*0.1*
Taohua Island (Nanyang)	44,369	*4.1*	2,658	*0.2*
Guihua House Construction (Anyang)	95,639	*8.8*	28,205	*2.2*
Others	4,211	*0.4*	923	*0.1*
Total	**1,090,811**	***100.0***	**1,250,449**	***100.0***

Cost of sales

Our cost of sales increased by RMB58.9 million, or 6.7%, from RMB873.7 million in 2005 to RMB932.6 million in 2006. This increase was primarily due to higher construction and development costs recognized, which rose generally in line with the increase in the total GFA of properties completed and sold. The impact of these higher costs was partially offset by a decrease in the average cost of land relating to the properties sold. Land costs per square meter decreased by 26.4%, from RMB624 in 2005 to RMB459 in 2006, as most of the properties we sold were situated outside the provincial capital where the land acquisition cost per square meter was generally lower than in Zhengzhou City. Construction and development costs per square meter remained substantially unchanged in 2006 despite the greater proportion of projects outside Zhengzhou City principally because the properties completed and sold in 2006 were generally higher-end than these completed and sold in 2005. As a percentage of total turnover, our cost of sales decreased from 79.7% in 2005 to 73.9% in 2006.

Gross profit

As a result of the factors discussed above, our gross profit increased by RMB106.4 million, or 47.8%, from RMB222.3 million in 2005 to RMB328.7 million in 2006. Between these years, our gross profit margin increased from 20.3% to 26.1%, primarily as a result of an increase in average selling price (which was partly attributable to a higher proportion of higher-margin villas and townhouses sold) and a decrease in the average cost of land for properties sold.

Other revenue

Our other revenue increased by RMB9.0 million, or 49.9%, from RMB17.8 million in 2005 to RMB26.8 million in 2006, primarily reflecting (i) an increase of RMB6.8 million of government subsidies granted to CCRE Henan, CCRE Puyang and CCRE Shangqiu and (ii) a RMB5.6 million increase in interest income resulting from a higher level of pledged deposits (which grew in line with the increase in sales of properties with mortgages guaranteed by us) and an increase in interest-saving by early settlement of bills payable. These increases in government grants and interest income were partially offset by the discontinuation in license income received as a result of our licensee, formerly named Henan Jianye Information Technology Corporation, ceasing to use the Jianye trade name in September 2005.

Other net income and loss

Our other net income increased by RMB9.4 million, from a net loss of RMB0.5 million in 2005 to net income of RMB8.9 million in 2006, primarily as a result of a RMB12.3 million gain on the disposal of a subsidiary, Jianye Property Management, in August 2006 as part of our continued plan to streamline our Group's business. This gain, which represented the net benefit to our Group of the RMB5.0 million disposal, was partially offset by a RMB1.4 million increase in loss on the disposal of property, plant and equipment and a RMB1.4 million increase in exchange loss following the conversion into Renminbi of our foreign-denominated bank loans and CapitaLand's foreign currency-denominated investment in our Company in 2006.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB7.9 million, or 11.8%, from RMB66.4 million in 2005 to RMB74.3 million in 2006, which was mainly due to an increase in advertising costs incurred in connection with our new properties developed for sale, an increase in salary expenses primarily because our marketing department recruited additional staff for our expansion plan, and an increase in commissions paid.

General and administrative expenses

Our general and administrative expenses increased by RMB11.7 million, or 30.6%, from RMB38.3 million in 2005 to RMB50.0 million in 2006, principally as a consequence of goodwill considered unrecoverable and thus written off in relation to a premium paid by CCRE China for 100% ownership of CCRE Commercial Properties, an increase in salary expenses in line with the rise in headcount and an increase in depreciation and amortization reflecting our greater investment in fixed assets as a result of the expansion of our operations.

Other operating expenses

Our other operating expenses increased by RMB9.7 million, or 83.6%, from RMB11.5 million in 2005 to RMB21.2 million in 2006, which was mainly due to a RMB3.6 million increase in property maintenance expenses mainly resulting from a one-time public relations gesture in renovating Jinshui Garden, our first large development in Henan Province, and a RMB2.6 million increase in property management costs attributable to an increase in the number of properties under management, as well as a RMB3.2 million increase in the provision of heat and hot water services due to an increase in the prices of coal and oil.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RMB95.5 million, or 77.4%, from RMB123.5 million in 2005 to RMB219.0 million in 2006. Our operating margin increased from 11.3% in 2005 to 17.3% in 2006.

Share of loss or profit of a jointly controlled entity

Our share of profit of a jointly controlled entity increased by RMB0.8 million, from a RMB0.2 million loss in 2005 to a RMB0.6 million profit in 2006, mainly because the amount of interest income received by CCRE Zhongyuan in 2006 in respect of a loan made to Zhongyuan Trust was more than the amount received in 2005 due to a longer period of interest payment.

Finance costs

Our finance costs increased by RMB14.6 million, or 32.6%, from RMB44.5 million in 2005 to RMB59.1 million in 2006, as a result of an increase in our borrowings to fund the expansion of our operations and in relation to an increase in our lease-back arrangements with a put option. Our total borrowings in 2006 were RMB1,008.8 million, up from RMB850.3 million in 2005. This increase was largely attributable to an increase in interest payments on borrowings and in rental payments to customers under lease-back arrangements with a put option (which are accounted for under HKFRS as interest payments in our combined financial statements), both of which were partially offset by a RMB27.2 million increase in borrowing costs capitalized.

