中國奧園地產集團股份有限公司
China Aoyuan Property Group Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3883)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

- The Group's total contracted sales grown by 65.5% to RMB4,762.0 million in 2010 with total sales area of 442,400 sq.m..
- The Group's recognized revenue for the year ended 31 December 2010 was RMB2,442.2 million with total delivered area of 415,100 sq.m.. The Group's net profit increased to RMB346.6 million, while basic earnings per share were RMB12.30 cents in 2010.
- As of 31 December 2010, the Group had bank balances of RMB3,839.1 million. The Group was in a position of net cash, keeping the Group at a sound financial position and a highly competitive level.
- Guangzhou Nansha Aoyuan successfully developed regimen residential products, and created a very competitive operation model. Nansha recorded contracted sales amount of RMB1,002.2 million for the year.
- The launch of Aoyuan's large-scale comprehensive commercial project, Aoyuan Plaza, recorded an excellent subscription amount of over RMB900 million on its launch day in October 2010.
- Aoyuan's Shenyang low-carbon project, the first phase of Shenyang Aoyuan • The Metropolis was launched and fully subscribed within 4 hours at the date of launch in October 2010, with a subscription amount of over RMB300 million.
- Aoyuan's land bank was 7.83 million sq.m. of GFA with average cost per sq.m was only RMB547 as of 31 December 2010. The Group also had two land acquisitions in the first quarter of 2011 in Zhongshan and Kunshan respectively with total considerations of RMB527.2 million.
- Recommended a final dividend of RMB3.3 cents per share.

The board of directors (the "Board") of China Aoyuan Property Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue	4	**2,442,172**	2,364,467
Cost of sales		**(1,786,326)**	(1,924,753)
Gross profit		**655,846**	439,714
Other income	5	**245,234**	69,979
Change in fair value of investment properties		**182,474**	(19,557)
Fair value gain in respect of investment properties transferred from completed properties for sale		**24,806**	53,817
Selling and distribution expenses		**(114,762)**	(91,462)
Administrative expenses		**(158,774)**	(121,878)
Loss on convertible notes		**(100,278)**	(2,062)
Finance costs	6	**(15,502)**	–
Share of result of a jointly controlled entity		**(13,307)**	101,344
Profit before taxation	7	**705,737**	429,895
Income tax expense	8	**(359,137)**	(103,598)
Profit and total comprehensive income for the year		**346,600**	326,297
Profit and total comprehensive income attributable to:			
Owners of the Company		**321,269**	320,133
Non-controlling interests		**25,331**	6,164
		346,600	326,297
Earnings per share (cents)			
Basic	9	**12.30**	13.23
Diluted	9	**12.28**	12.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**448,417**	144,446
Prepaid lease payments		**6,102**	12,377
Investment properties		**1,099,339**	791,078
Interest in a jointly controlled entity		**699,875**	466,831
Amount due from a venturer of a jointly controlled entity		–	140,488
Available-for-sale investments		–	296,000
Amounts due from a jointly controlled entity		**666,524**	850,024
Other property interests		**86,952**	86,952
Restricted bank deposits		**140,000**	345,000
Deferred taxation assets		**44,373**	27,636
		3,191,582	3,160,832
CURRENT ASSETS			
Properties for sale		**5,523,986**	6,123,183
Trade and other receivables	10	**622,190**	745,512
Amount due from a venturer of a jointly controlled entity		**29,599**	–
Income tax recoverable		**92,828**	5,190
Prepaid lease payments		**6,275**	6,275
Restricted bank deposits		**1,495,978**	400,419
Bank balances and cash		**2,203,128**	1,283,930
		9,973,984	8,564,509
Assets held for sale		**85,840**	–
		10,059,824	8,564,509
CURRENT LIABILITIES			
Trade and other payables	11	**1,075,403**	1,719,448
Sales deposits		**1,614,396**	552,115
Amount due to a non-controlling shareholder		**21,620**	26,688
Taxation payable		**997,538**	681,358
Derivative financial instruments		–	5,968
Secured bank loans		**1,359,629**	743,420
		5,068,586	3,728,997
NET CURRENT ASSETS		**4,991,238**	4,835,512
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,182,820**	7,996,344

