

# Chairman's Statement



## Dear shareholders:

I am pleased to present to you the annual report of Agile Property Holdings Limited ("Agile Property" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2005.

### **BUSINESS OVERVIEW:**

Agile Property marked tremendous progress in 2005.

During the year under review, the Group continued to focus on property development business in the Pearl River Delta region. Under the concerted efforts of all staff, the Company achieved satisfactory results by leveraging off our reputable brand name and competitive edges:

- Sales was RMB5,371 million, representing an increase of 111% over year 2004
- profit attributable to shareholders was RMB979 million, representing an increase of 330% over year 2004
- earnings per share was RMB0.386, representing an increase of 324% over year 2004.

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2005 to raise net proceeds of HK\$3,053 million. Meanwhile, our share offering gained wide acceptance by international and Hong Kong investors. The public offering recorded an over-subscription of 242 times. The successful listing enabled us to enter into the international capital market to ensure sufficient capital for future development. About two months after the listing, our shares were included into China Index constituent stocks by Morgan Stanley Capital International, showing that the capital market has recognized the Group's brand name and economic effectiveness. Later, they were included into Hang Seng Composite Index and Hang Seng Freefloat Composite Index constituent stocks by HSI Services Limited which proved our respectful position in the capital market again. The Group will keep effective communication with investors to win their continuous recognition, laying foundation for our long-term development.

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## DIVIDENDS:

In light of our satisfactory performance and strong financial position and to fulfill our commitment of dividend distribution stated in the prospectus, the board of directors of the Company recommends a final dividend of HK2.8 cents per share in return for shareholders' support.

## BUSINESS REVIEW:

The Group has been upholding the development concept of "building a landmark for the future" to demonstrate a worldwide construction model, and maintaining a prudent development strategy. For product strategy, the Group has always provided homeowners quality properties with healthy environment and charming landscape. During the year, the Group completed the following 12 development projects with completed gross floor area of approximately 1.30 million sq.m., representing a 97% increase over 2004.

### GFA completed in 2005

Project	Location	Interests attributable to the Group	GFA (m <sup>2</sup> )
Agile Garden Guangzhou	Guangzhou	98%	328,328
Royal Hillside Villa	Guangzhou	100%	35,150
Huadu Flower Paris	Guangzhou	98%	94,399
Huadu Majestic Garden	Guangzhou	98%	42,966
Star Palace	Zhongshan	100%	71,770
The Riverside	Zhongshan	100%	57,199
La Cite Greenville	Zhongshan	100%	312,528
La Nobleu	Zhongshan	100%	46,136
Metro Agile Zhongshan	Zhongshan	100%	100,262
Metropolis	Zhongshan	100%	47,517
Nanhai Majestic Garden	Foshan	100%	98,862
Nanhai Majestic Metropolis	Foshan	100%	67,337
Total			1,302,454

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## LAND BANK:

Ample land bank is indispensable for property developers. To keep its sustainable development, the Group acquired substantial amount of land reserves through various means including public auction, tender and transfer agreement. As for our investment strategy, we gradually developed other cities with fast economic growth while focusing on the steady development in the Pearl River Delta region. Before selecting a site for a project, the Group made an in-depth analysis on the target market on a prudent principle, and leveraging off its extensive experience to strive for acquisition of quality land at low cost.

- As at 31 December 2005, the Group had a land bank with a gross floor area of 4,223,673 sq.m., which excluded:
  - the completed properties for sale with a gross floor area of approximately 571,511 sq.m.
  - the properties under development with a gross floor area of approximately 1,104,745 sq.m.
- From the listing day till 31 December 2005, the Group signed land use right transfer contracts for six plots of quality land sites in Guangzhou, Zhongshan and Foshan, which have not been granted land use right certificates. These land sites have a total site area of 1,498,002 sq.m. and expected to be developed into an aggregate GFA of 2,512,654 sq.m.

### Land with contractual interests pending state-owned land use right certificates as at 31 December 2005

Project	City	Site area (m <sup>2</sup> )	Estimated GFA (m <sup>2</sup> )
Guangzhou Land Lot #3, Royal Hillside Villa	Guangzhou	39,384	78,768
Guangzhou Huadu project No.1	Guangzhou	399,133	678,527
Guangzhou Conghua project	Guangzhou	321,186	481,780
Zhongshan Minzhong project	Zhongshan	63,464	107,889
Zhongshan Yajian project	Zhongshan	490,139	833,237
Foshan Land Lot #03F, Lujing Road	Foshan	184,696	332,453
Total		1,498,002	2,512,654

- In addition, from the beginning of 2006 till 15 March 2006, the Group acquired two plots of land in Zhongshan and Guangzhou for commercial and residential purposes, through transfer agreements. These two plots of land have a total site area of 168,246 sq.m. and an estimated total GFA of 252,370 sq.m., of which the application for confirmation on change of registered names are underway.

