众安房产
ZHONG AN REAL ESTATE

# ZHONG AN REAL ESTATE LIMITED

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 672)**

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

### FINANCIAL HIGHLIGHTS

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2010** | 2009 | Percentage of decrease |
| Revenue (RMB million) | **1,243.9** | 1,624.5 | 23 |
| Profit attributable to owners of the parent (RMB million) | **379.8** | 408.9 | 7 |
| Basic earnings per share (RMB) | **0.16** | 0.18 | 11 |

The board of directors (the "Board") of Zhong An Real Estate Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010, all of which have been reviewed by the audit committee of the Company, together with the comparative amounts for the previous year as set out below:

**CONSOLIDATED INCOME STATEMENT**

| | *Notes* | **2010** | 2009 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Revenue** | *5* | **1,243,871** | 1,624,476 |
| Cost of sales | | **(600,912)** | (1,075,750) |
| **Gross profit** | | **642,959** | 548,726 |
| Other income | *5* | **3,871** | 18,710 |
| Selling and distribution costs | | **(69,147)** | (41,228) |
| Administrative expenses | | **(160,512)** | (106,830) |
| Other expenses | | **(49,905)** | (42,444) |
| Increase in fair value of investment properties | | **276,680** | 293,743 |
| Finance costs | *6* | **(3,463)** | (437) |
| **Profit before tax** | *7* | **640,483** | 670,240 |
| Income tax expense | *8* | **(227,223)** | (227,975) |
| **Profit for the year** | | **413,260** | 442,265 |
| Attributable to: | | | |
| Owners of the parent | | **379,759** | 408,917 |
| Non-controlling interests | | **33,501** | 33,348 |
| | | **413,260** | 442,265 |
| **Earnings per share attributable to ordinary equity holders of the parent (RMB)** | | | |
| Basic and diluted | *9* | **16 cents** | 18 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **413,260** | 442,265 |
| Other comprehensive income | | |
| Exchange differences on translation of foreign operations | **4,807** | 1,420 |
| **Total comprehensive income for the year** | **418,067** | 443,685 |
| Attributable to: | | |
| Owners of the parent | **384,566** | 410,337 |
| Non-controlling interests | **33,501** | 33,348 |
| | **418,067** | 443,685 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | | **195,710** | 190,812 |
| Investment properties | | **1,931,000** | 1,608,800 |
| Properties under development | | **1,130,603** | 1,275,367 |
| Available-for-sale investments | | **3,300** | 3,300 |
| Long term prepayments | | **1,860,027** | 1,692,205 |
| Deferred tax assets | | **71,737** | 34,404 |
| Total non-current assets | | **5,192,377** | 4,804,888 |
| **CURRENT ASSETS** | | | |
| Completed properties held for sale | | **1,139,350** | 391,516 |
| Properties under development | | **2,981,185** | 675,555 |
| Inventories | | **14,191** | 7,193 |
| Trade receivables | *11* | **16,139** | 14,318 |
| Prepayments, deposits and other receivables | | **359,520** | 451,621 |
| Pledged deposits | | **428,558** | 29,348 |
| Cash and cash equivalents | | **1,007,979** | 891,787 |
| Total current assets | | **5,946,922** | 2,461,338 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *12* | **508,998** | 628,570 |
| Other payables and accruals | | **587,741** | 335,950 |
| Advances from customers | | **1,725,582** | 175,194 |
| Interest-bearing bank and other borrowings | | **950,500** | 173,753 |
| Tax payable | | **341,618** | 337,209 |
| Total current liabilities | | **4,114,439** | 1,650,676 |
| **NET CURRENT ASSETS** | | **1,832,483** | 810,662 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **7,024,860** | 5,615,550 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **7,024,860** | 5,615,550 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank and other borrowings | **1,823,500** | 891,036 |
| Deferred tax liabilities | **387,017** | 300,074 |
| Total non-current liabilities | **2,210,517** | 1,191,110 |
| **Net assets** | **4,814,343** | 4,424,440 |
| **EQUITY** | | |
| Equity attributable to owners of the parent | | |
| Issued capital | **219,216** | 185,339 |
| Reserves | **4,416,903** | 4,094,690 |
| | **4,636,119** | 4,280,029 |
| **Non-controlling interests** | **178,224** | 144,411 |
| **Total equity** | **4,814,343** | 4,424,440 |

# NOTES TO FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Zhong An Real Estate Limited (the "Company") is a limited liability company incorporated as an exempted company in the Cayman Islands on 13 March 2007 under the Companies Law (revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the "Group") is principally engaged in property development, leasing and hotel operation. The Group's property development projects during the year were all located in Zhejiang and Anhui Provinces, the People's Republic of China (the "PRC"). There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Whole Good Management Limited, a company incorporated in the British Virgin Islands on 3 May 2007. Whole Good Management Limited is wholly owned by Mr. Shi Kancheng, the Chairman and Chief Executive Officer of the Company.