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Secured bank loans		**2,114,302**	1,842,945
Deferred taxation liabilities		**91,390**	74,589
Convertible notes		–	325,850
		2,205,692	2,243,384
NET ASSETS		**5,977,128**	5,752,960
CAPITAL AND RESERVES			
Share capital		**24,990**	24,990
Reserves		**5,901,155**	5,702,318
Equity attributable to owners of the Company		**5,926,145**	5,727,308
Non-controlling interests		**50,983**	25,652
TOTAL EQUITY		**5,977,128**	5,752,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated on 6 March 2007 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 9 October 2007. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Aoyuan Mansion, HuangPu Avenue West, Guangzhou, the People's Republic of China (the "PRC"), respectively.

The Company acts as an investment holding company.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board.

IFRSs (Amendments)	Amendment to IFRS 5 as part of improvements to IFRSs issued in May 2008
IFRSs (Amendments)	Improvements to IFRSs issued in April 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

The Group has applied IFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary has also been applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the year in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the coming into effect of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no impact on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

The application of the other new and revised IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard might affect the classification and measurement of the Group's financial assets.

The amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The directors do not anticipate that these amendments to IFRS 7 will have a effect on the Group's disclosures as no transfers of financial assets was carried out in previous years. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to IAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. However, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods.

The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of net realisable value of properties under development for sale and completed properties for sale

Properties under development for sale and completed properties for sale are stated at the lower of the cost and net realisable value with carrying amount of approximately RMB5,523,986,000 (2009: RMB6,123,183,000). Cost of each unit in each phase of development is determined using the weighted average cost method. The net realisable value is the estimated selling price less estimated selling expenses and estimated cost of completion (if any), which are estimated based on best available information. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, there may be written down on the properties under development for sale and completed properties for sale.

Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Group have not finalised their land appreciation tax calculations and payments with any local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the land appreciation tax based on management’s best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

Income taxes

As at 31 December 2010, a deferred tax asset of RMB7,320,000 (31 December 2009: RMB16,588,000) in relation to unused tax losses has been recognised in the Group’s consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB36,795,000 (2009: RMB15,290,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

4. REVENUE

Segment Information

Information regularly reported to the Group's chief executive officer (the chief operating decision maker) for the purposes of resource allocation and assessment of performance focuses on the type of operation, which is also the basis of organisation in the Group. The Group's reportable segments are as follows:

Property development – developing and selling of properties in the PRC

Property investment – leasing of investment properties in the PRC

Others – provision of consulting services and management operation

The Group is principally engaged in the property development and property investment in the PRC. The following is an analysis of the Group's revenue and results by reportable segments.

	Year ended 31 December 2010			
	Property development	**Property investment**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
External segment revenue	2,431,006	7,802	3,364	2,442,172
Segment results	516,867	182,815	(4,225)	695,457
Other income				243,880
Unallocated corporate expenses				(104,513)
Fair value loss on convertible notes				(100,278)
Finance costs				(15,502)
Share of result of a jointly controlled entity				(13,307)
Profit before taxation				705,737

	Year ended 31 December 2009			
	Property development	Property investment	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
External segment revenue	2,348,145	15,086	1,236	2,364,467
Segment results	348,190	(11,423)	(1,443)	335,324
Other income				66,542
Unallocated corporate expenses				(71,253)
Fair value loss on convertible notes				(2,062)
Share of result of a jointly controlled entity				101,344
Profit before taxation				429,895

Note: There are no inter-segment revenue in both years.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned or loss incurred by each segment without allocation of central administration costs including directors' salaries, head office operating expenses, bank interest and other income, fair value loss on convertible notes, finance costs and share of result of a jointly controlled entity. This is the measure reported to Group's chief executive officer for the purposes of resource allocation and performance assessment.

