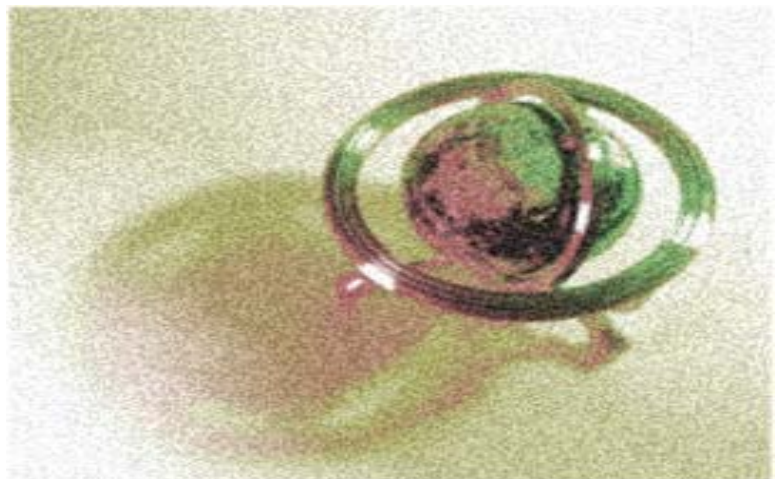


ResearchInChina

China BI Portal

Overview on 2006 and 2007Q1 Fiscal Reports of Real Estate Industry



Property right statement: Copyright of charts, tables and sentences in this report belongs to of Beijing Waterwood. For charts or tables marked as from other sources, original publishers own the copyright. The quoted data in this report are collected from public sources. If there is any problem related to property right, please do not hesitate to contact Beijing Waterwood.

Key Points:

· In 2006, with both climbing of domestic housing prices and rising of real estate industry boom level, profitability of China listed real estate companies has exceeded average level in A shares market. Totally speaking, prime operating revenues realized RMB 92.748 billion and net profits reached RMB 8.336 billion, up by approximately year-on-year 30% and 60% respectively. Undoubtedly, robust growth of net profits results from primary business; and meanwhile it is also closely relevant with substantive investment incomes. Up to 2007Q1, China listed real estate companies still kept a rapid growth based on housing prices. Totally speaking, in 2007Q1, prime operating revenues have reached RMB 21.01 billion and meanwhile net profits have hit RMB 2.416 billion, up by as high as 40% and 60% respectively year-on-year.

· Seen from costs and expenses for China real estate in 2006 and 2007Q1, prime operating costs of listed companies basically kept a synchronous growth trend with revenues, and gross profit margin is still maintained to be about 30%. In detail, proportions of total expenses for this period in prime operating revenues have declined from previously 14% to about 12% now, of which administrative expenses accounted for more than 50%. Obviously, for the whole China real estate industry, with robust growth of revenues, both costs and expenses have been rationally controlled to guarantee rapid growth of net profits.

· In 2006 and 2007Q1, averagely operating cash outflows per share of real estate companies witnessed a rapid growth. Undoubtedly, it has showed that to maintain rapid growth of achievements, land agents have urged to enlarge reserves for projects and finally brought gradually tense fund chain. Averagely cash flow from investing activities per share has no great changes compared with that in the prophase, and in fact it is still listed as net outflows, showing that new increased investment is larger than investment returns. Furthermore, averagely cash inflow from financing activities per share got rapidly developed, compared with that at the same time of the previous year. Undoubtedly, it has showed that China real estate companies need

external financing due to tense cash flow again.

· In 2006, for China real estate enterprises, averagely advance receivable rose by 43% over that in 2005; and then it can be expected that in 2007 China real estate companies will maintain a rapid growth. Furthermore, it can also be speculated that China real estate enterprises hold more reserves for newly-established projects and so have a bright prospect, based on the facts of inventory being up by year-on-year 40% and 50% in 2006 and 2007Q1 respectively. Finally, average inventory turnover also rose slightly, showing that land agents have speeded up their projects development to some extent.