## 2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise the standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee, the interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value as explained in the accounting policies set out below. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

*Basis of consolidation from 1 January 2010*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

*Basis of consolidation prior to 1 January 2010*

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| IFRS 1 (Revised) | *First-time Adoption of International Financial Reporting Standards* |
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| IFRS 2 Amendments | Amendments to IFRS 2 Share-based Payment – *Group Cash-settled Share-based Payment Transactions* |
| IFRS 3 (Revised) | *Business Combinations* |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| IAS 39 Amendment | Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| IFRIC 17 | *Distributions of Non-cash Assets to Owners* |
| Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008 | Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* |
| *Improvements to IFRSs 2009* | Amendments to a number of IFRSs issued in April 2009 |

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures.*

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

**Issued but not yet effective International Financial Reporting Standards**

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 1 Amendment | Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2] |
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4] |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4] |
| IFRS 9 | *Financial Instruments* [6] |
| IAS 12 Amendment | Amendment to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5] |
| IAS 24 (Revised) | *Related Party Disclosures* [3] |
| IAS 32 Amendment | Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1] |
| IFRIC 14 Amendments | Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3] |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments* [2] |

Apart from the above, *Improvements to IFRSs 2010* has been issued which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34, and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on income derived from business and has four reportable operating segments as follows:

(a) the property development segment which develops and sells properties in the PRC;

(b) the property rental segment which leases investment properties in the PRC;

(c) the hotel operations segment which owns and operates a hotel; and

(d) the others segment comprises, principally, the Group's property management services business, which provides management and security services to residential and commercial properties.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, the amount due to the ultimate holding company, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| Year ended 31 December 2010 | Property development *RMB'000* | Property rental *RMB'000* | Hotel operations *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | **1,128,055** | **42,545** | **58,477** | **14,794** | **1,243,871** |
| Intersegment sales | **20,270** | **–** | **–** | **–** | **20,270** |
| | **1,148,325** | **42,545** | **58,477** | **14,794** | **1,264,141** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | **(20,270)** |
| Revenue | | | | | **1,243,871** |
| **Segment results** | **414,499** | **290,462** | **(298)** | **(37,840)** | **666,823** |
| *Reconciliation:* | | | | | |
| Interest income | | | | | **2,000** |
| Share option expenses | | | | | **(24,877)** |
| Finance costs | | | | | **(3,463)** |
| Profit before tax | | | | | **640,483** |
| **Segment assets** | **8,170,098** | **1,966,343** | **399,746** | **1,212,362** | **11,748,549** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment receivables | | | | | **(1,700,971)** |
| Corporate and other unallocated assets | | | | | **1,091,721** |
| Total assets | | | | | **11,139,299** |
| **Segment liabilities** | **4,142,356** | **81,976** | **11,363** | **287,599** | **4,523,294** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment payables | | | | | **(1,700,971)** |
| Corporate and other unallocated liabilities | | | | | **3,502,633** |
| Total liabilities | | | | | **6,324,956** |
| **Other segment information:** | | | | | |
| Depreciation | **5,967** | **299** | **11,355** | **414** | **18,035** |
| Impairment losses recognised in the income statement | **44,966** | **–** | **–** | **–** | **44,966** |
| Capital expenditure | **10,360** | **2,775** | **–** | **–** | **13,135** |

| Year ended 31 December 2009 | Property development *RMB'000* | Property rental *RMB'000* | Hotel operations *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | 1,530,263 | 41,601 | 47,173 | 5,439 | 1,624,476 |
| Intersegment sales | – | – | – | 6,958 | 6,958 |
| | 1,530,263 | 41,601 | 47,173 | 12,397 | 1,631,434 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | (6,958) |
| Revenue | | | | | 1,624,476 |
| **Segment results** | 399,458 | 286,853 | 2,522 | (20,964) | 667,869 |
| *Reconciliation:* | | | | | |
| Interest income | | | | | 18,327 |
| Share option expenses | | | | | (15,519) |
| Finance costs | | | | | (437) |
| Profit before tax | | | | | 670,240 |
| **Segment assets** | 4,636,889 | 1,668,086 | 392,864 | 826,186 | 7,524,025 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment receivables | | | | | (1,218,972) |
| Corporate and other unallocated assets | | | | | 961,173 |
| Total assets | | | | | 7,266,226 |
| **Segment liabilities** | 1,811,506 | 50,431 | 9,717 | 487,032 | 2,358,686 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment payables | | | | | (1,218,972) |
| Corporate and other unallocated liabilities | | | | | 1,702,072 |
| Total liabilities | | | | | 2,841,786 |
| **Other segment information:** | | | | | |
| Depreciation | 4,717 | 193 | 11,308 | 207 | 16,425 |
| Impairment losses recognised in the income statement | 33,292 | – | – | – | 33,292 |
| Capital expenditure | 5,207 | 1,947 | – | – | 7,154 |

**Geographical information**

All of the Group's revenue is derived from customers based in the PRC and all of the non-current assets of the Group are located in Mainland China.

**Information about a major customer**

No sales to a single customer or a group of customers under the common control derived 10% or more of the Group's revenue for the years ended 31 December 2010 and 2009.

## 5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents income from the sale of properties, property leasing income, property management fee income and hotel operating income during the year, net of business tax and other sales related taxes and discounts allowed.

