众安房产
ZHONG AN REAL ESTATE

# ZHONG AN REAL ESTATE LIMITED

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

**(Stock code: 672)**

## (1) ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011
## (2) PROPOSED AMENDMENTS TO THE COMPANY'S MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF AN AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

### FINANCIAL HIGHLIGHTS

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2011** | 2010 | Percentage of increase/ (decrease) |
| Revenue (RMB'000) | **1,688,699** | 1,243,871 | 36% |
| Profit attributable to owners of the parent (RMB'000) | **351,391** | 379,759 | (7%) |
| Basic earnings per share (RMB) | **0.15** | 0.16 | (6%) |

The board (the "Board") of directors ("Directors") 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 2011 together with the comparative amounts for the previous year. The annual results have been reviewed by the audit committee of the Company:

**CONSOLIDATED INCOME STATEMENT**

| | *Notes* | **2011** | 2010 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Revenue** | *5* | **1,688,699** | 1,243,871 |
| Cost of sales | | **(889,664)** | (600,912) |
| **Gross profit** | | **799,035** | 642,959 |
| Other income and gains | *5* | **40,004** | 3,871 |
| Selling and distribution costs | | **(90,499)** | (69,147) |
| Administrative expenses | | **(212,323)** | (160,512) |
| Other expenses | | **(8,865)** | (49,905) |
| Increase in fair value of investment properties | | **160,430** | 276,680 |
| Finance costs | *6* | **(447)** | (3,463) |
| Share of profits and losses of jointly-controlled entities | | **(97)** | – |
| **Profit before tax** | *7* | **687,238** | 640,483 |
| Income tax expense | *8* | **(308,671)** | (227,223) |
| **Profit for the year** | | **378,567** | 413,260 |
| Attributable to: | | | |
| Owners of the parent | | **351,391** | 379,759 |
| Non-controlling interests | | **27,176** | 33,501 |
| | | **378,567** | 413,260 |
| **Earnings per share attributable to ordinary equity holders of the parent (RMB)** | *9* | | |
| Basic and diluted | | **15 cents** | 16 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2011 | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **378,567** | 413,260 |
| Other comprehensive income | | |
| Exchange differences on translation of foreign operations | **(6,332)** | 4,807 |
| **Total comprehensive income for the year** | **372,235** | 418,067 |
| Attributable to: | | |
| Owners of the parent | **345,059** | 384,566 |
| Non-controlling interests | **27,176** | 33,501 |
| | **372,235** | 418,067 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **2011** | 2010 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | | **226,553** | 195,710 |
| Investment properties | | **1,995,600** | 1,931,000 |
| Properties under development | | **2,935,604** | 1,130,603 |
| Goodwill | | **–** | – |
| Available-for-sale investments | | **5,610** | 3,300 |
| Long term prepayments | | **737,073** | 1,860,027 |
| Investments in jointly-controlled entities | | **177,482** | – |
| Deferred tax assets | | **107,746** | 71,737 |
| Total non-current assets | | **6,185,668** | 5,192,377 |
| **CURRENT ASSETS** | | | |
| Completed properties held for sale | | **1,480,192** | 1,139,350 |
| Equity investments at fair value through profit or loss | | **1,004** | – |
| Properties under development | | **4,695,260** | 2,981,185 |
| Inventories | | **11,623** | 14,191 |
| Trade and bills receivables | *10* | **56,750** | 16,139 |
| Prepayments, deposits and other receivables | | **542,972** | 359,520 |
| Restricted cash | | **189,587** | 428,558 |
| Cash and cash equivalents | | **412,508** | 1,007,979 |
| | | **7,389,896** | 5,946,922 |
| Investment property classified as held for sale | | **73,218** | – |
| Total current assets | | **7,463,114** | 5,946,922 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *11* | **1,423,408** | 508,998 |
| Other payables and accruals | | **670,731** | 587,741 |
| Advances from customers | | **2,285,805** | 1,725,582 |
| Interest-bearing bank and other borrowings | | **1,064,930** | 950,500 |
| Tax payable | | **508,882** | 341,618 |
| Total current liabilities | | **5,953,756** | 4,114,439 |
| **NET CURRENT ASSETS** | | **1,509,358** | 1,832,483 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **7,695,026** | 7,024,860 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **7,695,026** | 7,024,860 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank and other borrowings | **1,990,451** | 1,823,500 |
| Deferred tax liabilities | **436,467** | 387,017 |
| Total non-current liabilities | **2,426,918** | 2,210,517 |
| **Net assets** | **5,268,108** | 4,814,343 |
| **EQUITY** | | |
| Equity attributable to owners of the parent | | |
| Issued capital | **222,636** | 219,216 |
| Reserves | **4,840,072** | 4,416,903 |
| | **5,062,708** | 4,636,119 |
| **Non-controlling interests** | **205,400** | 178,224 |
| **Total equity** | **5,268,108** | 4,814,343 |