5. OTHER INCOME

	2010	2009
	RMB'000	*RMB'000*
Other income comprises of:		
Bank interest income	**13,174**	9,091
Imputed interest income on trade receivables	**1,354**	3,437
Interest income on amount due from a jointly controlled entity	**65,357**	13,797
Interest income on amount due from a venturer of a jointly controlled entity (the "Venturer") and convertible note issued by the Venturer	**29,599**	10,488
Reversal of accruals	**–**	30,241
Gain from land reclaimed by the government (note)	**79,968**	–
Exchange gain	**53,068**	–
Others	**2,714**	2,925
	245,234	69,979

Note:

On 8 September 2010, the Group entered into an agreement with the People's Government of Dongling District (Hunnan New District), Shenyang, the PRC (the "Authority"), pursuant to which the Authority repurchased a piece of land located in Shenyang from the Group due to changes to the city development plan. This piece of land was previously recognised as properties for sale before repurchased by the Authority. The consideration for repurchase of the land is approximately RMB 687,064,000, resulting in a gain of approximately RMB 79,968,000.

6. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**205,059**	94,501
Interest on bank loans not wholly repayable within five years	**11,087**	–
Interest on convertible notes	**16,887**	44,196
	233,033	138,697
Less: Amount capitalised to properties under development for sale	**(217,531)**	(138,697)
	15,502	–

Interest capitalised arose on the general borrowing pool of the Group was calculated by applying a capitalisation rate of approximately 6.6% (2009: 6.9% per annum) to expenditure on the qualifying assets.

7. PROFIT BEFORE TAXATION

	2010	2009
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Staff salaries including directors' emoluments	**115,076**	69,788
Retirement benefit scheme contributions	**2,756**	2,048
Total staff costs	**117,832**	71,836
Less: Amount capitalised to properties under development for sales	**(36,304)**	(9,425)
	81,528	62,411
Release of prepaid lease payments	**6,275**	6,275
Auditor's remuneration	**2,600**	2,500
Depreciation of property, plant and equipment	**13,987**	10,810
Loss on disposal of property, plant and equipment	**1,200**	284
Net foreign exchange (gain)loss	**(53,068)**	5,499
Rental expenses in respect of rented premises under operating leases	**11,589**	10,313
Rental income in respect of investment properties under operating leases, less direct operating expenses from investment properties that generated rental income during the year of approximately RMB1,187,000 (2009: RMB677,000)	**(6,615)**	(14,409)
Share of income tax of a jointly controlled entity	**16,347**	61,525

8. INCOME TAX EXPENSE

	2010	2009
	RMB'000	*RMB'000*
Income tax expense recognised comprises of:		
Enterprise Income Tax in the PRC	**224,836**	108,170
Hong Kong Profits Tax	**7,019**	4,469
Deferred taxation	**64**	(8,957)
Land appreciation tax:		
– current year	**127,218**	28,347
– overprovision in prior year (note)	**–**	(28,431)
Income tax expense for the year	**359,137**	103,598

Note: Land appreciation tax is calculated on a progressive rate basis where higher rate is applicable for land with higher appreciation. The overprovision of land appreciation tax during the year ended December 31, 2009 arose as a result of decrease in the applicable land appreciation tax rates for the projects as a whole calculated on a cumulative land appreciation basis.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

Under the EIT Law, withholding income tax is imposed on dividends relating to profits earned in year ended December 31, 2008 onwards to foreign investors for the companies established in the PRC. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB716,038,000 (2009: RMB392,446,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The Group has provided deferred taxation amounting to approximately RMB6,000,000 (2009: RMB2,500,000) related to the undistributed profit of PRC subsidiaries based on the Group's dividend plan.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings

	2010	2009
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share, being profit for the year attributable to owners of the Company	**321,269**	320,133
Effect of dilutive potential ordinary shares:		
Loss on convertible notes charged to consolidated statement of comprehensive income	**–**	2,062
Exchange difference	**–**	(2,204)
Earnings for the purpose of diluted earnings per share	**321,269**	319,991

Number of shares

	2010	2009
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,612,500**	2,419,671
Effect of dilutive potential ordinary shares:		
– Convertible notes	**–**	102,933
– Share options	**4,664**	5,248
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,617,164**	2,527,852

Note: During the year ended December 31, 2010, the computation of diluted earnings per share does not account for the conversion of the outstanding convertible notes up to the repurchase date since the assumed exercise would result in an increase in earnings per share for the year ended December 31, 2010.

The computation of diluted earnings per share for the year ended December 31, 2010 and 2009 has not accounted for the effect of certain share options granted because the exercise price of those options was higher than the average market price of the Company's shares.

10. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**276,050**	294,568
Other receivables	**136,092**	269,633
Advances to suppliers	**111,256**	145,914
Deposits for purchase of land use rights	**10,000**	10,000
Other tax prepayments	**88,792**	25,397
	622,190	745,512

The following is aged analysis of trade receivables determined based on the date of the properties delivered and sales is recognised:

	2010	2009
	RMB'000	*RMB'000*
Age		
0 to 60 days	**250,143**	181,937
61 to 180 days	**17,621**	15,597
181 to 365 days	**4,424**	10,862
1 to 2 years	**1,612**	78,256
2 to 3 years	**630**	7,207
over 3 years	**1,620**	709
	276,050	294,568

11. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**794,702**	1,458,554
Other payables	**147,043**	193,729
Other taxes payable	**133,658**	67,165
	1,075,403	1,719,448

Trade payables principally comprise amounts outstanding for trade purchases and ongoing cash expenses. The average credit period for trade purchases is from 6 months to 1 year. No interest is charged by the suppliers on the trade payables. The management closely monitors the payments of the payable to ensure that all payables are paid within the credit timeframe.

The following is an aged analysis of trade payables determined based on the invoice date:

	2010	2009
	RMB'000	*RMB'000*
Age:		
0 to 60 days	**254,207**	175,256
61 to 180 days	**249,598**	856,727
181 to 365 days	**56,795**	205,180
1 to 2 years	**93,282**	106,796
2 to 3 years	**94,766**	91,469
Over 3 years	**46,054**	23,126
	794,702	1,458,554

At 31 December 2010, the balance of trade payable with age over 1 year include retention money of approximately RMB138,092,000 (2009: RMB125,491,000) which relate to 5% to 10% of the contract prices.

According to the construction contracts, the retention money is interest free, and would be paid to constructors after 1–3 year period from the completion of construction.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Operating results

The revenue is primarily generated from two business segments: property development and property investment. In 2010, the Group's total revenue was RMB2,442.2 million, representing an increase of RMB77.7 million over RMB2,364.5 million in 2009, primarily due to the increase in property sales.

In 2010, the Group's revenue generated from property development amounted to RMB2,431.0 million, representing an increase of RMB82.9 million over RMB2,348.1 million in 2009. The gross floor area of delivered properties decreased by 20.6% to 415,100 sq.m. from 522,800 sq.m. in 2009, while the average selling price increased by 30.4% to RMB5,856 per square meter from RMB4,491 per square meter in 2009. This was mainly attributable to a higher proportion of the revenue in 2010 was derived from commercial projects and villa projects of which the unit selling price per square meter was higher, and also our renowned branding which led our products could command a higher selling price, compared to that of 2009. Chongqing Aoyuan • City of Health and Nansha Aoyuan were the main source of property development revenue for the Group. The revenue generated from property development attributable to Guangzhou, Chongqing and other cities accounted for 35.8%, 30.8% and 33.4% respectively.

Gross Profit and Margin

In 2010, the gross profit of the Group was RMB655.8 million, representing an increase of 49.2% over RMB439.7 million in 2009. The average selling price for the revenue recognised from property development increased 30.4% to RMB5,856 per square meter, resulting in an increase in gross margin to 26.9% from 18.6% in 2009.

Selling and Administrative Expenses

In 2010, selling and administrative expenses of the Group were RMB273.6 million, representing an increase of 28.2% from RMB213.3 million in 2009. The selling expenses was RMB114.8 million, representing an increase of 25.5% from RMB91.5 million in 2009. As a result of new projects in various cities launched for sales in 2010, including Zhongshan, Shenyang, Guangzhou and Jiangmen, more staff were employed to speed up the project development. Although administrative expenses increased from RMB121.9 million in 2009 to approximately RMB158.8 million, the administrative expenses per each individual project actually were reduced and under stringent cost control.

Other Income

In 2010, other income of the Group increased by 250.3% to RMB245.2 million from RMB70.0 million in 2009, including interest income of RMB109.5 million, gain from the disposal of land of Shenyang Aoyuan • International Animation City project of RMB80.0 million, and exchange gain of RMB53.1 million.