An analysis of revenue and other income is as follows:

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Revenue** | | |
| Sale of properties | **1,203,293** | 1,619,024 |
| Property leasing income | **54,237** | 43,821 |
| Property management fee income | **15,635** | 5,462 |
| Hotel operating income | **62,009** | 50,024 |
| Less: Business tax and surcharges | **(91,303)** | (93,855) |
| | **1,243,871** | 1,624,476 |
| **Other income** | | |
| Interest income | **2,000** | 18,327 |
| Others | **1,871** | 383 |
| | **3,871** | 18,710 |

## 6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on bank loans and other loans wholly repayable within five years | **56,547** | 8,583 |
| Interest on bank loans and other loans wholly repayable over five years | **50,734** | 35,254 |
| Total interest | **107,281** | 43,837 |
| Less: Interest capitalised in properties under development | **(103,818)** | (43,400) |
| | **3,463** | 437 |

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | 2010 | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of properties sold | **561,787** | 1,049,671 |
| Depreciation | **18,035** | 16,425 |
| Goodwill impairment | **–** | 15,292 |
| Minimum lease payments under operating leases: | | |
| – Office premises | **7,461** | 3,596 |
| Auditors' remuneration | **3,089** | 2,496 |
| Staff costs including directors' remuneration: | | |
| – Salaries and other staff costs | **63,390** | 45,701 |
| – Equity-settled share option expense | **24,877** | 15,519 |
| – Pension scheme contributions* | **4,441** | 4,040 |
| Foreign exchange differences, net | **189** | 180 |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | **2,822** | 1,527 |
| Write-off of other receivables | **–** | 6,247 |
| Impairment of other receivables | **44,966** | 18,000 |
| Changes in fair value of investment properties | **(276,680)** | (293,743) |
| Gain on disposal of items of property and equipment | **–** | (548) |

* As stipulated by the relevant PRC regulations, the Group participates in a defined pension scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average salary amount of the geographical area of their last employment at their retirement date. The Group is required to make contributions to the local social security bureau at rates ranging from 15% to 24% of the standard salaries set by the local authorities annually. The Group has no obligation for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above. The Group has no right to forfeit the contributions made by the Group on behalf of its employees.

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

Provision for the PRC income tax has been provided at the applicable income tax rate of 25% (2009: 25%) on the assessable profits of the Group's subsidiaries in Mainland China.

PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sale of properties less deductible expenditures including land costs, borrowing costs and other property development expenditures. The Group has estimated, made and included in taxation a provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. Prior to the actual cash settlement of the LAT liabilities, the LAT liabilities are subject to the final review/approval by the tax authorities.

| | 2010 | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current – PRC corporate income tax for the year | **127,632** | 119,880 |
| Current – PRC land appreciation tax for the year | **49,981** | 49,310 |
| Deferred | **49,610** | 58,785 |
| Total tax charge for the year | **227,223** | 227,975 |

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB379,759,000 (2009: RMB408,917,000) and the weighted average number of ordinary shares of 2,331,206,400 (2009 (as adjusted to reflect the bonus issue): 2,331,206,400) in issue during the year.

No diluted earnings per share has been taken into consideration, since the date of share options granted to the end of the reporting period, the average quoted market price of ordinary shares is lower than the adjusted exercise price of the share options.

## 10. DIVIDENDS

| | 2010 | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interim – nil (2009: RMB 0.02) per ordinary share | **–** | 38,853 |

## 11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly lease receivables on credit. The credit period is generally one month, extending up to three months for major customers. All balances of the trade receivables as at the end of the year were neither past due nor impaired.

Trade receivables are non-interesting-bearing and unsecured.

## 12. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the end of the reporting period, based on the payment due dates, is as follows:

| | 2010 | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within six months | **475,635** | 613,647 |
| Over six months but within one year | **8,903** | 6,495 |
| Over one year | **24,460** | 8,428 |
| | **508,998** | 628,570 |

The above balances are unsecured and interest-free and are normally settled based on progress of construction.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

The audited consolidated revenue of the Group for 2010 was RMB1,243,871,000, a decrease of about 23% from that in 2009. The gross profit for 2010 was RMB642,959,000, an increase of about 17% from that in 2009. The profit attributable to owners of the parent for 2010 was approximately RMB379,759,000, a decrease of about 7% from that in 2009. Core profits, which was adjusted for net fair value gains in investment properties, was RMB205,750,000, a decrease of about 7% from that in 2009. The basic earnings per share was RMB0.16. The Board did not recommend the distribution of a final dividend for the year ended 31 December 2010 (2009: nil).

### Industry Review

In 2010, the real estate market in China was affected by the regulatory measures imposed by the central government to trim inflation and curb an overheated real estate market. The floor area of residential properties sold was recorded at 1.04 billion sq.m., representing an increase of about 11% compared to that of 2009, which is significantly lower than the 44% increase in the level of sale recorded in 2009.

The floor area of residential properties sold in Hangzhou of Zhejiang Province was 4.04 million sq. m., representing a decrease of about 56% as compared to that of 2009. Whereas the average selling price per sq. m. was RMB21,307, representing an increase of about 48% as compared to that of 2009. The floor area of residential properties sold in Hefei of Anhui Province was about 7.84 million sq. m.. It was a decrease of about 31% as compared with that of 2009. The average selling price per sq. m. was RMB6,037, representing an increase of about 40% as compared to that of 2009. The floor area of residential properties sold in Huaibei of Anhui Province was about 1.03 million sq. m.. It was a decrease of about 5% as compared to that of 2009. The average selling price per sq. m. was RMB3,638, representing an increase of about 23% as compared to that of 2009.