Increase in fair value of investment properties

The fair value of our investment properties increased by RMB4.0 million, or 18.8%, from RMB21.1 million in 2005 to RMB25.1 million in 2006. The increase in fair value of RMB3.5 million arose principally in connection with the reclassification of the kindergartens of CCRE New Town and CCRE Jiyuan as investment properties upon their completion in 2006, resulting in a revaluation gain.

Profit before taxation

As a result of the factors discussed above, our profit before taxation increased by RMB85.7 million, or 85.9%, from RMB99.9 million in 2005 to RMB185.6 million in 2006.

Income tax

Our income tax increased by RMB2.5 million, or 5.0%, from RMB50.4 million in 2005 to RMB52.9 million in 2006, while our effective tax rate decreased from 50.4% in 2005 to 28.5% in 2006. The increase in our income tax was roughly in line with the increase in our revenue as more subsidiaries completed projects and generated profit in 2006, while our effective tax rate declined because our most profitable subsidiaries used the authorized taxation method in 2006. As our gross profit margin increased in 2006, our effective tax rate declined under the authorized taxation method. Contributing to this decline was a decrease in non-deductible advertising and promotional expenses and finance costs incurred by our subsidiaries that were subject to EIT under the audited taxation method.

Profit for the year

As a cumulative effect of the foregoing factors, our profit for the year, after income tax, increased by RMB83.3 million, or 168.2%, from RMB49.5 million in 2005 to RMB132.8 million in 2006.

Minority interests

Losses attributable to minority shareholders of our non-wholly-owned subsidiaries increased by RMB2.6 million, or 45.1%, from RMB5.7 million in 2005 to RMB8.3 million in 2006. This increase was principally a consequence of greater losses incurred by CCRE Heating (which became a wholly-owned subsidiary of our Group in late 2006) and Jianye Property Management (which was disposed of in August 2006).

LIQUIDITY AND CAPITAL RESOURCES

Overview

We operate in a capital intensive industry and have historically financed, and expect to continue to finance, our working capital, capital expenditure and other capital requirements through the proceeds from the pre-sale and sale of properties, borrowings from commercial banks and other parties, capital contributions from shareholders and new share issuances. Our short-term liquidity requirements relate to servicing our debt and funding our working capital requirements, and our sources of short-term liquidity include cash balances, the proceeds from pre-sales and sales of properties and new loans. Our long-term liquidity requirements relate to funding of the development of our new property projects and repayment of our long-term debt, and our sources of long-term liquidity include loans, capital contributions from shareholders and share issuances.

Cash flow

The table below summarizes our cash flow for the years 2005, 2006 and 2007.

	For the year ended 31 December		
	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)
Selected cash flow statement data			
Net cash used in operating activities	(161,678)	(143,124)	(273,747)
Net cash generated from/(used in) investing activities	972	(270,408)	(187,999)
Net cash generated from financing activities	90,336	578,782	550,074
Net (decrease)/increase in cash and cash equivalents	(70,370)	165,250	88,328

Net cash used in operating activities

In 2007, our net cash used in operating activities was RMB273.7 million. A RMB1,209.0 million increase in inventories (including properties under development for sale and completed properties held for sale) more than offset RMB305.5 million of profit before taxation, a RMB370.9 million increase in cash receipts in advance and a RMB247.1 million increase in the level of trade and other payables and accruals reflected in our cash flow statement. The substantial increase in inventories was largely attributable to construction and development costs incurred in relation to Landmark (Zhengzhou) and to purchases of land by CCRE Henan, CCRE Kaifeng and CCRE Luoyang, while the increase in cash receipts in advance reflected higher pre-sales volume, principally of properties at Landmark (Zhengzhou), Forest Peninsula (Zhumadian), Jianye City (Puyang) and Forest Peninsula (Zhengzhou). The increase in trade and other payables and accruals was mostly attributable to higher construction costs resulting from the larger scale of our operations, but also was impacted by amounts we owed to minority shareholders at the end of 2007 following contributions from all of the shareholders of certain non-wholly-owned subsidiaries, roughly in proportion to their holdings, to help fund property development activities. These funds were not paid to us as interest-bearing loans, and there was no fixed date by which the amounts would have to be returned to the shareholders. These amounts owed to minority shareholders accounted for RMB147.8 million of the increase in our trade and other payables and accruals in 2007.

In 2006, our net cash used in operating activities was RMB143.1 million, consisting primarily of a RMB774.7 million increase in inventories, namely in respect of Forest Peninsula (Zhengzhou) Phases II and III, Gentlest Lake (Luoyang) Phase I and Forest Peninsula (Luohe) Phases I, II and III, as well as a RMB115.1 million increase in restricted bank deposits. These cash outflows were partially offset by RMB209.7 million of cash generated from operations before changes in working capital, as well as a RMB361.6 million increase in trade and other payables and accruals relating to construction costs incurred for the properties named above and a RMB208.1 million increase in receipts in advance principally on account of the pre-sale of properties in Forest Peninsula (Zhengzhou) Phases II and III, Gentlest Lake (Luoyang) Phase I, Forest Peninsula (Pingdingshan) Phase II, Forest Peninsula (Luohe) Phase I and Forest Peninsula (Jiaozuo) in 2006.

In 2005, our net cash used in operating activities was RMB161.7 million, consisting primarily of a RMB323.3 million increase in trade and other receivables, principally on account of higher prepayments for land premiums and an advance to related companies wholly-owned by Mr Wu, and a RMB91.2 million increase in inventories, principally in respect of Forest Peninsula (Pingdingshan) Phase I, U-Town (Zhengzhou) Phases II and III and Sanmenxia SOHO. These outflows were partially offset by RMB120.9 million of cash generated from operations before changes in working capital and a RMB203.3 million increase in receipts in advance in respect of the pre-sale of properties in Forest Peninsula (Jiyuan) Phase I, U-Town (Zhengzhou) Phases I and II, Sanmenxia SOHO, Palladio Luxurious House (Xuchang), Forest Peninsula (Luoyang) Phase III and Forest Peninsula (Pingdingshan) Phase I.