· In 2006 and 2007Q1, both ratio of liabilities to assets and current ratio of China listed real estate companies have witnessed some improvements; while quick ratio is even with that in the prophase. Undoubtedly, it has showed that presently growth of inventory in China real estate companies has been quicker than that of current liabilities. However, ratio of 65% now is still very close to upper limit of 70%, which is the ratio of liabilities to assets for loans enterprises established by banks. Therefore, fund demands of China real estate enterprises will be more satisfied by external financing excluding banks.

· To sum up, in 2007 China real estate plate can still be expected to keep a rapid growth, with increasing domestic housing prices and rich reserves for projects of listed companies. However, it cannot be denied that pressure from macroeconomic control still exists in China real estate industry. Therefore, we hold a prudent and optimistic attitude towards China real estate industry. Furthermore, with accumulatively risks in A share market, it's a better investment strategy to actively seek and hold those relatively-underestimated varieties.

1 Profitability of Real Estate Industry Increased Greatly

Till now, 2006 fiscal reports and 2007Q1 reports for totally 86 listed companies in China real estate industry have all been disclosed; and here we have made analyses on comparable 83 companies. According to statistics, for these 83 listed companies, in 2006 prime operating revenues totally

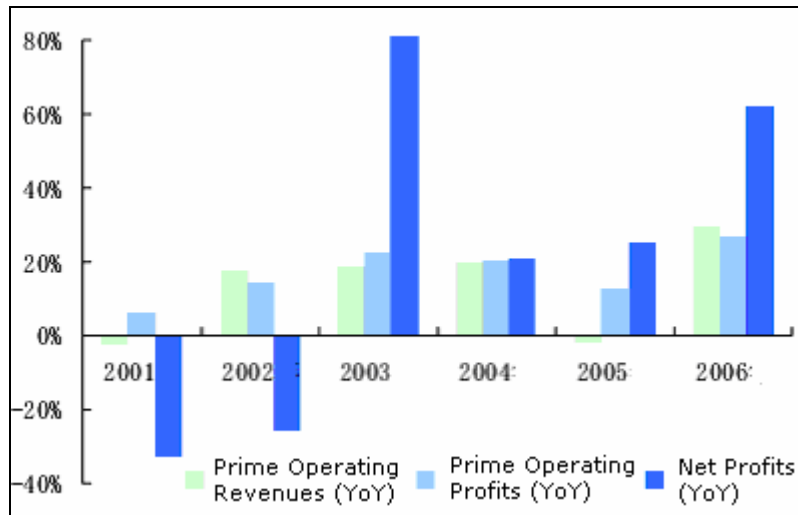
realized RMB 92.748 billion, up by year-on-year 29.51%; net profits reached RMB 8.336 billion, up by year-on-year 62.75%. Furthermore, weighted earning per share was RMB 0.212, up by year-on-year 45%; return on net assets was 7.37%, up by year-on-year 476%. In fact, in 2006 with both climbing of domestic housing prices and rising of real estate industry boom level, profitability of China listed real estate companies has exceeded average level in A shares market. Furthermore, it's also found that robust growth of net profits results from primary business; and meanwhile it is also closely relevant with substantive investment incomes. Totally speaking, in 2006 investment income totaled RMB 1.7 billion, up by 280% over that in 2005; and it had contributed 12% of operating profits that year.

In 2007Q1, China central government has strengthened regulation and control on real estate, and in fact national real estate indices have some declines. Totally speaking, in China housing prices in large and medium cities have kept relatively stable. However, since there are still high demands in China real estate market, relatively rapid climbing of housing prices occurred in a portion of central cities. Therefore, in 2007Q1 China listed real estate companies still keep a high growth as that in 2006. In detail, prime operating revenues realized RMB 21.01 billion, up by year-on-year 40%; net profits reached RMB 2.416 billion, up by year-on-year 58.93%. Moreover, weighted earning per share was RMB 0.0596, up by year-on-year 40%; and meanwhile averagely net profits in A share market increased by 96.75% and earning per share rose by 63%.