## BUSINESS REVIEW

### Sales and earnings

The area of property sold or presold and delivered by the Group in 2010 was 152,030 sq. m. (2009: 174,950 sq. m.), a decrease of approximately 13% compared with that of 2009. During the year, most of the units of Vancouver City, Phase 3A in Huaibei were presold and recognised as revenue with a total area of 96,107 sq. m. in 2010, which accounted for approximately 63% of the total area of property sold and delivered throughout 2010. In addition, Landscape Bay contributed to 20% of total area of property sold and delivered and the corresponding revenue recognised was 53% of the total revenue recognised for the year under review.

The average sales price per sq. m. achieved by the Group in 2010 was approximately RMB7,915, representing a decrease of approximately 15% from the average sales price per sq. m. of RMB9,254 in the previous year. It is because the majority of the sales recognized during the year were derived from Vancouver City which were of lower selling price due to lower average cost as compared to other property projects of the Group.

During the year under review, the total booked sales area sold for major projects of the Group and the respective revenue were as follows:

| | Booked sales area 2010 *sq.m.* | Revenue 2010 *RMB million* |
|---|---:|---:|
| Projects | | |
| **Hangzhou, Zhejiang Province** | | |
| Landscape Bay | 30,376 | 640 |
| White Horse Noble Mansion | 7,616 | 119 |
| Others* | 1,619 | 30 |
| **Hefei, Anhui Province** | | |
| Green Harbour | 16,312 | 128 |
| **Huaibei, Anhui Province** | | |
| Vancouver City, Phase 3A | 96,107 | 286 |
| **Total** | 152,030 | 1,203 |

* Including: Landscape Garden, Guotai Garden and New White Horse Apartments

The average cost of property sold per sq. m. of the Group was RMB3,695 in 2010, representing a decrease of about 38% from RMB6,000 in the previous year. The main reason was that a relatively higher proportion of properties sold by the Group was derived from Vancouver City which were of lower average cost.

**Progress of development on major projects**

***Hangzhou, Zhejiang Province***

*Landscape Bay*

This project is located on the south bank of Qiantang River, Xiaoshan District, Hangzhou, Zhejiang Province with a total gross floor area ("GFA") of 320,957 sq. m.. The project includes island-style townhouses, high-rise apartments with river view, shopping center, car park spaces and clubhouse. As at 31 December 2010, the construction of Phase 2 of the project, consisting of townhouses, had been completed. The construction of apartment units for Phase 1 will be completed by the end of 2011. The presale of apartment units was launched in 2010 and the volume of sale is within expectation.

*Yinlong Bay (formerly known as Yinlong Chateau)*

This is a luxurious residential project in Wenyan Town, Xiaoshan District, Hangzhou, Zhejiang Province with a total GFA of 239,743 sq.m. The project includes low-rise club-houses and high-rise apartments. As at 31 December 2010, the construction is in progress. The project will be completed by the end of 2012. The presale of the high-rise apartments was launched in the fourth quarter of 2010 and the volume of sale is within expectation.

*International Office Centre*

This is a large-scale integrated commercial project at Qianjiang Century CBD (錢江世紀城) in Xiaoshan district, Hangzhou, with a total planned GFA of 2,268,873 sq.m. of which the construction of 959,152 sq.m. has been approved. The project includes hotel of five-star standards, office buildings, a shopping center, serviced apartments, and underground car parking spaces. The serviced apartments of Phase A3 with a total GFA of 328,378 is now under construction. It will be completed by the end of 2013. The presale will be launched in the second half of 2011.

***Yuyao, Zhejiang Province***

*Yuelong Bay*

This is a low density residential project in Yuyao, Zhejiang Province with a total GFA of 192,105 sq. m.. The project consists of French, European and Spanish-style villas. The construction of the villas is in progress, and the project will be completed by the end of 2011. The presale was launched in the fourth quarter of 2010 and a good presale result has been recorded.

***Huaibei, Anhui Province***

*Vancouver City*

Vancouver City is a low density residential project in Huaibei, Anhui Province. Phase 3A with a GFA available for sale of 133,116 sq. m. was completed during the year under review. Phase 4 North with apartment units and Phase 5 North with low density residential units are under construction. They will be completed by the end of 2011. Presale of Phase 5 North was commenced in the fourth quarter of 2010 and sales results are within expectation.

**Contract sale in 2010**

As at 31 December 2010, the contract GFA sold by the Group was approximately 275,246 sq. m.. Set out below are the details on the contract sale from the major projects:

| | GFA available for sale (sq. m.) | Percentage of interest in the project attributable to the Group |
|---|---|---|
| **Hangzhou, Zhejiang Province** | | |
| Landscape Bay – Phases 1 and 2 | 115,086 | 92.6% |
| Yinlong Bay | 27,025 | 94.5% |
| Others* | 5,176 | – |
| | 147,287 | |
| **Yuyao, Zhejiang Province** | | |
| Yuelong Bay | 35,219 | 90.0% |
| **Hefei, Anhui Province** | | |
| Green Harbour – Phases 1A and 1B | 12,330 | 84.2% |
| **Huaibei, Anhui Province** | | |
| Vancouver City – Phase 3A | 80,410 | 100.0% |
| Total | 275,246 | |

* Including: Landscape Garden, Guotai Garden, New White Horse Apartments and White Horse Noble Mansion.