Net cash used in investing activities

Our investing activities consist primarily of investments in property, plant and equipment, investment properties, and acquisitions of interests in subsidiaries and a jointly controlled entity.

In 2007, our net cash used in investing activities was RMB188.0 million, consisting primarily of RMB82.6 million invested in Artstar Investments, CCRE St. Andrews and CCRE Zhongyuan, RMB47.7 million spent to acquire additional interests in existing subsidiaries, a RMB27.6 million investment in St. Andrews Zhengzhou, which became an associate company, and a RMB29.5 million payment for the purchase of property, plant and equipment, mainly in respect of our hotel project at Landmark (Zhengzhou) and the purchase of workplace furniture and fixtures in connection with the expansion of our office facilities and motor vehicles, all of which were partially offset by RMB19.0 million in interest received on bank deposits. Our net cash used in investing activities decreased by 30.5% in comparison with 2006 as a consequence of a lower amount spent on the acquisition of additional interests in subsidiaries, partially offset by greater payments for purchases of property, plant and equipment in 2007.

In 2006, our net cash used in investing activities was RMB270.4 million, consisting primarily of RMB178.6 million of acquisitions of subsidiaries, RMB75.5 million of acquisitions of additional interests in subsidiaries and a RMB23.3 million payment for the purchase of property, plant and equipment, mainly relating to the construction of recreational facilities for staff, and the purchase of furniture and fixtures and motor vehicles, all of which were partially offset by RMB7.5 million of the proceeds from the disposal of unlisted equity securities that were not core assets of our business and RMB11.6 million in interest received, primarily on bank deposits. In comparison with 2005, our net cash used in investing activities increased by RMB271.4 million in 2006, from a net cash inflow of RMB1.0 million to a net cash outflow of RMB270.4 million, principally driven by the acquisitions of subsidiaries in 2006, including a RMB86.4 million net cash acquisition of 100% of CCRE Commercial Properties and a RMB92.2 million net cash acquisition of 67% of CCRE Sun Town, as well as the acquisition of additional interests in existing subsidiaries in 2006, namely CCRE New Town, CCRE Henan, CCRE Zhumadian, CCRE Nanyang, CCRE Sanmenxia, CCRE Xuchang, CCRE Anyang, CCRE Luoyang, CCRE Pingdingshan and CCRE Luohe.

In 2005, our net cash generated from investing activities was RMB1.0 million, which was largely the net effect of RMB14.5 million in the proceeds from the disposal of a 14.5% interest in CCRE New Town to Independent Third Parties and RMB6.0 million of interest received, primarily on bank deposits, largely offset by an RMB8.7 million payment for the purchase of property, plant and equipment mainly relating to the acquisition of land for the future development of recreational facilities for staff and to the purchase of furniture and fixtures and motor vehicles, and a RMB11.2 million expenditure on investment properties under development.

Net cash generated from and used in financing activities

Our financing activities mainly comprise borrowings, shareholders' contributions and dividend distributions. We have generally obtained new bank loans to fund the construction and development costs of our projects, as well as new other loans for the financing of our projects. However, over the Track Record Period, we took steps to diminish our reliance on bank loans as we turned to other sources of external financing such as loans from other unrelated parties, all of which were paid off by the end of the Track Record Period, and share issuances.

In 2007, our net cash generated from financing activities was RMB550.0 million, comprising RMB977.7 million of the proceeds from new bank loans, RMB500.0 million of the proceeds from the issuance of new shares to CapitaLand, an RMB80.6 million capital contribution from a minority shareholder and RMB40.0 million of the proceeds from new other loans. This cash inflow was partially offset by RMB603.6 million used to repay bank loans, the repayment of RMB227.3 million of loans from other unrelated parties, RMB134.3 million of interest paid and a RMB76.6 million dividend payment to shareholders. Our net cash inflow in 2007 was 5.0% lower than in 2006, mainly because the increase in the proceeds from our issuance of new shares and our new bank loans for the expansion of our operations was offset by the increase in our repayment of bank and other loans.

In 2006, our net cash generated from financing activities was RMB578.8 million, comprising new bank loans amounting to RMB544.8 million and new other loans of RMB126.8 million, and the proceeds of RMB500.1 million from the issuance of new shares to CapitaLand. This cash inflow was partially offset by RMB81.5 million in interest paid and the repayment of bank loans and other loans in respect of our completed projects amounting to RMB374.0 million and RMB144.4 million, respectively. Our net cash generated in 2006 was 5.4 times higher than in 2005, principally on account of the increase in the proceeds from the issuance of new shares to CapitaLand in 2006 and from new bank loans.

In 2005, our net cash generated from financing activities was RMB90.3 million, consisting of new bank loans totalling RMB364.3 million, the proceeds of RMB84.2 million from new other loans and the proceeds of RMB61.0 million from the issuance of new shares, all of which were partially offset by RMB327.0 million in repayments of bank loans and RMB50.2 million of interest paid in respect of the bank loans and other loans during the year totalling RMB44.9 million.