Seen from sales and profit growth of China real estate industry in the past few years, we can see that there occurred some decline in sales revenues in 2005; while for the other years, sales revenues always averagely kept a growth speed of about 20%. Furthermore, prime operating profits basically kept a synchronous growth with sales revenues; and meanwhile net profits also kept a quicker growth since 2003. Presently, sales revenues, prime operating profits and net profits in China real estate industry, all have reached historically highest level. In the past few years, for the whole industry, gross profit margin kept being 25%-30%; moreover, both returns on net assets and income per share rose year after year to have reached the historically highest level now based on achievements. In the meantime, in 2006 real estate shares averagely rose by 160%, far exceeding 120%--- growth rate of Shanghai stock indices; and till the end of 2006 average

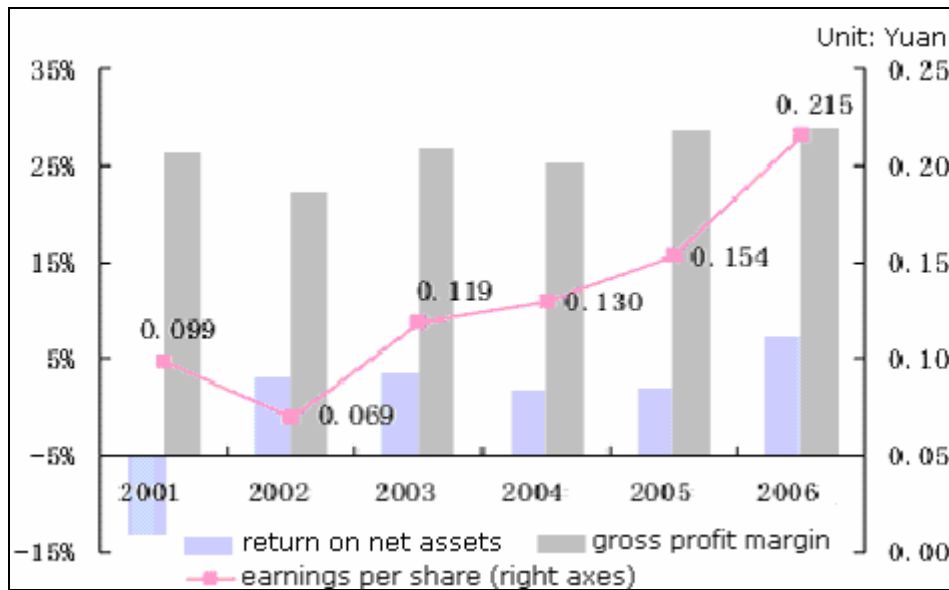
estimated values of real estate shares have been about 3.5 times more than that at the end of 2005. Obviously, in 2007Q1 average profitability of China real estate industry hasn't reached average level of A shares; however, its performance in secondary markets has exceeded that in whole A share market. For example, in 2007Q1 Celebrities Real Estate Development Group Co., Ltd has rose by 200%, and prices of as many as 13 individual shares have also doubled. And in fact only such leading shares as shares of China Vanke Co., Ltd, Gemdale Corp and China Merchants Property Development Co., Ltd have got a weak performance. Totally speaking, high growth has driven new record of share prices in secondary markets, and also brought rich gains for investors.

Figure One: Robust Growth of Performance in China Real Estate Industry in 2006



Source: ResearchInChina

Figure Two: Stable Gross Profit Margin and Rapid Climbing of Earnings per Share in China Real Estate Industry



Source: ResearchInChina

2 Prime Operating Costs and Expenses were Controlled Appropriately

Seen from costs and expenses for China real estate in 2006 and 2007Q1, prime operating costs of listed companies basically kept a synchronous growth trend with revenues, and presently proportions of prime operating costs in revenues have been about 70%. In detail, proportions of total expenses for this period in prime operating revenues have declined from previously 14% to about 12% now, of which administrative expenses accounted for more than 50%. And in 2007Q1 it also had some evidence to increase. Totally speaking, for the whole China real estate industry, with robust growth of revenues, both costs and expenses have been rationally controlled to guarantee rapid growth of net profits.