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**Land with contractual interest pending state-owned land use right certificates acquired during the period from 1 January 2006 to 15 March 2006**

Project	City	Expected GFA (m <sup>2</sup> )
(1) Guangzhou Huadu project No. 2	Guangzhou	92,370
(2) Zhongshan Qijiang Land No. 2	Zhongshan	160,000
Total		252,370

## **PROPERTY DEVELOPMENT:**

During 2005, China's property market experienced stringent macroeconomic control by the central government against the regions with overheating property market as well as speculation activities. However, after its self-adjustment, the property market became more mature and regulated. Investment and demands for properties maintain steady growth in markets, like Guangdong province. I always believe that the regulations on the property investment market are very favorable for large, competitive and standardized enterprise like Agile Property and this was proven by our results for 2005:

- According to Guangdong Province Statistics Bureau (廣東省統計局), the growth rate of commodity property sold was 21.2% in Guangdong province in 2005 whereas our growth rate reached 77.4%
- In 2005, the growth rate of sales revenue of commodity property in the province was 30.7%; our property sales growth was 116.8%
- In 2005, the growth of average selling price of commodity property in Guangdong was 7.7%; and our average selling price growth of residential properties reached 22.9%
- In 2005, the growth of completed area of properties in the province was merely 0.4%, and our growth of completed area of commodity properties reached 97.0%
- Based on the statistics, our market share in the property market of Guangdong province jumped from 2.3% in 2004 to 3.8% in 2005, while we have a larger presence in markets where we are more active

I am most proud of our improvement in operation effectiveness during the year:

- Percentage of administrative expenses to sales came down from 3.9% in 2004 to 2.0% in 2005; percentage of selling and marketing costs to sales also reduced from 7.4% in 2004 to 4.0% in 2005. I believe that our benefit from economies of scale will be further enhanced in the future

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- Our product quality and services were recognized by customers with customer referral rate near to 60%
- Our financial position was also improving: net debt-to-equity ratio dropped from 172% at the end of 2004 to 45% before IPO (as at 30 September 2005), and net cash position after IPO at the end of 2005
- Though we have prudently made sufficient provision for land appreciation tax, our net profit margin increased from 8.9% in 2004 to 18.2% in 2005

## PROPERTY MANAGEMENT:

The Group has been well-known for its quality brand name and good after-sales service in the markets of Guangdong, Hong Kong and Macau. To enhance our brand awareness, the Group held more than 120 training programs in 2005 to improve staff quality and services standards. A total of 98 community activities were also organized. Coupled with the opening of Agile Property Club, homeowners are offered exclusive services of low prices. Overall satisfaction rate of homeowners reached 97.6%. The brand name effect has been carried forward, resulting in a 15.9% increase of property management income over the previous year.

## DECORATION:

Decoration services also posted good results and operation management was further improved in 2005. We passed ISO9001 Quality Assurance Certification with the enforcement of standardized operational management and quality control policy. We strived hard to complete the decoration works on schedule and reduced the respective cost simultaneously. These achievements had demonstrated good service and provided support to the property development business. In future, we will strengthen the communication mechanism and raise standard of quality in order to ensure the fulfillment of our service and quality commitment to customers.

## DEVELOPMENT STRATEGY:

Looking ahead, I believe that after the recent market adjustments, China's property market will develop in a more sustainable, standardized and sensible way. Control over land supply for commodity properties, enhancement in transparency of land market and increase in capital ratio of development projects will provide broader rooms for the development of developers which have competitive strengths, high brand awareness and excellent management. Facing the enormous opportunities of the property development markets, our management team will focus our efforts on enhancing shareholders' return, corporate governance, market share, brand name recognition and economies of scale by the following measures:

- Human Resource Management: I believe that the competition in the China's property market will not only be a battle of capital, but also of talents. We will try our best to enhance our staff competitiveness by means of

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internal promotion, open recruitment and a comprehensive incentive mechanism to underpin our further development. In the past year, on top of the existing core management team, the Group promoted and recruited over 200 professionals for administrative management, financial control, project management, marketing and customer service which significantly improved the core competitiveness of the Group

- **Corporate Governance:** As our development projects increase, we will optimize our dual management approaches which have been proven successful over the years. The efficient central regulation provides standardized operation workflow and operation guidelines to share our resources and lower operating costs. A target management accountability system will be applied to our projects by which there is a clear division among both staff and jobs responsibility for proper deployment for projects. At the same time, the project companies may have their autonomy and flexibility to a certain extent to ensure our product and service quality in our cross-regional expansion. A combined system of project autonomy and centralized regulation not only maintain our product quality and services standards, but also maintain and increase the economic effectiveness for higher returns of shareholders
- **Financial Management:** We prudently utilize our capital for investment under the principle of maximizing shareholder's interests and effective reduction on corporate risks. We ensure a reasonable and stable capital structure when we pursue expansion. We will further invest in human resources and information technology for our financial and accounting systems so as to have timely mastering, control, review and adjustment from the research in early stage and budgeting, to the execution and audit of our projects.
- **Development Management:** Agile Property has always strived to maintain good customer relations. In future, we will continue to maintain our customer relations and as we increase our market share in the Pearl River Delta region, we will lay solid foundation for our long term and sustainable development. The Group has increased human resources for market development and project research recently and conducted more in-depth site visit and review of certain cities with development potential which are outside the Pearl River Delta in order to obtain better development opportunities.

By leveraging on our good brand name established, a comprehensive workflow for property development, efficient management model and experienced management, we are confident that a greater market share and sustained profitability will be achieved.

I would like to express my thanks to all directors for their valuable advice to the Group this year. Thanks are also given for the support of shareholders and customers as well as our staff's devotion and enthusiasm for work.

*Chairman*

**Chen Zhuo Lin**

Hong Kong, 23 March 2006