# 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 address of the Company is 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 are all located in Zhejiang, Jiangsu 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, 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 standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee 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**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

## 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 Amendment | Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* |
| IAS 24 (Revised) | *Related Party Disclosures* |
| IAS 32 Amendment | Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| IFRIC 14 Amendments | Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| *Improvements to IFRSs 2010* | Amendments to a number of IFRSs issued in May 2010 |

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of these 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) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

**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 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1] |
| IFRS 1 Amendments | Amendments to IFRS 1 *Government Loans*[4] |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1] |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4] |
| IFRS 9 | *Financial Instruments*[6] |
| IFRS 10 | *Consolidated Financial Statements*[4] |
| IFRS 11 | *Joint Arrangements*[4] |
| IFRS 12 | *Disclosure of Interests in Other Entities*[4] |
| IFRS 13 | *Fair Value Measurement*[4] |
| IAS 1 Amendments | Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3] |
| IAS 12 Amendments | Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2] |
| IAS 19 Amendments | Amendments to IAS 19 *Employee Benefits*[4] |
| IAS 27 (Revised) | *Separate Financial Statements*[4] |
| IAS 28 (Revised) | *Investments in Associates and Joint Ventures*[4] |
| IAS 32 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5] |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine*[4] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

## 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 develops and sells properties in Mainland China;

(b) the property rental segment leases investment properties in Mainland China;

(c) the hotel operations segment 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, fair value gains/(loses) from the Group's financial instrument 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, equity investment at fair value through profit or loss 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 2011 | Property development *RMB'000* | Property rental *RMB'000* | Hotel operations *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | **1,549,984** | **62,070** | **57,854** | **18,791** | **1,688,699** |
| Intersegment sales | **22,600** | **–** | **–** | **34,489** | **57,089** |
| | **1,572,584** | **62,070** | **57,854** | **53,280** | **1,745,788** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | **(57,089)** |
| Revenue | | | | | **1,688,699** |
| **Segment results** | **608,932** | **187,696** | **(1,948)** | **(78,093)** | **716,587** |
| *Reconciliation:* | | | | | |
| Interest income | | | | | **5,712** |
| Equity-settled share option expense | | | | | **(35,129)** |
| Fair value losses, net: | | | | | |
| Equity investments at fair value through profit or loss | | | | | **(1,168)** |
| Gain on disposal of equity investments at fair value through profit or loss | | | | | **1,683** |
| Finance costs | | | | | **(447)** |
| Profit before tax | | | | | **687,238** |
| **Segment assets** | **10,505,704** | **2,295,771** | **398,198** | **1,342,045** | **14,541,718** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment receivables | | | | | **(1,697,956)** |
| Corporate and other unallocated assets | | | | | **805,020** |
| Total assets | | | | | **13,648,782** |
| **Segment liabilities** | **5,764,919** | **54,644** | **10,038** | **248,303** | **6,077,904** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment payables | | | | | **(1,697,956)** |
| Corporate and other unallocated liabilities | | | | | **4,000,726** |
| Total liabilities | | | | | **8,380,674** |
| **Other segment information:** | | | | | |
| Depreciation | **7,388** | **1,319** | **11,100** | **773** | **20,580** |
| Share of profits and losses of jointly-controlled entities | **97** | **–** | **–** | **–** | **97** |
| Investment in jointly-controlled entities | **177,482** | **–** | **–** | **–** | **177,482** |
| Capital expenditure | **10,913** | **3,558** | **296** | **36,685** | **51,452** |

| 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 |
| Equity-settled share option expense | | | | | (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 and amortisation | 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 |

**Geographical information**

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

**Information about major customers**

No sales to a single customer or a group of customers under the common control accounted for 10% or more of the Group's revenue for the years ended 31 December 2011 and 2010.