Taxation

Income tax expense comprised of PRC enterprise income tax, land appreciation tax and deferred taxation. The effective tax rate of 50.9% is higher than standard PRC enterprise income tax rate of 25%, primarily due to (a) land appreciation tax of approximately RMB127.2 million and (b) fair value loss on convertible notes amounted to RMB100.3 million which was an one-off non-cash item and a non-deductible item in tax computation.

Profits Attributable to Owners of the Company

In 2010, profits attributable to owners of the Company amounted to RMB321.3 million (2009: RMB320.1 million). Excluding loss of RMB100.3 million from change in fair value of convertible notes and redemption of notes which is one-off non-cash accounting adjustment, profits attributable to owners of the Company increased to RMB421.6 million.

Financial Position

As at 31 December 2010, the Group's total assets amounted to RMB13,251.4 million (as at 31 December 2009: RMB11,725.3 million) and total liabilities were RMB7,274.3 million (as at 31 December 2009: RMB5,972.4 million).

Current ratio was 2.0 as at 31 December 2010 (as at 31 December 2009: 2.3).

Financial Resources and Liquidity

In 2010, the Group's sources of fund primarily included income generated from business operations and cash from bank borrowings, which were used in our business operations and investment in development projects. In June 2010, the Group entered into a loan agreement with a bank for borrowings of HKD500.0 million, to satisfy the Group's general working capital requirements. As at 31 December 2010, the total balance of cash, bank deposits and restricted bank deposits of the Group increased by RMB1,809.8 million from the end of 2009 to RMB3,839.1 million, providing the Group with more sufficient cash flow.

The Group expects that income generated from business operations and bank borrowings will continue to be the main sources of funding in the coming year. Therefore, the Group will continue to strengthen cash flow management, improve the efficiency of capital returns of projects and strictly control the cost and various expenses. In addition, the Group will continue to explore opportunities of cooperation with foreign and domestic investors to provide another source of funding for the expansion of projects and business development.

Cash Position

As at 31 December 2010, the Group had cash and bank deposits of approximately RMB2,203.1 million (as at 31 December 2009: RMB1,283.9 million).

As at 31 December 2010, the Group had restricted bank deposits of approximately RMB1,636.0 million (as at 31 December 2009: RMB745.4 million), of which RMB939.0 million served for acquiring bank loans, and others were only for payments to construction contractors.

As at 31 December 2010, cash, bank deposits and restricted bank deposits of the Group mentioned above totalled RMB3,839.1 million, of which 87.5% was denominated in Renminbi and 12.5% was denominated in other currencies (mainly HK dollar and U.S. dollar).

Borrowings and Net Gearing Ratio

Bank borrowings

As at 31 December 2010, the Group had bank borrowings of approximately RMB3,473.9 million (as at 31 December 2009: RMB2,586.4 million) as follows:

Repayment period	**31 December 2010** *RMB Million*	**31 December 2009** *RMB Million*
Within one year	1,359.6	743.4
More than one year, but not exceeding two years	1,045.2	492.7
More than two years, but not exceeding five years	855.0	1,350.3
More than five years	214.1	–
	3,473.9	2,586.4

The majority of bank borrowings of the Group are floating-rate borrowings, of which interest rates are subject to negotiation on annual basis, thus exposing the Group to fair value interest rate risk. The weighted average effective interest rate on bank borrowings in 2010 was 6.65% (2009: 5.60%) per annum. The Group has implemented certain interest rate management policies which mainly included, among others, close monitoring of interest rate movements and replacing and entering into new banking facilities when good pricing opportunities arise.

As at 31 December 2010, the Group had banking facilities of approximately RMB6,333.0 million (as at 31 December 2009: RMB6,373.0 million) for short-term and long-term bank loans, of which approximately RMB4,780.5 million (as at 31 December 2009: RMB5,081.9 million) were unutilized.

Convertible Notes

In 2007, a subsidiary of the Company issued convertible notes with a principal amount of US$60.0 million. On 15 April 2010, the Group entered into an agreement with noteholders to repurchase the convertible notes as follows:

(a) The Group repurchased US$25.0 million in principal amount of the convertible notes in cash at a price equal to 105% of US$25.0 million, plus accrued and unpaid interest thereon to 15 April 2010. On 15 April 2010, the Group paid a total sum of US$26.5 million to noteholders.