It is expected that the GFA available for sale from the projects to be completed in 2011 was approximately 627,552 sq. m., details of which are as follows:

| | Expected completion date | GFA available for sale/leasing (sq. m.) | Percentage of interest in the project attributable to the Group | Usage |
|---|---|---|---|---|
| **Hanzhou, Zhejiang Province** | | | | |
| Landscape Bay – Phase 1 | December 2011 | 178,674 | 92.6% | For sale |
| **Yuyao, Zhejiang Province** | | | | |
| Yuelong Bay | December 2011 | 129,077 | 90.0% | For sale |
| **Huaibei, Anhui Province** | | | | |
| Vancouver City – Phase 4 North | October 2011 | 257,359 | 100.0% | For sale |
| Phase 5 North | November 2011 | 62,442 | 100.0% | For sale |
| **Total** | | 627,552 | | |

## Land reserve

The land reserve policy of the Group is to maintain a land bank which is sufficient for development by the Group for approximately four to five years. As at 31 December 2010, the total GFA for the Group's land bank in Zhejiang Province and Anhui Province was approximately 4,411,682 sq. m. and 1,918,263 sq. m. respectively, aggregating to approximately 6,329,945 sq. m. in total.

During the year under review, there were additions of 2 plots of land to the land bank. They are located in, Yuhang District, Hangzhou, Zhejiang Province and Yuyao, Zhejiang Province. Such additions will enrich the Group's land bank and are expected to bring forth development and opportunity for the Group.

Details of land bank of the Group as at 31 December 2010:

| Location of land | Type of property | Total GFA (sq. m.) | GFA available for sale/leasing (sq. m.) | Percentage of interest in the project attributable to the Group |
|---|---|---|---|---|
| **Hangzhou, Zhejiang Province** | | | | |
| Landscape Bay Phase 1, Ning Wei Town | Residential/retail spaces | 233,978 | 178,674 | 92.6% |
| Huifeng Plaza | Residential | 47,306 | 40,311 | 90.0% |
| Yinlong Bay,Wenyan Town | Residential/retail spaces | 239,743 | 185,749 | 94.5% |
| International Office Center, Phase A | Residential/office/hotel | 843,320 | 539,850 | 100.0% |
| International Office Center, Phase B and C | Residential/office/ retail spaces/hotel | 1,425,553 | 1,108,000 | 100.0% |
| Chunan County, Qiandaohu Town | Hotel | 34,416 | – | 100.0% |
| Xiaoheshan, Yuhang District | Residential | 231,645 | 164,909 | 90.0% |
| Yuhang Economic Development Zone | Residential/retail spaces | 507,841 | 377,030 | 45.9% |
| **Yuyao, Zhejiang Province** | | | | |
| A piece of land at: north to Shenggui Hill, west to Xingjian North Road and south to Beihuan West Road | | | | |
| – Phase 1-Yuelong Bay | Residential | 192,105 | 129,077 | 90.0% |
| – Phase2 | Residential | 200,975 | 190,975 | 100% |
| – Zhong An Times Square* | Residential/office/ retail spaces/hotel | 454,800 | 363,800 | 90.0%/100% |
| **Sub-total for land bank Zhejiang Province** | | **4,411,682** | **3,278,375** | |

* The project will be jointly developed by two subsidiaries of the Group.

| Location of land | Type of property | Total GFA (sq. m.) | GFA available for sale/leasing (sq. m.) | Percentage of interest in the project attributable to the Group |
|---|---|---|---|---|
| **Huaibei, Anhui Province** | | | | |
| Vancouver City Phases 3B to 3D | Residential/retail spaces | 309,712 | 280,712 | 100.0% |
| Vancouver City Phases 4 to 6 | Residential/retail spaces/ hotel | 850,256 | 677,340 | 100.0% |
| **Hefei, Anhui Province** | | | | |
| Green Harbour Phase 1C | Residential | 77,745 | 51,593 | 84.2% |
| Green Harbour Phase 2 | Residential/retail spaces | 127,450 | 84,200 | 84.2% |
| Green Harbour Phases 3 to 6 | Residential/retail spaces/ hotel | 553,100 | 492,500 | 84.2% |
| **Sub-total for land bank in Anhui Province** | | **1,918,263** | **1,586,345** | |
| **Total land bank** | | **6,329,945** | **4,864,720** | |

## Other business development

The Group strives to build up a portfolio of diversified business so as to provide stable income in the future, and to contain operation risk, The Group will increase the investment in the investment properties and commercial operation. The scope and the development pace of the management services will be speeded up in order to extend the down-stream services of the property development business and to maintain a steady operation.

## Hotel

Holiday Inn Xiaoshan Hangzhou, a hotel under the Group which is managed by the internationally renowned InterContinental Hotels Group, has a revenue of RMB62,009,000 for 2010, representing an increase of 24% compared to RMB50,024,000 in 2009. This increase was primarily due to an increase in occupancy rate to about 56% (2009: 47%).

The Group is planning to build a 5 star high-end hotel with large scale commercial complex at Zhong An Time Sqaure in Yuyao. This will increase another source of stable income to the Group.

**Leasing**

Highlong Plaza located in Xiaoshan District, Hangzhou, provides the main source of leasing income. This consists of office building, shopping centre, serviced apartments and underground car parking spaces. The leasing rate for shopping centre is 99% (2009: 97%) and that of office building is 67% (2009: 57%). A general increase was recorded as compared to those of 2009. The serviced apartments were sublet to and managed by independent operators during the year under review. The operation was satisfactory. Other investment properties also contributed to the leasing income of the Group. The Group will organise various promotion activities so as to attract more inflow of people for the benefit of all tenants and thereby enhance rentability and the value of the Group's properties held for lease.