## 5. REVENUE, OTHER INCOME AND GAINS

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, other income and gains is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Sale of properties | **1,644,739** | 1,203,293 |
| Property leasing income | **67,647** | 54,237 |
| Property management fee income | **20,116** | 15,635 |
| Hotel operating income | **61,286** | 62,009 |
| Less: Business tax and surcharges | **(105,089)** | (91,303) |
| | **1,688,699** | 1,243,871 |
| **Other income** | | |
| Subsidy income | **8,375** | – |
| Interest income | **5,712** | 2,000 |
| Others | **2,920** | 1,871 |
| | **17,007** | 3,871 |
| **Gains** | | |
| Foreign exchange gain | **18,654** | – |
| Gains on disposal of investment properties | **2,660** | – |
| Gains on disposal of equity investments at fair value through profit or loss | **1,683** | – |
| | **22,997** | – |
| | **40,004** | 3,871 |

## 6. FINANCE COSTS

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

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans and other loans wholly repayable within five years | **206,864** | 56,547 |
| Interest on bank loans and other loans wholly repayable over five years | **6,015** | 50,734 |
| Total interest | **212,879** | 107,281 |
| Less: Interest capitalised in properties under development | **(212,432)** | (103,818) |
| | **447** | 3,463 |

## 7. PROFIT BEFORE TAX

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

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of properties sold | **848,306** | 561,787 |
| Depreciation | **20,580** | 18,035 |
| Minimum lease payments under operating leases: | | |
| – Office premises | **8,018** | 7,461 |
| Auditors' remuneration | **2,406** | 3,089 |
| Staff costs including directors' remuneration: | | |
| – Salaries and other staff costs | **75,254** | 63,390 |
| – Equity-settled share option expense | **35,129** | 24,877 |
| – Pension scheme contributions | **6,766** | 4,441 |
| Foreign exchange differences, net | **18,654** | 189 |
| Direct operating expenses (including repairs and maintenance arising on rental-earning investment properties) | **4,441** | 2,822 |
| Impairment of other receivables | **–** | 44,966 |
| Changes in fair value of investment properties | **(160,430)** | (276,680) |
| Gain on disposal of investment properties | **(2,660)** | – |
| Gain on disposal of equity investments at fair value through profit or loss | **(1,683)** | – |
| Fair value loss, net: | | |
| Equity investments at fair value through profit or loss held for trading | **1,168** | – |

## 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% (2010: 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.

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current – PRC corporate income tax for the year | **144,455** | 127,632 |
| Current – PRC LAT for the year | **150,775** | 49,981 |
| Deferred | **13,441** | 49,610 |
| Total tax charge for the year | **308,671** | 227,223 |

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **687,238** | 640,483 |
| Tax at the statutory tax rate of 25% (2010: 25%) | **171,809** | 160,121 |
| Expenses not deductible for tax | **8,275** | 15,454 |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | **12,098** | 9,105 |
| Tax losses not recognised | **3,407** | 5,057 |
| Provision for LAT | **150,775** | 49,981 |
| Tax effect on LAT | **(37,693)** | (12,495) |
| Tax charge at the Group's effective rate | **308,671** | 227,223 |

Tax payable in the consolidated statement of financial position represents:

| | **2011** | 2010 |
|---|---|---|
| PRC corporate income tax | **139,018** | 80,168 |
| PRC LAT | **369,864** | 261,450 |
| | **508,882** | 341,618 |

## 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 RMB351,391,000 (2010: RMB379,759,000) and the weighted average number of ordinary shares of 2,367,974,529 (2010: 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. TRADE AND BILLS 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 and bills receivables as at the end of the year are neither past due nor impaired.

Trade and bills receivables are non-interesting-bearing and unsecured.

## 11. 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:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within six months | **1,354,178** | 475,635 |
| Over six months but within one year | **24,224** | 8,903 |
| Over one year | **45,006** | 24,460 |
| | **1,423,408** | 508,998 |

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 2011 was RMB1,688,699,000, an increase of approximately 36% from that in 2010. The gross profit for 2011 was RMB799,035,000, an increase of approximately 24% from that in 2010. The profit attributable to owners of the parent for 2011 was approximately RMB351,391,000, a decrease of about 7% from that in 2010. Core profits after tax, which was adjusted for net fair value gains in investment properties, was RMB258,245,000, an increase of approximately 26% from that in 2010. The basic earnings per share was RMB0.15. The Board did not recommend the distribution of a final dividend for the year ended 31 December 2011 (2010: nil).

### Industry Review

In 2011, the real estate market in China continued to be affected by the regulatory measures imposed by the central government. The floor area of residential properties sold was recorded at 1.1 billion sq. m., representing an increase of about 6% compared to that of 2010, which is lower than the increment of 11% recorded in 2010.

The floor area of residential properties sold in Hangzhou of Zhejiang Province was 2.49 million sq. m., representing a decrease of about 38% as compared to that of 2010, whereas the average selling price per sq. m. was RMB21,038, representing a slight decrease of about 1% as compared to that of 2010. The floor area of residential properties sold in Hefei of Anhui Province was about 5.79 million sq. m., representing a decrease of about 26% as compared to that of 2010. The average selling price per sq. m. was RMB6,219, which represents an increase of about 3% as compared to that of 2010. The floor area of residential properties sold in Huaibei of Anhui Province was about 0.78 million sq. m., representing a decrease of about 24% as compared to that of 2010. The average selling price per sq. m. was RMB3,915, which represents an increase of 8% as compared to that of 2010.