Table Two: Prime Operating Cost and Expenses of China's Real Estate Companies					
year	prime operating cost/prime operating revenue (%)	Period expense/main-business revenue (%)	administrative expense/period expense (%)	Business expense/period expense (%)	Financial expense/period expense (%)
2006	67.74	11.89	51.93	30.39	17.68
2005	69.25	14.23	54.03	29.52	16.46
Q1 2007	68.25	12.39	55.10	28.42	16.49
Q1 2006	68.74	14.62	49.95	29.03	21.02

Source: ResearchInChina

3 Rapid Increase of the Industry Resulted in Intensity of Cash Supply

With macroeconomic control, real estate prices got a limited growth; and meanwhile all of tense land supply, increasing land cost and collection of land value-added taxes, have also led to declines in gross profit margin of projects development by land agents in the future. And to maintain a rapid development, powerful land agents have to further enlarge their reserves for projects. Undoubtedly, to enlarge reserves, capital is the principal guarantee. Following it, it's easy for us to explain why average operating cash flow per share of listed companies had declined from RMB 0.19 in 2005 to RMB -0.17 in 2006, with average sales revenues being up by 30% in China real estate industry in 2006. And in 2007Q1 average operating cash flow per share is close to data for the whole 2006; and fund chain gradually tends to be tenser with better and better performance of real estate enterprises at the same time.

In 2006 and 2007Q1, averagely cash flow from investing activities per share has no great changes compared with that in 2005, and it is still a negative number. In fact, it has showed that new increased investment is larger than investment returns.

In 2006 and 2007Q1, averagely cash inflow from financing activities per share got rapidly developed, compared with that at the same time of the previous year. Undoubtedly, it has showed that cash inflow from primary business and investment activities cannot resolve the predicament of

capital shortage, and China real estate companies need external financing. Such a point can also be found from directional additional shares frequently issued by real estate companies in 2006.

Table Three: Cash Flow Analysis of China's Real Estate Companies, 2005-Q1 2007			
year	Cash Flow from Operation Activities per Share (Yuan)	Cash Flow from Investment Activities per Share (Yuan)	Cash Flow from Financing Activities per Share (Yuan)
2006	-0.170	-0.160	0.435
2005	0.190	-0.156	-0.042
Q1 2007	-0.159	-0.047	0.214
Q1 2006	-0.034	-0.047	0.020

Source: ResearchInChina

4 Advance Receivable and Inventory Growth Guarantee Future Performance Increase

Undoubtedly, real estate industry generally adopts pre-sales mode, and then there is always an interval of one year or even more between pre-sales and finally settlement into prime operating revenues after formal completion. Therefore, concern on changes in pre-sales accounts can help to judge performance tendency of real estate companies in the future. Besides, inventory mainly includes "finished development products" (for sales), "development products under construction" (being constructed), "leasing development products" (to be not sold but leased), and "lands to be developed" (land reserves which have got property rights and haven't started, and in fact land reserves have been the most important part of inventory for most real estate enterprises).

In 2006, for China real estate enterprises, averagely advance receivable rose by 43% over that in 2005; and then it can be expected that in 2007 China real estate companies will maintain a rapid growth. Furthermore, it can also be speculated that China real estate enterprises hold more reserves for newly-established projects and so have a bright prospect, based on the facts of inventory being up by year-on-year 40% and 50% in 2006 and 2007Q1 respectively. Finally, average inventory turnover also rose slightly, showing that land agents have speeded up their projects development to some extent.

Table Four: Advance Receivable and Inventory Analysis of China's Real Estate Companies, 2005-Q1 2007						
Year	Advance	Receivable	Inventory		Inventory Turnover	
	amount (million Yuan)	Year-on-year growth rate (%)	amount (million Yuan)	Year-on-year growth rate (%)	value (%)	Year-on-year growth rate (%)
2006	515	42.82	2028	41.03	1.40	9.38
2005	361	173.47	1438	17.11	1.28	6.67
Q1 2007	210	21.59	2134	53.18	0.33	13.79
Q1 2006	173	25.69	1393	18.22	0.29	11.54

Source: ResearchInChina

5 Debt-paying Risk Reduced

In 2006 and 2007Q1, both ratio of liabilities to assets and current ratio of China listed real estate companies have witnessed some improvements; while quick ratio is even with that in the prophase. Undoubtedly, it has showed that presently growth of inventory in China real estate companies has been quicker than that of current liabilities. However, ratio of 65% now is still very close to upper limit of 70%, which is the ratio of liabilities to assets for loans enterprises established by banks. Therefore, fund demands of China real estate enterprises will be more satisfied by external financing excluding banks.