Net current assets

As of December 31, 2007, we had net current assets of approximately RMB1,410.3 million, consisting of RMB5,044.8 million of current assets and RMB3,634.5 million of current liabilities, which represented a RMB521.3 million increase from the level at the end of 2006. This increase was mainly a consequence of a RMB1,354.3 million increase in inventories, a RMB138.1 million increase in restricted bank deposits and a RMB60.2 million increase in trade and other receivables, which were partially offset by a RMB370.9 million increase in receipts in advance. The increase in inventories was driven by the expansion of our operations, with substantial purchases of additional land and an increase in the number of our projects. The rise in restricted bank deposits was largely a consequence of an increase in our bank loans collateralized with cash. The increase in trade and other receivables was driven by higher levels of other receivables, deposits and prepayments, chiefly advances to third parties. The increase in receipts in advance was driven by higher pre-sales of properties.

Inventories include properties held for future development and properties under development. As both types of properties are held for the purpose of sale, we classify them as current assets. We expect that these properties will be sold in our normal operating cycle. Within inventories, each property held for future development will be reclassified as a property under development once development activities commence, which typically occurs three to six months after receiving the relevant land use rights certificate and classifying the property as a property held for future development. The time period from the commencement of development activities to the commencement of sales varies considerably depending on a range of factors, including the type of property being developed.

The category of trade and other receivables includes principally (i) trade receivables and (ii) other receivables, deposits and prepayments. At the end of each year during the Track Record Period, our other receivables, deposits and prepayments consisted of the following:

	As of December 31		
	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)
Deposits for and prepayments of land costs	261,372	552,374	460,208
Deposits for investment costs	—	—	82,000
Advances to third parties	81,365	22,405	81,343
Prepaid listing fees	—	6,509	11,919
Prepaid construction costs	1,202	2,934	10,784
Mortgage receivables from customers	7,771	6,969	7,562
Staff advances	5,750	1,992	2,376
Prepaid taxes	8,830	11,219	36,073
Miscellaneous deposits	13,550	8,733	24,166
Total other receivables, deposits and prepayments (per Appendix IA, Section C, Note 18)	379,840	613,135	716,431

The category of trade and other payables and accruals includes principally trade payables, bills payable, amounts due to minority shareholders and other payables and accruals. At the end of each year during the Track Record Period, our other payables and accruals consisted of the following:

	As of December 31		
	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)
Salary payable and employee benefits	8,824	8,290	30,522
Other tax payable	27,697	31,576	19,714
Accrued construction costs and other expenses	398,395	522,084	411,710
Advances from other entities	2,000	7,000	40,893
Deposits received from customers in relation to reservation of properties	1,047	—	125,553
Other deposits received	10,622	15,346	33,316
Accrued interest	18,577	34,755	39,869
Total other payables and accruals (per Appendix IA, Section C, Note 23)	467,162	619,051	701,577

The table below sets forth the breakdown of our current assets and current liabilities as of March 31, 2008, based on unaudited management accounts.

	(RMB'000)
Current assets	
Inventories	3,367,810
Trade and other receivables	822,763
Prepaid tax	66,568
Restricted bank deposits	434,642
Cash and cash equivalents	262,806
Current liabilities	
Bank loans	886,551
Other loans	95,210
Trade and other payables and accruals	1,389,320
Receipts in advance	790,408
Tax payable	93,302

Working capital

Taking into account the cash flow from our operations, our Directors confirm that we have sufficient working capital for our operations for at least the next 12 months from the date of this document.

Indebtedness

The following table sets forth our outstanding borrowings as of December 31, 2005, 2006 and 2007, and as of March 31, 2008:

	As of December 31			As of March 31
	2005	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Current				
Bank loans				
— secured	229,000	350,000	804,273	689,551
— unsecured	145,000	60,000	197,000	197,000
Loans from unrelated companies				
— secured	19,500	30,920	—	95,210
— unsecured	91,754	85,226	—	—
Current borrowings	485,254	526,146	1,001,273	981,761
Non-current				
Bank loans				
— secured	100,272	255,120	248,000	324,000
— unsecured	40,000	20,000	—	90,194
Loans from unrelated companies				
— secured	122,530	170,170	136,430	26,680
— unsecured	102,216	37,377	—	—
Non-current borrowings	365,018	482,667	384,430	440,874
Total	**850,272**	**1,008,813**	**1,385,703**	**1,422,635**

As of March 31, 2008, we had aggregate bank facilities of approximately RMB1,349.8 million, of which RMB1,300.7 million were utilized.

If we are unable to fund the payment of the dividend declared on May 6, 2008 (as described in the section headed "— Dividends and Distributable Reserves" below) in full from our internal resources prior to the Listing Date (for example if we are unable to complete the necessary regulatory registration processes prior to such payment), we may have to fund the payment with third-party borrowings. In this event, our indebtedness will increase by up to approximately RMB152.0 million.

Most of our borrowings were denominated in Renminbi, with a small proportion denominated in H.K. dollars and U.S. dollars.

During part of the Track Record Period, we had an interest-free loan in place from Beijing Hualian Commercial Trading Development Company Limited ("**Beijing Hualian**"), an Independent Third Party. Beijing Hualian is a property developer which lent these funds to us interest-free for three years as recompense for proceeding on its own with a property purchase that it had discussed making jointly with us. This loan from Beijing Hualian was repaid in 2006. Our PRC legal adviser has advised us that our receipt of this loan was not in strict compliance with PRC regulations and we could consequently be subject to a penalty equal in amount to the interest paid in respect of the loan. However, in light of the loan's repayment and the fact that the loan was interest-free, our PRC legal adviser has advised us that there is no material risk that a penalty will be imposed on us by the PRC Government authorities. As of December 31, 2005, the loan had a carrying amount of RMB59.7 million. To help ensure stricter compliance with PRC regulations in the future, our Directors confirm that our Group has adopted a number of internal policies and has publicized them by issuing an internal notice on the administration of financing which requires all of our subsidiaries to comply with the PRC regulations in relation to their financing activities and requires all borrowings to be approved by the Board. In addition, each of our Controlling Shareholders has agreed to provide an indemnity in favor of our Group in respect of any liabilities, damages, fines, penalties, costs, losses or expenses which may be imposed or levied by the PRC Government authorities for such non-compliance with PRC regulations.