## BUSINESS REVIEW

### Sales and earnings

The area of property sold and delivered by the Group in 2011 was about 136,528 sq. m. (2010: 152,030 sq. m.), a decrease of approximately 10% compared with that of 2010. Landscape Bay was the main contributor in terms of area of property sold and delivered and revenue, which represent 74% and 84% respectively of the total amount.

The average sales price per sq. m. achieved by the Group in 2011 was approximately RMB12,047, representing an increase of approximately 52% from the average sales price per sq. m. of RMB7,915 in the previous year. It is due to the fact that the majority of the sales recognized during the year under review were derived from Landscape Bay which were of higher selling price compared to that of 2010 with majority revenue recognised from sales of Vancouver City at lower selling price.

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

| Projects | Booked sales area *sq.m.* | Revenue *RMB million* |
|---|---|---|
| **Hangzhou, Zhejiang Province** | | |
| Landscape Bay – Phases 1 and 2 | 100,447 | 1,381.1 |
| White Horse Noble Mansion | 3,146 | 100.2 |
| Others* | | 27.0 |
| **Hefei, Anhui Province** | | |
| Green Harbour – Phases 1A and B | 7,678 | 43.2 |
| **Huaibei, Anhui Province** | | |
| Vancouver City – Phases 1 and 2 | 2,719 | 14.6 |
| – Phase 3A | 22,538 | 78.6 |
| **Total** | 136,528 | 1,644.7 |

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

The average cost of property sold per sq. m. of the Group was RMB6,213 in 2011, representing an increase of about 68% from RMB3,695 in the previous year. The main reason was that relatively higher proportion of properties sold by the Group was derived from Landscape Bay which were of higher 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, Zhejiang Province with a total gross floor area ("GFA") of 319,720 sq. m.. The project includes island-style townhouses (Phase 2, completed in 2010), high-rise apartments (Phase 1) with river view, shopping center, car park spaces and clubhouse. As at 31 December 2011, the construction of Phases 1 and 2 was completed. The volume of sales of this project is within expectation.

*Hidden Dragon Land (formerly known as Yinlong Bay)*

This is a luxurious residential project in Wenyan Town, Xiaoshan District, Zhejiang Province with a total GFA of 242,138 sq.m. The project includes low-rise club-houses for corporations and high-rise apartments. As at 31 December 2011, the construction was in progress. The project is expected to be completed in early 2013. The presale of the high-rise apartments of this project has been launched since the fourth quarter of 2010 and the volume of sales of this project is within expectation.

*International Office Centre*

This is a large-scale integrated commercial project in Qianjiang Century CBD (錢江世紀城), Xiaoshan District, Hangzhou, with a total planned GFA of 2,369,913 sq. m. and out of which 959,152 sq.m. has been approved. The project includes a hotel of five-star standard, office buildings, a shopping center, serviced apartments, and underground car parking spaces. The serviced apartments of Phase A3 with a total GFA of 328,376 is now under construction. It is expected to be completed by the end of 2014. The presale will be launched in the middle of 2012.

***Yuyao, Zhejiang Province***

*Dragon Bay (formerly known as Yuelong Bay)*

This is a low density residential project in Yuyao, Zhejiang Province with a total GFA of 196,809 sq. m.. The project consists of French, European and Spanish-style villas. The project is expected to be completed in the middle of 2012. The presale has been launched since 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 5 North, a low density residential units, with a GFA available for sale of 65,024 sq. m. was completed during the year under review. Phase 4 North with apartment units are under construction. They are expected to be completed in the middle of 2012. The construction of the hotel in Phase 6D has been commenced since 2011 and it is expected that the operation will be commenced in 2015. The construction of Phase 6A is expected to be commenced at the end of 2012. Presale of Phase 4 North commenced in 2011 and the sales results are within expectation.

**Contract sale in 2011**

As at 31 December 2011, the contract GFA sold by the Group was approximately 134,737 sq. m.. Set out below are the details on the contract sale from the major projects:

| | Contract GFA (sq. m.) | Percentage of interest in the project attributable to the Group |
|---|---|---|
| **Hangzhou, Zhejiang Province** | | |
| Landscape Bay – Phases 1 and 2 | 21,305 | 92.6% |
| Hidden Dragon Land | 25,380 | 94.5% |
| Others* | 3,144 | – |
| | 49,829 | |
| **Yuyao, Zhejiang Province** | | |
| Dragon Bay | 22,566 | 90.0% |
| **Hefei, Anhui Province** | | |
| Green Harbour – Phases 1A and B | 6,230 | 84.2% |
| **Huaibei, Anhui Province** | | |
| Vancouver City – Phase 4 North | 39,345 | 100.0% |
| – Phase 5 North | 1,954 | 100.0% |
| – others | 14,813 | 100.0% |
| | 56,112 | |
| Total | 134,737 | |