Table Five: Debt Service Ratio of China's Real Estate Companies, 2005-Q1 2007			
Year	Liability/asset ratio (%)	Current ratio (%)	Quick ratio (%)
2006	64.55	1.66	0.60
2005	68.77	1.52	0.59
Q1 2007	64.73	1.71	0.65
Q1 2006	69.19	1.67	0.65

Source: ResearchInChina

6 Investment Strategies in Real Estate Industry

To sum up, in 2007 China real estate plate can still be expected to keep a rapid growth, with increasing domestic housing prices and rich reserves for projects of listed real estate companies. However, it cannot be denied that pressure from macroeconomic control still exists in China real estate industry. Seen from operating status of real estate market in 2007Q1, objectives of macroeconomic control haven't realized; and in fact there still existed such problems as rebound of investment growth speed and ever-increasing housing prices. In the next few years, it's estimated that governments will strengthen implementation of existing policies and further regulate orders in real estate market. Meanwhile, both fulfillment of national pre-sales special administrative policies for commercial housing and establishment of property taxes will also make certain effects on real estate plate. Totally speaking, that governments regulate orders in real estate market will aim to adjust house structure, to stabilize housing prices, to guarantee healthy & balanced development of real estate industry, and to form "house construction and consumption mode with Chinese characteristics", instead of squeezing markets. Therefore, we still speak highly of real estate industry.

Seen from estimation, share prices in real estate plate have reached a relatively rational level after continuous robust growth in the past few years; and in fact, it's less possible to continuously witness a robust growth. However, once estimation level for the whole market continues to advance, estimation for real estate plate will also accordingly get enhanced. And for such companies as China Vanke Co., Ltd, which can keep a sustained and stable growth for a long time, its current investment strategy should be to keep on holding and sharing long-term earnings. Differently, for second-liner or third-liner real estate companies, estimation will be discounted compared with that of first-liner varieties, due to deficiency in scale, administration and anti-risk capacity; and it's also necessary to adjust stock positions onto other under-estimated varieties after rational growth of share prices. Furthermore, for those listed companies with assets restructuring and whole listing expectation, they need carefully analyze substantial effects brought by relevant events and then estimate rational values. To sum up, with accumulatively risks in markets, it's a better investment strategy to actively seek and hold those relatively-underestimated varieties.

About ResearchInChina and China Real Estate Intelligence Weekly

ResearchInChina was established in 1999, has become a leading independent provider of China business intelligence. Our research is designed to meet the diverse planning and information needs of businesses, institutions, and professional investors worldwide. Our services are used in a variety of ways, including strategic planning, product and sales forecasting, risk and sensitivity management, and as investment research.

China Real Estate Intelligence Weekly is an important product of our business intelligence series. It provide latest market news, information and vital insights for anyone doing business or facing competition in China. It includes:

Corporate news: the latest on M&A, investment, corporate earnings and top-level corporate appointments

Economics & legislation: economic indicators, banking news, new legislation that will impact sales, production and import/ export activities in China

Industry focus: market status, in-depth analysis, investment opportunities and potential pitfalls

ResearchInChina provide **China Intelligence Weekly** in following industries: consumer electronics, goods retailing, agriculture, food and beverage, automotive, energy, aviation, materials, industrial machinery, construction, chemicals, biotechnology, pharmaceutical, medical, computer and software, telecommunications, cyber economy, media, banking and financing, real estate, logistics, tourism, etc.

Contact Us

TEL +86-10-82600828 +86-10-82600862 FAX +86-10-82600829

WEB www.researchinchina.com Mail: weekly@researchinchina.com