Apart from this interest-free loan, the effective interest rates per year applicable to our borrowings over the Track Record Period were as follows:

	As of December 31			As of March 31
	2005	2006	2007	2008
	(%)	(%)	(%)	(%)
Bank loans	5.31%-11.72%	5.58%-8.78%	5.59%-11.00%	5.75%-11.00%
Other loans	7.00%-12.00%	7.00%-15.70%	6.30%-15.70%	6.30%-15.70%

The maturity profile of our interest-bearing borrowings as of each of the balance sheet dates during the Track Record Period was as follows:

	As of December 31			As of March 31
	2005	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Bank loans				
Within one year	374,000	410,000	1,001,273	886,551
After one year but within two years	57,000	236,120	248,000	414,194
After two years but within five years	83,272	39,000	—	—
Sub-total	514,272	685,120	1,249,273	1,300,745
Other loans from unrelated parties				
Within one year	111,254	116,146	—	95,210
After one year but within two years	96,148	68,000	109,130	15,000
After two years but within five years	128,598	139,547	27,300	11,680
Sub-total	336,000	323,693	136,430	121,890
Total	**850,272**	**1,008,813**	**1,385,703**	**1,422,635**

As of December 31, 2007, our Group had no debentures outstanding.

Collateral

Our bank borrowings listed above were secured by certain properties held for future development and under development for sale, investment properties and restricted bank deposits, the details of which are set forth below.

	As of December 31			As of March 31
	2005	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Investment properties	151,800	165,500	172,600	177,200
Properties held for future development and under development for sale	389,514	475,328	825,957	1,052,414
Restricted bank deposits	—	—	190,000	200,000
Total	**541,314**	**640,828**	**1,188,557**	**1,429,614**

Apart from the above, as of March 31, 2008, other loans with a carrying value of RMB40.0 million were secured by future lease income of certain properties held by our Group. The expected lease income was RMB173.6 million as of March 31, 2008. Our Group has also provided guarantees in respect of certain other loans by pledging properties under development for sale.

As of March 31, 2008, secured bank loans with a carrying value of RMB84.1 million and unsecured bank loans of RMB90.2 million were guaranteed by Mr Wu, which will be released.

During the Track Record Period, we had in place financing arrangements with an independent trust company (which had raised funds from our employees and the public at large) and financing arrangements with other independent companies. Under these arrangements, the companies contributed paid-in capital to certain of our subsidiaries in return for legal title to the equity interest in these subsidiaries, and we committed to repurchase these equity interests from the companies within pre-set time periods.[(2)] While owning the equity interests, the companies would not be entitled to any profit distributions from these subsidiaries but instead would receive a fixed equity transfer premium from us when we repurchased the equity interest. The agreed fixed equity transfer premium varied from 8.0% to 15.7%, per year, of the paid-in capital contributed by them. Because in substance we retained the entire interest in the subsidiaries involved in these arrangements, with the independent trust company and the other independent companies having no financial or operational control over the subsidiaries and not being entitled to any share of the subsidiaries' profits apart from the contractually fixed payments, we continued to account for 100% of these entities in our combined financial statements, and the paid-in capital contributed by the companies was classified in our financial statements as other loans.

These financing arrangements with the independent trust company relating to CCRE Xinxiang and CCRE Henan were terminated in September 2007, while those relating to CCRE Zhumadian and CCRE Luoyang remain in place. For further details, please refer to footnotes 8 and 9 in the section headed "History, Development and Group Structure — Group Structure" in this document. The arrangements with the other independent companies were terminated in September 2007, and subsequent financing was obtained by our Group from these independent companies through entrustment loan arrangements. Our PRC legal adviser has confirmed that the entrustment loan arrangements comply with the Circular on the Related Matters Concerning the Initiation of Entrustment Loans Business by Commercial Banks (Yin Ban Fa [2000] No. 100) (《關於商業銀行開辦委託貸款業務有關問題的通知》(銀辦發[2000]100號)) and are legal and valid under PRC laws and regulations and that there are no disputes that are likely to arise as a result of the execution of the entrustment loan arrangements.

The independent trust company with which we have the above financing arrangements is a State-controlled non-bank financial institution with a business scope that includes holding trust funds, operating trusts the corpus of which is real estate or other property, and raising funds from the public to make investments. Since real estate development requires substantial capital, our Directors consider that financing our project developments by cooperating with an authorized trust company is reasonable

(2) The subsidiaries involved in the arrangements with the independent trust company are CCRE Xinxiang, CCRE Henan, CCRE Zhumadian and CCRE Luoyang, and those involved in the arrangements with the other independent companies are CCRE Xuchang, CCRE New Town and CCRE Puyang.

and beneficial to our Group. As advised by our PRC legal adviser, the trust arrangements that remain in place are legal and effective, and the trust company is authorized to raise funds from the public through the relevant trust plans. For further details of the arrangements between the trust company and us, please refer to footnotes 8 and 9 to our corporate chart in the section headed "History, Development and Corporate Structure — Group Structure" in this document.