* 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 2012 was approximately 453,306 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 |
|---|---|---|---|---|
| **Yuyao, Zhejiang Province** | | | | |
| Dragon Bay | June 2012 | 133,491 | 90.0% | For Sale |
| **Hefei, Anhui Province** | | | | |
| Green Harbour – Phase 1C | December 2012 | 67,260 | 84.2% | For Sale |
| **Huaibei, Anhui Province** | | | | |
| Vancouver City-Phase 4 North | June 2012 | 252,555 | 100.0% | For sale |
| Total | | 453,306 | | |

### 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 2011, the total GFA for the Group's land bank in Zhejiang Province, Anhui Province and Jiangsu Province was approximately 4,602,195 sq. m., 1,834,997 sq. m. and 221,500 sq.m. respectively, aggregating to approximately 6,658,692 sq. m. in total.

During the year under review, one plot of land which is located in Suzhou Industrial Park, Suzhou, Jiangsu Province was added to the land bank. Such addition will enrich the Group's land bank and is expected to bring forth development and opportunity for the Group.

Details of land bank of the Group as at 31 December 2011:

| 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** | | | | |
| Huifeng Plaza | Residential | 49,920 | 40,311 | 90.0% |
| Hidden Dragon Land,Wenyan Town | Residential/retail spaces | 242,138 | 199,807 | 94.5% |
| International Office Center, Phase A | Residential/office/hotel | 843,018 | 584,112 | 100.0% |
| International Office Center, Phase B and C | Residential/office/retail spaces/hotel | 1,526,895 | 1,108,000 | 100.0% |
| Qiandaohu Town, Chunan County | Hotel | 34,608 | – | 100.0% |
| Xiaoheshan, Yuhang District | Residential | 231,919 | 159,148 | 90.0% |
| Yuhang Economic Development Zone | Residential/retail spaces | 543,800 | 390,179 | 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 – Dragon Bay | Residential | 196,809 | 133,491 | 90.0% |
| – Phase 2 | Residential | 292,807 | 232,807 | 90.0% |
| – Zhong An Times Square* | Residential/office/retail spaces/hotel | 640,281 | 326,966 | 90.0%/93.0% |
| **Sub-total for land bank in Zhejiang Province** | | **4,602,195** | **3,174,821** | |

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

| Location of land | Type of property | Total GFA | GFA available for sale/leasing | Percentage of interest in the project attributable to the Group |
|---|---|---|---|---|
| | | *(sq. m.)* | *(sq. m.)* | |
| **Huaibei, Anhui Province** | | | | |
| Vancouver City, Phases 3B to 3D | Residential/retail spaces | 309,712 | 280,712 | 100.0% |
| Vancouver City, Phases 4, 5 South and 6 | Residential/retail spaces/hotel | 766,332 | 651,575 | 100.0% |
| **Hefei, Anhui Province** | | | | |
| Green Harbour, Phase 1C | Residential | 90,453 | 67,260 | 84.2% |
| Green Harbour, Phase 2 | Residential/retail spaces | 108,200 | 84,200 | 84.2% |
| Green Harbour, Phases 3 to 6 | Residential/retail spaces/hotel | 560,300 | 492,500 | 84.2% |
| **Sub-total for land bank in Anhui Province** | | **1,834,997** | **1,576,247** | |
| Suzhou Industrial Park, Suzhou, Jiangsu Province | Residential/office/retail spaces/hotel | 221,500 | 144,500 | 44.1% |
| **Total land bank** | | **6,658,692** | **4,895,568** | |

### 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 mitigate the operation risk. We will broaden the scope of property services which may include nursery stock and agricultural planation, in order to extend the down-stream services of our property development business and to maintain a steady operation of our Group.

### Hotel

Holiday Inn Xiaoshan Hangzhou, a hotel of the group which is managed by the internationally renowned InterContinental Hotels Group, recorded a revenue of RMB61,286,000 for 2011, representing a decrease of approximately 1% compared to RMB62,009,000 in 2010. This decrease was primarily due to the net result of the decrease in the occupancy rate being set off by the general increment of room charge. The occupancy rate was about 51% (2010: 56%).

The Group is planning to build a five star high-end hotel with large scale commercial complex at Zhong An Times Sqaure in Yuyao. The construction of the hotel commenced in the second half of 2011. This will bring another source of stable income to the Group.

