

**Rating Action: Moody's assigns first-time Ba3/(P)B1 ratings to Central China**

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**Global Credit Research - 06 Oct 2010**

Hong Kong, October 06, 2010 -- Moody's Investors Service has assigned a first-time Ba3 corporate family rating to Central China Real Estate Ltd ("Central China").

At the same time, Moody's has assigned a provisional (P)B1 rating to its proposed USD senior unsecured bond issue.

The outlook for the ratings is stable.

The proceeds from the proposed bonds will be used to fund new land acquisitions and general corporate purposes.

The provisional rating status of the bond rating will be removed after Central China has completed the USD bond issuance.

**RATINGS RATIONALE**

"Central China's Ba3 corporate family rating reflects its leading market position and very long operating track record of 18 years in Henan province, China," says Kaven Tsang, a Moody's Assistant Vice President and Analyst.

"Moody's notes that property markets in Henan have been relatively stable with demand for housing growing. The lower volatility in prices and growth in prices -- compared with other markets in China -- mean a lower level of regulatory risk exposure, which supports the rating," adds Tsang, also Moody's lead analyst for Central China.

"Further, Central China's Ba3 rating reflects the higher predictability of its performance relative to its property peers," says Tsang.

"Central China has demonstrated some operating stability, given its strategy of focusing on projects within a geography where it has established its brand, and its discipline in land acquisitions," says Tsang.

The Ba3 rating also considers Capitaland's involvement in Central China, with a 27% ownership holding and its two seats on the board; a situation which would help strengthen corporate governance and risk control.

On the other hand its geographical concentration in a province with a developing economy exposes it to constraints in bank credit availability which, in turn, could slow sales. Such a weakness constrains its rating.

In addition, while Central China has over 20 projects under development that can partly spread its sales risk, its size in terms of revenue and capital base remain small relative to its peers, and this constrains its ratings and weakly positions it in the Ba3 rating level.

Central China's bond rating is notched down to B1 due to the subordination risk arising from its moderate level of subsidiary debt. Secured and subsidiary debt (including trust financing) to total assets was 26% as of 30 June 2010. Moody's expects this ratio will stay around 20% in the coming 2-3 years.

The stable outlook reflects Moody's expectation that Central China will have adequate liquidity to fund its projects and debt repayments, and will remain focused in Henan and its vicinity. At the same time, it will preserve a disciplined approach to land acquisition.

Upward rating pressure will be limited in the near term. However, the possibility of an upgrade could emerge over the medium term if Central China (1) consistently achieves its planned sales; (2) demonstrates a track record of good financial discipline with respect to management of liquidity and debt; (3) demonstrates a successful property sales track record beyond Henan; and (4) broadens its banking relationships.

With respect to its credit metrics, Moody's sees EBITDA/interest coverage consistently above 4-5x and adjusted leverage below 40-45% as indications of potential for a rating upgrade.

The rating could be under pressure for a downgrade if Central China (1) experiences significant sales volatility, and which deviates from past performance, (2) suffers a material decline in its profit margin, (3) accelerates expansion that impairs its liquidity position, and/or increases its debt leverage position materially; and/or (4) undergoes a material reduction in Capitaland's ownership or board representation.

The potential for a downgrade could be triggered by a decline in balance sheet cash, or Moody's expectation that Central China's credit metrics would likely deteriorate -- EBITDA/interest falling below 2.5-3x and adjusted leverage above 55% -- on a sustained basis.

The principal methodology used in rating Central China Real Estate Ltd was Global Homebuilding Industry rating methodology published in March 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Central China Real Estate Limited ("Central China") is a leading property developer in the Henan Province, China. Founded in 1992, it has been listed on the Hong Kong Stock Exchange since June 2008.

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