As of December 31, 2007, we had entrustment loan arrangements in place with the independent companies previously contributing paid-in capital to certain of our subsidiaries and with others, totaling approximately RMB197.0 million. These loans bore interest at rates of between 5.5% and 9.2% per year and had repayment terms of between approximately five months and one year. They are included in the indebtedness tables above as bank loans.

During the Track Record Period, our Group, in addition, obtained loans directly from seven third parties. As of December 31, 2007, however, all such loans from third parties had been terminated or replaced by entrustment loan arrangements. These loans obtained directly from third parties were not in strict compliance with PRC regulations. Our PRC legal adviser has advised us that, as a consequence, we could be subject to a penalty equal in amount to the interest paid in respect of the loans. However, in light of the termination of the loans, our PRC legal adviser has also advised us that there is no material legal risk that the PRC Government will impose the penalty retrospectively on us. Each of our Controlling Shareholders has agreed to provide an indemnity in favor of our Group in respect of liabilities, damages, fines, penalties, costs, losses and expenses which may be imposed or levied by the PRC Government authorities for such non-compliance with PRC regulations.

Contingent liabilities

For properties that are still under construction, we typically provide guarantees to banks in connection with our customers' mortgage loans to finance their purchase of our properties for an amount up to 70% to 80% of the total purchase price. Our guarantees are released upon completion of construction and either the delivery of the mortgage registration documents to the relevant banks after the issuance of the building ownership certificate or the full settlement of the mortgage loans by our customers, whichever occurs earlier. In our experience, the guarantee periods typically last for six to 12 months after delivery of our properties. Certain of these guarantees are long-term guarantees which are discharged when the mortgaged loans are repaid. Pursuant to the terms of the guarantees, if the purchasers default on these mortgage loans, we are responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the purchasers to the banks. If we fail to do so, the mortgagee banks will auction the underlying property and recover the balance from us if the outstanding loan amount exceeds the net foreclosure sale proceeds. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. Please refer to the section headed "Risk Factors — Risks Relating to our Business — We guarantee mortgage loans to our customers and may become liable to mortgagee banks if our customers default on their mortgage payments" in this document. In 2005, 2006 and 2007, we provided guarantees totaling approximately RMB769.7 million, RMB1,025.4 million and RMB1,476.3 million, respectively, to PRC banks in respect of the mortgage loans provided by the banks to purchasers of our properties. As of March 31, 2008, the outstanding guarantees in respect of the mortgage loans provided by banks to purchasers of our properties were approximately RMB1,514.4 million.

All guarantees and financial assistance from and to the Controlling Shareholders, Directors and related parties will be fully settled or released prior to the Listing Date.

Expenditure and commitments

Capital expenditure

Set forth below is a summary of our capital expenditure during the Track Record Period.

	Year ended December 31		
	2005	2006	2007
	(RMB’000)	(RMB’000)	(RMB’000)
Purchase of property, plant and equipment	8,669	23,342	29,547
Expenditure on investment properties and investment properties under development	11,246	16,235	26,210
Total	**19,915**	**39,577**	**55,757**

Contractual commitments and obligations

As of December 31, 2007, our contractual commitments in connection with our property development activities amounted to RMB628.7 million, primarily relating to contracted construction fees on current projects and capital commitments in respect of future property developments and investments in subsidiaries.

In addition, under various agreements, we were obligated to make future cash payments in fixed amounts. These included payments in respect of our long-term debt, rent payments under lease agreements and various other obligations. The following table summarizes these contractual obligations by maturity, including interest payments calculated using contractual rates or, if floating, based on rates as of December 31, 2007:

	Payments due by period			
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total
	(RMB’000)	(RMB’000)	(RMB’000)	(RMB’000)
Bank loans	1,056,659	251,182	—	1,307,841
Other loans	2,520	145,689	33,519	181,728
Trade and other payables and accruals	1,306,825	11,804	17,314	1,335,943
Operating lease obligations	1,185	1,607	662	3,454
Total	**2,367,189**	**410,282**	**51,495**	**2,828,966**

We expect to fund these contractual obligations principally from the proceeds from the pre-sale and sale of our properties, borrowings from commercial banks and other parties, internal funds, capital contributions from shareholders and share issuances. Of the RMB2,367.2 million of contractual obligations due within one year, RMB1,306.8 million are trade and other payables and accruals. Trade payables, mainly consisting of costs relating to our project developments, account for RMB243.1 million of these trade and other payables and accruals. Other payables and accruals consist of RMB411.7 million of accrued construction costs and other expenses, RMB125.6 million of deposits received from customers to reserve properties, RMB40.9 million of advances from third parties, RMB39.9 million of accrued interest on loans, RMB33.3 million of other deposits received, mainly from contractors as part of the tendering process, RMB30.5 million of salaries and welfare benefits payable and RMB19.7 million of business and other taxes. We intend to repay these amounts using the proceeds from pre-sales of the properties to which these payables relate. We expect to settle the remainder of our contractual obligations, which largely comprises obligations in respect of loans from banks and other parties, with the proceeds from property sales.

In addition to the contractual obligations set forth in the table above, as of December 31, 2007 we had authorized, but not yet contracted for, a further RMB4,930.2 million in expenditure in respect of future investment and property development.

As of March 31, 2008, our contractual commitments in connection with our property development activities amounted to RMB2,368.6 million, and we had authorized, but not yet contracted for, a further RMB4,326.3 million in expenditure in respect of future investment and property development.