The Group plans to build a resort hotel and a hotel in Qiandaohu, Zhejiang Province and Huaibei, Anhui Province respectively, in order to increase the proportion of investment properties in our portfolio and thus to bring a stable cash flow to the Group.

**Leasing**

Highlong Plaza provides the main source of leasing income. This plaza consists of office building, shopping centre, serviced apartments and underground car parking spaces. The leasing rate for shopping centre is about 99% (2010: 99%) and that of office building is about 78% (2010: 67%). A general increase was recorded as compared to those of 2010. Highlong Plaza had undergone refurbishment works during the year under review. As a result, the facilities and the management services have been improved in order to provide high quality services to the tenants and their customers. 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 hold various promotion activities so as to attract more inflow of people and to increase the income of the tenants, thereby enhancing the rental value.

**Other services**

The Group also provides quality management services to the communities located in properties developed by the Group and other developers. The Group is also developing nursery stock plantation for agricultural purposes and managing organic plantations for producing agricultural products. During the year under review, a nursery stock plantation of about 670 mu (畝) had been managed with a sizable scale. By the end of the year under review, a leasing agreement was signed with Yuyao Municipal Government, Zhejiang Province for a piece of land of about 18,000 mu (畝). The Group had so far been allotted with land of about 1,000 mu (畝) for preparation of ecological farming. Such value-added down-stream services will form an integral part of the Group’s property development and management businesses. Accordingly, the Group’s corporate branding can be enhanced and the scope of services of the Group will be widened.

**Recognitions obtained by the Group**

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

| Awarded in | Granted by | Awards |
|---|---|---|
| January 2011 | www.ahhouse.com<br>www.xkhouse.com (星空地產網)<br>www.hfhouse.com, | Vancouver City Phase 4 "金水河畔" awarded "Model harmony and livable community of Anhui 2010" |
| February 2011 | Beigan Street Working Commission (北干街道工作委員會), Communist Party Committee of Xiaoshan District, Hangzhou<br>Beigan Street Office (北干街道辦事處), People's Government of Xiaoshan District, Hangzhou | Highlong Commercial Building Co., Ltd. awarded "Sizeable Contribution 2010" |
| February 2011 | Beigan Street Working Commission (北干街道工作委員會), Communist Party Committee of Xiaoshan District, Hangzhou<br>Beigan Street Office (北干街道辦事處), People's Government of Xiaoshan District, Hangzhou | "Advanced Enterprise 2010" |
| March 2011 | China Real Estate Research Society<br>China Real Estate Association<br>China Real Estate Evaluation Center | "Top 200 China Real Estate Enterprises" |
| March 2011 | Xiaoshan Daily | Highlong Plaza awarded "Top 100 Integrity Consumer Brands by Public 2011" |
| April 2011 | People's Government of Huaibei | Anhui Zhong'an Real Estate Development Co., Ltd. awarded "Unit of Contractual Integrity 2009-2010" |

| Awarded in | Granted by | Awards |
|---|---|---|
| April 2011 | Communist Party Committee of Huaibei<br><br>People's Government of Huaibei | Anhui Zhong'an Real Estate Development Co., Ltd. awarded "Huaibei's National Outstanding Contribution to Establishing Civil City" |
| May 2011 | China Real Estate Research Society<br><br>China Real Estate Association<br><br>China Real Estate Evaluation Center | "Top 100 China Listed Real Estate Enterprises 2011" |
| May 2011 | Hangzhou Xiaoshan Trade Bureau<br><br>Office of Organizing Committee for the Third Xiaoshan Shopping Festival (第三屆蕭山購物節組委會辦公室) | Highlong Plaza awarded "Best Seller" |
| June 2011 | Zheshang Magazine | "National Top 500 Zhejiang Enterprise" |
| August 2011 | Boao Real Estate Forum Committee | "Popular China Real Estate Award" |
| | New Media of guandian.cn | "Most Valuable Listed Real Estate Enterprise in China 2011" |
| October 2011 | Yuyao People's Government | Yuyao Zhong An Real Estate Development Co., Ltd. awarded "Outstanding Contribution of Charity Fund for Poverty in Disease" |
| November 2011 | Anhui Housing and Urban Development Office<br><br>Anhui Development and Reform Commission<br><br>Anhui Economic and Information Technology Commission | Vancouver City Phase 3 awarded "Anhui Model Residential Construction, Energy and Land Saving" |
| December 2011 | house.sina.com.cn and house.baidu.com | "Best 10 Brands of Real Estate Enterprise 2011" of Hangzhou Internet Media Award |
| December 2011 | house.sina.com.cn and house.baidu.com | Zhong An • 啓航社 awarded "Best Commercial Property" |

### Human resources

As at 31 December 2011, the Group employed 1,436 staff (2010: 1,275 staff). In 2011, the staff cost of the Group was approximately RMB117,149,000 (2010: approximately RMB92,708,000), representing an increase of approximately 26%. The increase was mainly due to the increase of staff for future development, additional amortization of share-based payments under the share option scheme adopted by the Company and the adoption of better remuneration policy to retain and recruit staff with higher quality.