**Property management**

The Goup cooperated with the Shangcheng District Government of Hangzhou (杭州市上城區政府) in transforming and modifying the business format of Hefang Street (河坊街) and the operation and management of Southern Song Imperial Street of Middle Zhongshan Road (中山中路南宋御街) in Hangzhou. The modification works had been completed during the year under review and has proved to be successful. Higher inflow of people were recorded and greater economic benefits were attained. This has established a stable foundation to and reputation for the Group in property development and management of investment properties in the future.

**Other services**

The Group also provides quality management services to communes including properties developed by the Group and other developers. The Group is also developing nursery stock plantation for agricultural purposes and other value-added down-stream services as an integral part of the Group's property development and management businesses. These services help enhance corporate branding of, and widen the scope of services to be provided by, the Group accordingly.

**Recognitions obtained by the Group**

The Group was awarded by the government and recognized authorities for the year under review as follows:

| | Granted by | Awards |
|---|---|---|
| February 2010 | Hangzhou Xiaoshan Trade Bureau (杭州市蕭山貿易局) | Hangzhou Highlong Commercial Building Co., Ltd. "Best 10 business enterprises in the commerce and trade system of Xiaoshan District 2009" |
| April 2010 | Office of the Steering Committee on City Brand Work of Hangzhou (杭州市城市品牌工作指導委員會辦公室) | Highlong Plaza of Hangzhou Highlong Commercial Building Co., Ltd. "Site of the year for quality experience at the Hangzhou Life Quality Display for Appraisal Conference" |
| April 2010 | TOP 10 China Real Estate Rearch Group (中國房地產TOP10研究組) | Zhong An Real Estate Limited "Top 100 enterprises in real estate industry of China 2010 – star of top 100" |
| May 2010 | Office of Organisation Committee for the Second Xiaoshan Shopping Festival (第二屆蕭山購物節組委會辦公室) and Hangzhou Xiaoshan Trade Bureau | Highlong Plaza of Hangzhou Highlong Commercial Building Co., Ltd. "Most popular award of the Second Xiaoshan Shopping Festival" |
| July 2010 | Zheshang Magazine Record Committee of the Top 500 Zhejiang Businessmen Forum 2010 (浙商雜志社 • 2010浙商500强論壇紀委會) | Zhejiang Zhong'an Property Development Co., Ltd. "most popular leading enterprise on the internet in the Hangzhou real estate industry" |
| August 2010 | Hangzhou Xiaoshan Trade Bureau, Xiaoshan Daily (蕭山日報社) and Hangzhou Xiaoshan Radio and Television (杭州市蕭山廣播電視台) | Highlong Plaza of Hangzhou Highlong Commercial Building Co., Ltd. "Second session of Xiaoshan business quality award top 10 quality plaza (supermarket)" |
| August 2010 | Huaibei Real Estate Administration Bureau (淮北市房地產管理局), Huaibei Daily (淮北日報社), Huaibei Real Estate Association (淮北市房地產業協會) | "溫哥華城 · 星月份湖畔" of Anhui Zhong'an Real Estate Development Co., Ltd. "Top 10 brand properites of Huaibei real estate" |

| | Granted by | Awards |
|---|---|---|
| September 2010 | Forbes | Zhong An Real Estate Limited Asia's 200 Best Under A Billion |
| September 2010 | Enterprise Research Institute of the Development Research Center of the State Council, Real Estate Research Institute of Tsinghua University and China Index Research Institute | Zhong An Real Estate Limited "Real estate companies in Northeastern China with top 10 brand value 2010" |
| December 2010 | soufun.com | Zhong An Real Estate Limited "The seventh billboard of most popular real estate on the internet 2010 – most influential Hangzhou real estate enterprise" |
| December 2010 | soufun.com | "啓航社" project of Hangzhou Zhengjiang Real Estate Development Co., Ltd. "Most popular new property of Hangzhou real estate 2010" |
| December 2010 | Xiaoshan Bureau of Construction (蕭山區建設局) | "雍景灣花園" of Hangzhou Xiaoshan Property Management Co., Ltd. "Residential estate with outstanding property management in Xiaoshan District 2010" |
| January 2011 | Qianjiang Evening News (錢江晚報) and China Real Estate Mainstream Media Alliance (國主流媒體房地產聯盟) | Most influential real estate brand of China (Hangzhou) 2010 |
| January 2011 | Communist Party Committee of Xiaoshan District, Hangzhou and People's Government of Xiaoshan District, Hangzhou | Hangzhou Danube Real Estate Co., Ltd. "Top 100 enterprises of 2010" |

| | Granted by | Awards |
|---|---|---|
| January 2011 | Qianjiang Century CBD Communist Party Working Committee of Xiaoshan, Hangzhou, Ningwai Town Communist Party Committee of Xiaoshan, Hangzhou, Management Committee of Qianjiang Century CBD, Xiaoshan, Hangzhou People's Government of Ningwai Town, Xiaoshan District, Hangzhou | Hangzhou Danube Real Estate Co., Ltd. "Premium enterprise of 2010" |
| January 2011 | ahhouse.com • the Fifth Anhui Real Estate Brand Billboard (安房網 · 第五屆安徽品牌地產風雲榜)(organised by: Anhui Construction Department, Xing Kong Chuan Mei Group (星空傳媒控股), www. ahhouse.com, www.hfhouse.com, "大安徽地產" magazine and Xinanwanbao (新安晚報) | "溫哥華城四期金水河畔" of Anhui Zhong'an Real Estate Development Co., Ltd. "Model harmony and livable community of Anhui 2010" |
| February 2011 | Communist Party Yangming Street Committee (中共陽明街道委員會) and Yangming Street Office (陽明街道辦事處) | Yuyao Zhong An Real Estate Development Co., Ltd. "Model enterprise for major investment project 2010" |