Off-balance sheet commitments and arrangements

Except for the contingent liabilities set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have a retained or contingent interest in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our combined financial statements. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

Restricted bank deposits

Pursuant to relevant regulations, the proceeds from pre-sales of properties may only be used for the construction of the project in which the relevant pre-sold properties are situated. Please refer to the sections headed "Business — Overview of Our Property Development — Pre-sale" and "Financial Information — Description of Certain Income Statement Items — Turnover" in this document and to note 19 in section C of the accountants' report in Appendix IA to this document. Apart from this, some of our deposits are pledged for our bills payable, for bank loans and for customers' mortgages that we have guaranteed. As of December 31, 2005, 2006 and 2007, the balance of restricted bank deposits was approximately RMB251.3 million, RMB366.5 million and RMB504.6 million, respectively.

DISCLAIMER

Save as disclosed in the section headed "Liquidity and Capital Resources", as of March 31, 2008, being the latest practicable date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, guarantees or any other material contingent liabilities.

MARKET RISKS

We are, in the normal course of business, exposed to market risks relating primarily to fluctuations in the price of commodities and in interest rates. Our risk management strategy aims to minimize the adverse effects of these and other risks on our financial performance.

Commodities risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. Such purchase costs are generally accounted for as part of contractors' fees pursuant to our arrangements with the relevant contractors. Rising prices for construction materials will therefore affect our construction costs in the form of increased fees payable to our contractors. As a result, fluctuations in the prices of our construction materials could have a significant impact on our results of operations.

Interest rate risk

Our business is sensitive to fluctuations in interest rates. Our net profit is affected by changes in interest rates due to the impact such changes have on interest expense and interest income from deposits and other interest-bearing financial assets and liabilities. In addition, increases in interest rates adversely affect our prospective customers' willingness and ability to purchase our properties, our ability to service loans, and our ability to raise and service long-term debt and to finance our developments, all of which in turn negatively impact our results of operations.

Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In March 2005, the PBOC eliminated the preferential mortgage loan rate for individuals and restricted the minimum mortgage loan rate to 0.9 times the benchmark lending rate. The PBOC has also abolished the upper limit on Renminbi lending rates and permitted banks to offer deposit rates below the PBOC benchmark rate. On April 27 and August 18, 2006, the PBOC raised its benchmark one-year interest rates by 0.27%, to 5.85% and 6.12%, respectively. On March 17, May 18, July 20, August 21, September 15 and December 21, 2007, the PBOC further increased these rates to 6.39%, 6.57%, 6.84%, 7.02%, 7.29% and 7.47%, respectively. In addition to the one-year benchmark rate, the lending rates for various other terms were also raised accordingly. Each of these increases had a negative influence on the property market in China and therefore on our operations. We do not currently use any derivative instruments to manage our interest rate risk.

Foreign currency exchange rate risk

We conduct most of our operations in Renminbi. Under existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions without prior approval from SAFE by complying with certain procedural requirements. The PRC Government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions under certain circumstances. Any such change to the foreign exchange regulations may adversely affect our ability to pay dividends or satisfy other foreign exchange requirements. In addition, depreciation of the Renminbi would adversely affect the value of any dividends we pay to our Shareholders, whereas appreciation of the Renminbi would adversely affect capital contributions in foreign currency if they are not converted into Renminbi in a timely manner. We currently do not engage in hedging activities designed or intended to manage such currency risk. Please refer to the section headed “Risk Factors — Risks Relating to Conducting Operations in the PRC — Fluctuations in foreign exchange rates and changes in foreign exchange regulations may adversely affect our results of operations” in this document.

Inflation risk

Inflation did not have a significant impact on our business from 2005 to 2006, as the PRC did not experience significant inflation during this period. According to the China National Statistical Bureau, China’s overall national inflation rate, as represented by the general consumer price index, was approximately 1.8% and 1.5% in 2005 and 2006, respectively. In 2007, although this rate rose to 4.8%, the impact of inflation on our business remained modest, partly due to the relatively strong economic growth in the Henan Province. Deflation could negatively affect our business as it would be a disincentive for prospective buyers to purchase property. As of the date of this document, we have not been materially affected by inflation or deflation. However, we cannot provide any assurance that we will not be adversely affected by inflation or deflation in China in the future.

PROPERTY INTERESTS AND PROPERTY VALUATION

We own all of our properties located in the PRC. These properties include properties held for future development and under development for sale, completed properties, investment properties, investment properties under development, and buildings and land held for our own use. Please refer to the property valuation report in Appendix IV to this document for details of our property interests as of March 31, 2008.

The reconciliation of the net book value of our properties as derived from our audited financial statements as of December 31, 2007 to the property valuation report in Appendix IV as of March 31, 2008, is set forth below:

	RMB'000	RMB'000
Capital value of properties attributable to us as of March 31, 2008, as set forth in the property valuation report in Appendix IV		7,794,182
Capital value of properties attributable to minority interests as of March 31, 2008		1,108,818
Capital value of properties in existing state as of March 31, 2008, as set forth in the property valuation report in Appendix IV		8,903,000
Less: Valuation of properties contracted to be acquired by us		(460,000)
		8,443,000
Net book value of our properties as of December 31, 2007		
— Interests in leasehold land held for our own use under operating leases	16,391	
— Buildings held for our own use	79,999	
— Investment properties	246,600	
— Investment properties under development	23,683	
— Inventories	3,344,470	
	3,711,143	
Less: Cost of sales of properties in the period from January 1, 2008 to March 31, 2008 (unaudited)	(478,295)	
Add: Addition to inventories and investment properties under development (unaudited)	510,611	
Add: Revaluation surplus of investment properties	5,200	
Less: Depreciation of interest in leasehold land held for our own use under operating leases and buildings held for our own use in the period from January 1, 2008 to March 31, 2008 (unaudited)	(1,483)	
Net book value of properties as of March 31, 2008, subject to valuation as set out in the property valuation report included in Appendix IV		3,747,176
Revaluation surplus, before income tax, LAT and minority interests		4,695,824

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2008

The following profit forecast is based on the assumptions set forth in the section headed "Profit Forecast" in Appendix III to this document.