(b) The Group repurchased US$35.0 million in remaining principal amount of the convertible notes in cash at a price equal to 108% of US$35.0 million, plus accrued and unpaid interest on such outstanding convertible notes to 3 August 2010. On 3 August 2010, the Group paid a total sum of US$38.4 million to noteholders.

Pursuant to the agreement, a loss of RMB100.3 million resulting from the agreed repurchase of the convertible notes in the amount of US$60.0 million was recognised in the comprehensive financial statements of the Group for the year ended 31 December 2010.

Net gearing ratio

Net gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalents and restricted bank deposits) over the total capital and reserves attributable to equity holders. As at 31 December 2010, the Group was in a position of net cash, and net gearing ratio was 15.4% as at 31 December 2009. The debt structure of the Group further improved.

Contingent liabilities

As at 31 December 2010, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities provided by banks to purchasers amounting to approximately RMB2,943.6 million (as at 31 December 2009: RMB1,859.3 million).

The contingent liabilities represented the guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is liable to the repayment of outstanding mortgage principals together with accrued interest and penalty owed to the banks by defaulted purchasers, and the Group is entitled to take over the legal title and possession of the related properties. The amounts as at 31 December 2010 were to be discharged upon the earlier of: (i) issuance of the real estate ownership certificate; and (ii) the satisfaction of mortgaged loan by the purchasers of properties.

In 2007, a subsidiary of the Group (the "Company") entered into an agreement with two independent third parties (the "Vendors") for a potential acquisition of a company (the "Target"). However, this acquisition agreement was subsequently terminated by the Company because of the uncertainty about the validity of the Vendors' shareholding in the Target. The Vendors then claimed against the Company for compensation of approximately RMB61,096,000. The case is in legal proceeding. No provision has been provided for this case, however, because in the opinion of the executive directors of the Group and the Group's legal counsel, the likelihood that the subsidiary is required to pay the compensation is remote.

As at 31 December 2010, the Group had contingent liabilities relating to guarantees in respect of bank borrowings of HK$670.0 million of Century Profit Zone Investments Limited (as at 31 December 2009: HK$670.0 million).

Commitments

As at 31 December 2010, the Group had construction cost contracted but not provided for of approximately RMB2,799.9 million (as at 31 December 2009: RMB2,367.0 million). The Group expects to fund these commitments principally from sale proceeds of the properties and partly from bank borrowings.

Foreign currency risks

Most of the Group's revenues and operating costs were denominated in Renminbi. Except for the bank deposits denominated in foreign currencies and the bank loans denominated in HK dollar, the Group's operating cash flow or liquidity is not directly subject to any other material exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements as at 31 December 2010.

Pledge of assets

As at 31 December 2010, the Group pledged its property held for development and property under construction of approximately RMB1,839.9 million (as at 31 December 2009: RMB1,937.8 million) to various banks to secure project loans and general banking facilities granted to the Group.

Events after the reporting period

As announced on 21 February 2011, the Group acquired a parcel of land situated in Zhongshan, the PRC, at a consideration of approximately RMB144,200,000 through public auction. The land is designated for commercial and residential uses.

As announced on 22 March 2011, the Group entered into agreements to acquire a parcel of land in Kunshan Jiangsu, the PRC, at a consideration of approximately RMB383,000,000 through acquisition of equity interest in certain companies, in which these companies engages in property development. The land is designated for commercial and residential uses and no construction on the land has started before acquisition by the Group.

Employees and Remuneration

As at 31 December 2010, the Group employed a total of 653 employees. In order to encourage and retain excellent staff, the Group has adopted a performance based rewarding system since September 2007 to motivate its staff and such system was reviewed on a regular basis. As at 31 December 2010, share options in respect of a total of 48,900,000 shares of the Company were granted to certain directors and employees. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. In accordance with the relevant national and local labour laws and regulations, the Group is required to pay employees social insurance and other insurance benefits. The Group believes the salaries and benefits that the employees receive are competitive in comparison with market rates.

CORPORATE GOVERNANCE

The Company focuses on maintaining high standard of corporate governance in order to achieve sustainable development and enhance corporate performance.

The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company.

