ZHONG AN REAL ESTATE LTD:
AN INVESTMENT IN THIS COMPANY COULD TURN OUT
TO BE A TERRIBLE AND UNNECESSARY RISK

It is a record: A company, issuing an **I**nitial **P**ublic **O**ffering (IPO) in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), has told the world that its prospective, Price-Earnings Multiple, based on what is claimed shall be record-setting profits for its Financial Year, ending December 31, 2007, is somewhere between 558.90 times and 730.50 times.

The above calculation of the prospective, Price-Earnings Multiple is before fair value gains on investment properties, **TARGET** () hastens to add, but, even after such an adjustment, the prospective, Price-Earnings Multiple remains at the level of between 29.20 times and 38.20 times.

In addition, one has to realise that high inflation in the PRC, proper, over the past few years, has helped to bring down the prospective Price-Earnings Multiple.

The company to which this medium is referring is Zhong An Real Estate Ltd () (Code: 672, Main Board, The Stock Exchange of Hongkong Ltd).

Whether or not the share price of this Company is, today, to be considered fair value for money, at the Offer Price of $HK6.67 per Share, only history will record, but to **TARGET**'s thinking, the Offer Price at the time of the IPO was much too high, all things considered.

In fact, **TARGET** appears not to be the only analyst to maintain the above position because the share price of Zhong An Real Estate, today, is about $HK5.90, down about 12 percent from the Offer Price.

And the share price could well drift to much lower levels, considering the determination of the PRC Government to take firm control of its economy.

Zhong An Real Estate issued its Global Offering Prospectus on October 13, 2007, when it Offered 543 million, 10-cent shares at the maximum Offer Price of $HK6.67 per Share.

The IPO was well received and the Company netted about $HK3.40 billion.

The Company is in the business of developing properties in the PRC, proper, as distinct from the HKSAR of the PRC, targeting the Greater Yangtze River Delta Area Region as its preferred area of operations.

Page 90 of the Prospectus explains the business of this Company as follows:

> *'We are one of the leading real estate developers in the Greater Yangtze River Delta region. In recognition of our achievements in the industry, we have received numerous awards, at both the enterprise and project levels, in the PRC. For example, we were awarded China Top 100 Real Estate Developers Award () in March 2007, which was jointly issued by the Chinese Real Estate Industry Association (), the Development Research Center of the State Counsel of the PRC, the Real Estate Research Institute of the Tsinghua University and the China Index Academy (). Furthermore, in September 2007, we were awarded Top Ten East China Real Estate Company by Brand Value award, which was jointly issued by the Development Research Center of the State Council of the PRC, the Real Estate Research Institute of the Tsinghua University and the China Index Academy.*
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> *'We first commenced our property development business in 1997 in Hangzhou. Our core*

business activities comprise the development and sale of large-scale mid- to high-end residential properties in Zhejiang and Anhui provinces, two key provinces of the Greater Yangtze River Delta region. In order to diversify our business operations and sources of income, we plan to expand our core business activities to include property investment in addition to continuing to grow our property development business and operations.

'We develop and hold commercial properties as long-term investments, including shopping centers, offices and serviced apartments. We are in the final stage of developing Highlong Plaza, a 172,569 sq.m. GFA upper mid-end commercial project located in the new urban center of Xiaoshan district of Hangzhou, which has a hotel built to five-star standards, office spaces and a shopping center with 60,337 sq.m. planned GFA and is expected to be completed by November 2007. The hotel, Holiday Inn Xiaoshan Hangzhou () has a planned GFA of 35,834 sq.m. and 417 guest rooms, and we have entered into a management contract with Holiday Inns (China) with respect to its management. Holiday Inns (China) (Holiday Inns [China] Ltd [()]) *is responsible for managing the daily operation of the hotel, including formulating operational and strategic plans for the hotel business, for monthly fees and incentive fees. We intend to hold the shopping center for investment purposes.*

'We have entered into a land grant contract for a site area of 92,610 sq.m. and a master agreement for a site area of 204,056 sq.m. with the local authorities to develop International Office Center, a high-end commercial development with an aggregate planned GFA of 2.1 million sq.m. located on the south bank of Qiantang River, an area planned to be a new business center for Hangzhou by the Urban Planning Bureau. In this project, we intend to develop world-class hotels, offices, retail malls and serviced apartments and to hold selected office and hotel properties for long-term investment. We have entered into a memorandum of understanding with Key International Hotels Management Co., Ltd., a PRC joint venture of Kempinski Hotel S.A., in relation to the management of our planned hotels, serviced apartments and offices in our International Office Center project. We are also in discussion with international hotel management groups in relation to our two planned hotels in Anhui province.

'As of the Latest Practicable Date, we had 37 projects or project phases in various stages of development in Zhejiang and Anhui provinces. As of the Latest Practicable Date, we had completed development of nine projects or project phases with a total site area of 568,693 sq.m. and an aggregate GFA of 702,657 sq.m. As of the Latest Practicable Date, our Landbank consisted of: (i) a total site area of 212,550 sq.m. and an aggregate planned GFA of 492,607 sq.m. for which we have obtained the land use rights certificates and the relevant work commencement permits; (ii) a total site area of 2,071,167 sq.m. and an aggregate planned GFA of 2,795,005 sq.m. for which we have obtained land use rights certificates; and (iii) a total site area of 1,911,106 sq.m. and an aggregate planned GFA of 2,127,500 sq.m. for which we have entered into land supply contracts or master agreements with the local government authorities. We estimate that our current Landbank will be sufficient for our currently contemplated development needs for the next five years or more.'

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