	Before revaluation of investment properties net of deferred tax effect[(3)]	After revaluation of investment properties net of deferred tax effect[(3)]
Forecast combined net profit attributable to Shareholders	not less than RMB644.2 million (approximately HK$715.8 million)	not less than RMB650.0 million (approximately HK$722.2 million)

(1) [●]

(2) [●]

(3) For the purposes of the property valuation report set forth in Appendix IV to this document, the investment properties held by our Group have been valued on the basis of the capitalization of the net rental income derived from the existing tenancies with allowance for the reversionary income potential

of the properties. To cross-check the market value derived from the income capitalization approach, the direct comparison method has also been used. In the forecast by Savills, an independent property valuer, for our Group's investment properties as of December 31, 2008, the same income capitalization approach, supplemented by the direct comparison method, has been applied.

The income capitalization approach is a method of valuation whereby the existing net rental income of all lettable units of a property is capitalized for the respective unexpired terms of contractual tenancies while vacant units are assumed to be let at their respective market rents as of the valuation date. Upon the expiration of the existing tenancies, each unit is assumed to be let at its market rent as of the valuation date, which is in turn capitalized for the unexpired leasehold term under which the property is held. The summation of the capitalized value of the term income for the leased portion, the capitalized value of the reversion income (i.e., market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of the property.

The market rentals of all lettable units of property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the surrounding area. The capitalization rate adopted is determined by reference to the yields achieved in analyzed market sale transactions and enquiries of market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like. In this case, the property valuer has made reference to the lettings of kindergartens, schools and clubhouses wherever possible, and to a lesser extent retail properties, in the vicinity, with adjustments to determine market rental levels.

Under the direct comparison method, which is used to cross-check the results of the income capitalization approach, reference is made to recent comparable sale transactions, when available, with adjustments made for size, location, time, amenities and other relevant factors when comparing such properties sold against the investment properties.

Savills' forecast of the fair value of investment properties held by our Group as of December 31, 2008 has been made on the assumption that changes in capital values of investment properties are determined both by market factors such as overall supply, take-up, occupancy and rental levels, and by macro-economic factors such as total retail sales, disposable income, and GDP that reflect changes in market size, level of overall purchasing power, and overall growth of production that are sustainable factors to a particular market such as the retail sector. Given, however, that both supply and demand data for particular types of retail formats such as clubhouses, kindergartens and schools, are rare and transactions in respect of such properties are almost totally absent from the market, and given that the lettings of these retail formats are relatively long-term leases which render it difficult to project short-term rental changes, Savills has employed multiple regression analysis to study the relationship among macro-economic factors on overall retail rental changes in order to forecast the rental level that is likely to occur in 2008. In respect of our Group, Savills has employed figures such as total retail sales, disposable income of urban residents, and the GDP of the cities in which the properties are located as independent variables to project the change of overall retail rental levels in 2008. Upon adjustment for factors such as limited demand for retail formats such as clubhouses and schools, adjusted rental levels are employed in calculating the fair value of investment properties held by our Group on December 31, 2008 on the assumption that the general market situation and the required rate of return (i.e., the yield) for these types of properties will remain at similar levels.

In its research and analysis of the development trends in the capital value of investment properties for the year ending December 31, 2008, in addition to the forecasting model Savills has employed to project rental movements in 2008, it has also made reference to the historical performance of the overall retail property markets where the investment properties are located, such as overall market supply, vacancies and average sales prices during the tracking period from 2001 to 2007, as a cross-checking device to examine and validate its analysis and estimation of market trends of each of the investment properties at the end of 2008.

DIVIDENDS AND DISTRIBUTABLE RESERVES

Dividends

Subject to the Companies Law, we, through a general meeting, may declare final dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of our share premium account or any other fund or account which may be authorized for this purpose in accordance with the Companies Law.

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends will be declared and paid according to the amount paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of equity calls will for this purpose be treated as paid up on the Share and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend on:

- our general business condition;
- our financial results;
- our capital requirements;
- the interests of our Shareholders; and
- any other factors which our Board may deem relevant.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profits, calculated in accordance with PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

Our Directors will declare dividends, if any, in Hong Kong dollars with respect to Shares on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to the approval of our Shareholders.

In 2005, 2006, and 2007, we declared dividends of RMB44.0 million, RMB20.0 million and RMB76.6 million, respectively, and distributed dividends of RMB20.0 million in 2006 and RMB76.6 million in 2007. The RMB44.0 million dividend declared in 2005 was capitalized and credited to the paid-in capital in the same year. In addition, on May 6, 2008, we declared a dividend of RMB152.0 million for the period ended December 31, 2007 for our then existing Shareholders, namely, Joy Bright, CapitaLand (Cayman) and Super Joy. The payment of this dividend will be financed from internal resources, or, if necessary, third-party borrowings, and will be settled in full before the Listing Date.

Our past dividend payment history is not, and should not be taken as, an indication of our potential future practice with respect to dividend payments.

Our future dividend policy is that approximately 30% of our profits available for distribution will be recommended for distribution for each financial year. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year.

Distributable reserves

As of December 31, 2007, the reserves available for distribution to our Shareholders were RMB989.1 million.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since December 31, 2007, being the date of the latest audited combined balance sheet as set forth in the accountants’ report in Appendix IA to this document.