**Human resources**

As at 31 December 2010, the Group employed 1,275 staff (2009: 995 staff). In 2010, the staff cost of the Group was approximately RMB92,708,000 (2009: approximately RMB65,260,000), representing an increase of approximately 42%. The increase was mainly due to the increase of staff for future development, share-based payments under the share option scheme adopted by the Company amortised for full year and the adoption of better remuneration policy to recruit staff with higher calibre.

The employees' remuneration policy was determined by reference to factors such as remuneration information in respect of the local market, the overall remuneration standard in the industry, inflation level, corporate operating efficiency and performance of the employees. The Group conducts performance appraisal once every year for its employees, the results of which are applied in annual salary review and promotion assessment. The Group's employees are considered for the entitlement of annual bonus according to certain performance conditions and appraisal results. To attract talented persons and stabilize the management, eligible participants (including employees of the Group) may be granted options to subscribe for shares of the Company pursuant to the share option scheme. The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness.

### Dividend policy

The Board shall determine the dividend policy of the Company according to the financial condition, operating results, capital requirements, shareholders' equity, contractual restraint and other factors considered relevant by the Board.

## FINANCIAL ANALYSIS

### Gross profit

For the year ended 31 December 2010, the Group recorded audited gross profit of RMB642,959,000, an increase of approximately 17% from RMB548,726,000 in the previous year. The increase is attributable to the sales of Landscape Bay which had a higher average selling price and gross profit margin.

### Other income

Other income decreased by 79% to approximately RMB3,871,000 in 2010 from approximately RMB18,710,000 in 2009. The decrease was primarily due to the decrease in time deposits as a result of demand from operation during the year under review.

### Selling and distribution costs

The selling and distribution expenses increased by 68% to approximately RMB69,147,000 in 2010 from approximately RMB41,228,000 in 2009. This increase was primarily due to an increase in general selling, marketing and advertising activities resulting from an increase in the number of properties that were pre-sold in 2010 as compared to that in 2009.

### Administrative expenses

The administrative expenses increased by 50% to approximately RMB160,512,000 in 2010 from approximately RMB106,830,000 in 2009. This increase was primarily due to the increase in staff cost from the recruitment of staff with higher calibre and remuneration packages and the increase in the costs of operation and the full year amortization of the cost of the share option since the grant made in July 2009.

### Other expenses

The other expenses increased by 18% to approximately RMB49,905,000 in 2010 from approximately RMB42,444,000 in 2009. This increase was primarily due to the increase in impairment of other receivables.

**Increase in fair value of investment properties**

The increase in fair value of investment properties decreased by 6% to approximately RMB276,680,000 in 2010 from approximately RMB293,743,000 in 2009. This decrease was primarily due to the effect of the regulatory measures imposed by the central government of China which reduced the increment in fair value of investment properties in 2010.

**Finance costs**

The finance costs increased by 692% to approximately RMB3,463,000 in 2010 from approximately RMB437,000 in 2009. This increase was primarily due to an increase in bank loans to finance the business operation and development of the Group.

**Income Tax Expenses**

The income tax expenses in 2010 was roughly the same in 2009. This is due to the fact that the profit subject to taxation in 2010 was not significantly different from that in 2009.

**Capital structure**

As at 31 December 2010, the Group had aggregate cash and cash equivalents (including pledged deposits) of RMB 1,436,537,000 (2009: RMB921,135,000) and the current ratio was 1.4 (2009: 1.5). The increase of cash and cash equivalents is mainly due to the increase in the proceeds from pre-sold of properties during the year under review.

As at 31 December 2010, the bank loans and other borrowings of the Group repayable within one year and after one year were RMB950,500,000 and RMB1,823,500,000 respectively (2009: RMB173,753,000 and RMB891,036,000 respectively). The increase is mainly due to the increase in loans for operation and future development purposes of the Group.

The consolidated interest expenses in 2010 amounted to RMB3,463,000 (2009: RMB437,000) in total. Interests in the amount of RMB103,818,000 (2009: RMB43,400,000) were capitalized during the year. Interest cover (including amount of interests capitalized) was 3.6 times (2009: 9.0 times).

As at 31 December 2010, the ratio of total liabilities to total assets of the Group was 0.57 (2009: 0.39).

As at 31 December 2010, the ratio of bank loans and other borrowings to shareholder’s funds of the Group was 0.60 (2009: 0.25). The ratio of bank loans and other borrowings to total assets was 0.25 (2009: 0.15).

The gearing ratio of the Group (defined as net debt divided by the sum of shareholder’s funds and net debt) was 0.38 (2009: 0.21).