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 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 2011, the Group recorded audited gross profit of RMB799,035,000, an increase of approximately 24% from RMB642,959,000 in the previous year. The main reason is due to the increase in sales from property delivered and recognised in 2011.

### Other income and gains

Other income increased by 933% to approximately RMB40,004,000 in 2011 from approximately RMB3,871,000 in 2010. The increase was primarily due to the foreign exchange gain from an offshore bank loan denominated in United State Dollars and subsidies received from local governments pursuant to relevant regulations issued by the respective local governments during the year under review.

### Selling and distribution costs

The selling and distribution expenses increased by 31% to approximately RMB90,499,000 in 2011 from approximately RMB69,147,000 in 2010. 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 scheduled to be pre-sold in 2011 as compared to that in 2010.

**Administrative expenses**

The administrative expenses increased by 32% to approximately RMB212,323,000 in 2011 from approximately RMB160,512,000 in 2010. This increase was primarily due to the increase in staff cost due to retention and recruitment of quality staff with higher remuneration packages and the increase in the amortization of the cost of the share option resulted from the grant of share options in January 2011.

**Other expenses**

The other expenses decreased by 82% to approximately RMB8,865,000 in 2011 from approximately RMB49,905,000 in 2010. This decrease was primarily because the impairment of other receivable of 2010 in such extent was not required to be provided in 2011.

**Increase in fair value of investment properties**

The increase in fair value of investment properties decreased by 42% to approximately RMB160,430,000 in 2011 from approximately RMB276,680,000 in 2010. This decrease was primarily due to no addition of investment properties in 2011.

**Finance costs**

The finance costs decreased by 87% to approximately RMB447,000 in 2011 from approximately RMB 3,463,000 in 2010. This decrease was primarily due to the increase in interest of bank loans being capitalised in 2011.

**Income Tax Expenses**

The income tax expenses increased by 36% to approximately RMB308,671,000 in 2011 from approximately RMB227,223,000 in 2010. It was due to the increase in the taxable profit resulted from the increase in revenue of property sold and delivered recognized in the year under review.

**Capital structure**

As at 31 December 2011, the Group had aggregate cash and cash equivalents and restricted cash of RMB602,095,000 (2010: RMB1,436,537,000). The decrease was due to the increase in payment of operation expenses (mainly construction costs) during the year under review. The current ratio was 1.3 (2010: 1.5).

As at 31 December 2011, the bank loans and other borrowings of the Group repayable within one year and after one year were RMB1,064,930,000 and RMB1,990,451,000 respectively (2010: RMB950,500,000 and RMB1,823,500,000 respectively). The increase was mainly due to the increase in loans for operation and future development purposes.

The consolidated interest expenses in 2011 amounted to RMB447,000 (2010: RMB3,463,000) in total. Interests in the amount of RMB212,432,000 (2010: RMB103,818,000) were capitalized during the year under review. Interest cover (including amount of interests capitalized) was 2.7 times (2010: 3.6 times).

As at 31 December 2011, the ratio of total liabilities to total assets of the Group was 0.61 (2010: 0.57).

As at 31 December 2011, the ratio of bank loans and other borrowings to shareholder's equity of the Group was 0.60 (2010: 0.60). The ratio of bank loans and other borrowings to total assets was 0.22 (2010: 0.25).

The gearing ratio of the Group (defined as net debt divided by shareholder's equity) was 0.52 (2010: 0.38).

**Capital commitments**

As at 31 December 2011, the capital commitments of the Group were RMB2,557,415,000 (2010: RMB2,185,729,000), 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 2011, the contingent liabilities of the Group was approximately RMB1,238,914,000 (2010: RMB659,460,000), 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 2011, investment properties of the Group with net book value of approximately RMB1,835,806,000 (2010: RMB1,645,300,000), properties under development of approximately RMB3,214,543,000 (2010: RMB2,684,405,000) and property and equipment approximately RMB146,617,000 (2010: RMB150,542,000) were pledged to secure the banking facilities of the Group. There were no time deposits being pledged as at 31 December 2011 (2010: 412,000,000). The 100% equity interest of a subsidiary of the Group with total equity of approximately RMB675,560,000 (2010:nil) was pledged to secure other borrowings for the Group.

As at 31 December 2011, deposits of approximately RMB23,130,000 (2010: RMB16,558,000) were pledged to banks as guarantees to mortgage facilities granted to purchasers of the Group's properties.