Throughout the year under review, the Company has complied with provisions as set out in the Code on Corporate Governance Practices (the **"Code"**) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the **"Listing Rules"**) except for the deviations as listed below:

Code Provision A.2.1

The provision A.2.1 of the Code provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Guo Zi Wen, the Chairman of the Board, was the Chief Executive Officer of the Company during the year 2010. In order to enhance the corporate governance, management and operation effectiveness of the Company as a whole, Mr. Guo Zi Ning, an executive director of the Company, has been appointed as the Chief Executive Officer of the Company since 20 January 2011.

The Board shall review its structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Code provision A.1.3

Code provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting.

During the year ended 31 December 2010, less than 14 days' notice was given for certain regular Board meetings in order to suit the tight and busy schedules of the participants.

The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

Audit Committee

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function, internal audit department or external auditors before submission to the Board. Besides, the main duties of the Audit Committee are to review and provide supervision over the Group's financial reporting system, internal control system and risk management system and make recommendation to the Board on any material issues in relation thereto. The Audit Committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The Audit Committee meets whenever deem necessary with the Company's external auditors to discuss the audit process and accounting issues. Their written terms of reference are in line with the Code provisions.

The Audit Committee consists of four independent non-executive Directors namely Mr. Ma Kwai Yuen, Mr. Song Xian Zhong, Mr. Tsui King Fai and Mr. Cheung Kwok Keung. Mr. Ma Kwan Yuen is the chairman of the said committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee reviewed, together with senior management, the internal audit department, the external auditors, the internal control system, the accounting principles and practices adopted by the Company, risk management, the annual results and reports for the year ended 31 December 2010 and other financial reporting and compliance matters of the Group and the Company.

Nomination Committee

The Nomination Committee is primarily responsible for considering and nominating suitable candidates to become members of the Board. The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board on a regular basis and is required to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the

Company and assesses the independence of the independent non-executive Directors. The Nomination Committee is comprised of Mr. Guo Zi Wen, Mr. Ma Kwai Yuen, Mr. Song Xian Zhong, Mr. Tsui King Fai and Mr. Cheung Kwok Keung. Mr. Guo Zi Wen is the chairman of the said committee.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations, reviewing and approving the executive Directors' and senior management's remuneration and other benefits as well as making recommendations to the Board on the remuneration of non-executive Directors to ensure that the level of their remunerations is reasonable. Besides, the Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration. Their written terms of reference are in line with the Code provisions. The Remuneration Committee is comprised of Mr. Tsui King Fai, Mr. Ma Kwai Yuen and Mr. Cheung Kwok Keung. Mr. Tsui King Fai is the chairman of such committee.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by the relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the public float as required by the Listing Rules as at the latest practicable date prior to the issue of this announcement.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB3.3 cents per ordinary share to shareholders of the Company for the year ended 31 December 2010. The proposed final dividend will be paid to shareholders whose names appear on the register of members of the Company on 17 June 2011, if the proposal is approved by the shareholders at the forthcoming annual general meeting (2009: final dividend of RMB3.3 cents per share, special dividend of RMB1.7 cents per share).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 June 2011 to 17 June 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and special dividend and for attending and voting at the 2011 Annual General Meeting (the "2011 AGM"), all transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 pm on 14 June 2011.

ANNUAL GENERAL MEETING

The 2011 AGM of the Company will be held on 17 June 2011 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

APPRECIATION

On behalf of the Board, I would like to express our sincere appreciation for the consistent confidence in and support for the Group from our shareholders, investors, business partners, customers and others who devote attention to the affairs of the Group. I would also like to thank our employees for their hard-working, admirable work ethic and professional performance during the year.

On behalf of the Board
China Aoyuan Property Group Limited
Guo Zi Wen
Chairman

Hong Kong, 23 March 2011

As at the date of this announcement, the directors comprising of (1) the executive directors namely Mr. Guo Zi Wen, Mr. Guo Zi Ning, Mr. Yang Zhong, Mr. Lam Kam Tong, Ms. Xin Zhu and Mr. Hu Da Wei; (2) the non-executive directors namely Mr. Wu Jie Si and Mr. Paul Steven Wolansky; (3) the independent non-executive directors namely Mr. Ma Kwai Yuen, Mr. Song Xian Zhong , Mr. Tsui King Fai and Mr. Cheung Kwok Keung.