**Capital commitments**

As at 31 December 2010, the capital commitments of the Group were RMB2,185,729,000 (2009: RMB1,954,409,000), which were mainly the capital commitments for land acquisition costs and construction costs. It is expected that the Group will finance such commitments from its own funds and external financing (such as bank loans).

**Guarantees and contingent liabilities**

As at 31 December 2010, the contingent liabilities of the Group was approximately RMB659,460,000 (2009: RMB872,285,000), which were mainly the guarantee given by the Group in favour of certain banks for the grant of mortgage loans to buyers of the Group's properties.

**Pledge of assets**

As at 31 December 2010, investment properties of the Group with net book value of approximately RMB1,645,300,000 (2009: RMB1,596,400,000), properties under development of approximately RMB2,684,405,000 (2009: RMB145,367,000), property and equipment approximately RMB150,542,000 (2009: RMB158,392,000), and time deposits approximately RMB412,000,000 (2009: nil) were pledged to secure the banking facilities of the Group.

As at 31 December 2010, deposits of approximately RMB16,558,000 (2009: RMB29,348,000) and RMB412,000,000 (2009: nil) were pledged to banks as security for the mortgage facilities granted to purchasers of the Group's properties and to secure interest-bearing bank loans granted to the Group respectively.

**Foreign Exchange Risk**

As the sales, purchase and bank borrowings of the Group in 2010 and 2009 were made mainly in Renminbi, the foreign exchange risk exposed by the Group was relatively minor. The Group did not use foreign exchange hedging instruments to hedge foreign exchange risks in 2010 and 2009.

**Interest rate risks**

The interest rates for certain portion of the Group's loans were floating. Upward fluctuations in interest rates will increase the interest cost of new loans and existing loans. The Group currently does not use derivative instruments to hedge its interest rate risks.

**Subsequent events**

(a) On 22 January 2011, share options to subscribe for an aggregate of 80,000,000 ordinary shares of HK$0.10 each in the Company at the exercise price of HK$1.85 per share were granted to eligible participants under the share option scheme of the Company adopted on 15 May 2009.

(b) On 10 March 2011, the Company entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with Whole Good Development Limited ("Whole Good") as vendor and a placing agent pursuant to which an aggregate of 50,000,000 existing ordinary shares (the "Placing Shares") of HK$0.10 each in the Company held by Whole Good were successfully placed in full by the placing agent to independent placees at HK$1.40 per Placing Share and, as part of the arrangement under the Placing and Subscription Agreement, an aggregate of 50,000,000 new ordinary shares (the "Top-up Subscription Shares") of HK$0.10 each in the Company (equivalent to the number of the Placing Shares) were subscribed for by Whole Good at HK$1.40 per Top-up Subscription Share. Net proceeds of approximately HK$68.7 million (which were not yet utilized as at the date of this announcement) were raised from the transaction and were intended to be used by the Group for investment in or development of property management and services related venture business if suitable opportunities arise.

Save as disclosed above, there was no matter occurred that bears significant effect to the Group between the year end date and the date of this announcement.

**Prospects**

The central and local governments of China had promulgated various measures so as to regulate the real estate industry. The property market has been adjusted accordingly. However, in view of the continuation of urbanization and the gradual increase in national income, the demand for quality housing from home buyers in China will be increased. In long run, it is expected that the real estate industry of China will have a stable development.

The Group has developed projects and acquired land for projects with a prudent attitude since the listing of the Company's shares on the main board of the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2007. To meet the needs for market development, the Group will continue to evaluated and adjust its development strategies. In addition to continuing the development of residential projects and following the successful completion of the development of a commercial complex in 2009, the Group plans to gradually expand the scale of its investment/business in business investment, property service and retail business, so as to develop and stabilize its source of income.

The Group will continue to maintain sufficient cash flow, adopt prudent and proactive business strategies. We will endeavour to acquire land at relatively low cost, seek acquisition and cooperative projects with focus on commercial projects and high-end residential projects, develop property related industry chain, enhance corporate integration capacity and improve product combination, so as to strive for better return.

## DIVIDEND

The Board of Directors does not recommend the payment of dividend for the year 2010.

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company and the Board have applied the principles in the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

During the year, the Board has adopted and complied with the code provisions of the Code in so far they are applicable except the roles of the Chairman and the Chief Executive Officer of the Company are not separate and performed by Mr Shi Kancheng (which is required under code provision A.2.1).

The Board believes that the role of both chairman and chief executive officer in the same person provides the Company with consistent leadership and enables the Company to carry out the planning and implementation of business plans and decisions efficiently.

The Board will review the management structure of the Group from time to time and will adopt appropriate measures as may be desirable for future development of the operating activities or business of the Group.

## AUDIT COMMITTEE

The audit committee had reviewed the audited consolidated financial statements of the Company for the year ended 31 December 2010 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure.

## LIST OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr Shi Kancheng, Mr Lou Yifei, Ms Shen Tiaojuan and Mr Zhang Jiangang and the independent non-executive directors of the Company are Professor Pei Ker Wei, Professor Wang Shu Guang and Dr Loke Yu.

## DISCLOSURE OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

The annual report of the Group containing all the relevant information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board of
**Zhong An Real Estate Limited**
**Shi Kancheng**
*Chairman*

The PRC, 31 March 2011