**Foreign Exchange Risk**

As the sales, purchase and bank borrowings of the Group in 2011 and 2010 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 2011 and 2010.

**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**

There was no matter occurred that bears significant effect to the Group between the year end date and the date of this announcement.

**Prospects**

In 2011, the real estate market of China was still affected by the regulatory measures imposed by the central government which did not change the existing policies implemented and has strongly encouraged the relevant local governments to build indemnificatory apartments. The real estate market is expected to develop steadily. We expect that the domestic economy of China will continue to grow and the GDP per capita will increase along with the economic growth. With the continuation of urbanization, it is expected that the demand for quality housing will still persist. In view of the continuing stablisation policies, the real estate industry in China is expected to have a healthy development as a result of the regulatory measures in the long run.

The Group will continue to adopt a prudent approach in acquiring land, developing and managing projects. We will focus on resident project development as well as commercial complex projects. We also provide quality property management and value-added services to communities located in properties developed by the Group and other developers. Such properties will provide another stable income source to the Group. Moreover, the Group will maintain a sufficient cash flow and low finance cost. With a proper risk management, we target to acquire land with relative low cost and projects with potential so as to achieve a better return to the shareholders.

## DIVIDEND

The Board of Directors does not recommend the payment of dividend for the year 2011 (2010: nil).

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 15 May 2009 (the "Scheme") for the eligible participants (the "Grantees").

On 22 January 2011, the Company granted 80,000,000 options (the "Options") to subscribe for shares of HK$0.10 each in the Company to the Grantees under the Scheme. 6,600,000 Options out of 80,000,000 Options were granted to the Directors as follows:

| **Capacity** | **Name of the Grantee** | **Number of Options** |
|---|---|---|
| Executive Directors: | Mr Shi Kancheng | 2,300,000 |
| | Mr Lou Yifei | 1,100,000 |
| | Ms Shen Tiaojuan | 1,200,000 |
| | Mr Zhang Jiangang | 1,100,000 |
| Independent non-executive Directors: | Professor Pei Ker Wei | 300,000 |
| | Professor Wang Shu Guang | 300,000 |
| | Dr Loke Yu | 300,000 |
| | | 6,600,000 |

Other relevant terms are as follows:

1. The exercise price of Options granted is HK$1.85;

2. The validity period of the Options is from 22 January 2011 to 21 January 2021 (the "Option Period"); and

3. The Options may be exercisable after three years from the date of grant of the Options (the "Lock-in Period"), provided that the Grantee has achieved the prescribed performance target during the Lock-in Period and has passed the Company's assessment, and be exercisable before the expiry of the Option Period.

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

During the year ended 31 December 2011, the Company had repurchased a total of 9,511,000 shares of HK$0.10 each in the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the general mandates granted by the shareholders at the annual general meeting held on 27 May 2011, details of which are as follows:–

| Month/year | Number of shares purchased | Highest price paid | Lowest price paid | Total paid |
|---|---|---|---|---|
| | | *HKD* | *HKD* | *HKD* |
| July 2011 | 9,511,000 | 1.50 | 1.40 | 13,755,430 |
| | 9,511,000 | | | 13,755,430 |

All shares repurchased were cancelled and accordingly the Company's issued share capital was reduced by the nominal value of these shares. The repurchases were effected for the benefit of the Company and its shareholders as a whole by enhancing the value of the net assets and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

## PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF AN AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

It is proposed to amend the existing memorandum of association ("Memorandum") and articles of association of the Company (the "Articles") in order to bring the constitutional documents of the Company in line with certain amendments made to the Listing Rules which came into effect on 1 January 2012 and 1 April 2012, respectively.

The proposed amendments to the Memorandum and the Articles mainly relate to the notice period for convening general meeting, requirement for physical board meeting (in lieu of written resolutions) where a Director or substantial shareholder has a conflict of interest, voting by poll at general meeting except for the procedural and administrative matters which the chairman of the general meeting may exempt from voting by poll, the removal of the 5% de minimis exemption on a director's right to vote on an interested transaction and certain housekeeping improvements.

Details of the proposed amendments to the Memorandum and the Articles will be set out in a circular and the notice convening the 2012 annual general meeting of the Company. The proposed amendments and the adoption of an amended and restated memorandum and articles of association will be subject to the approval of the shareholders of the Company by way of passing of special resolutions at the said meeting.

## 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 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

During the year under review, the Board has adopted and complied with the code provisions of the Code in so far they are applicable with the exception of the deviation on the code provision A.2.1 (i.e. the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr Shi Kancheng).

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 2011 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 WEBSITES 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, 27 March 2012