Management Discussion and Analysis

The Group focuses primarily on the development and sale of high quality residential properties in Guangdong Province. "Agile" is regarded as the premium brand in the property industry in the region and is also being one of the major property developers in China. The Group targets the middle to upper-middle class customers who are expecting for pleasant living environments. The Group is offering them from broad range of innovative products including villas, duplexes, apartments, condos and the reliable and professional after sales and property management services.

During the year under review, a series of austerity measures were implemented by the PRC government to cool down the overheating property sector, which included tightening of personal credit, introduction of capital gain tax in Guangdong Province, stringent land management controls, as well as prohibitions on speculations of idle lands and imposition of full tax on personal transfers of per-sale unit within two years from purchase. Against this backdrop, Guangdong's economy grew at a rate of 12.5% which was higher than the national growth rate of 9.9% in 2005. The average disposable income per capita in Guangdong Province and Zhongshan were RMB14,769, up 8.4% and RMB17,255, up 9.0% respectively when compared with last year (source: Guangdong and Zhongshan Bureau of Statistics). The demand for properties remained strong as benefited from exceptional economic development and fast urbanization in the region and the demand for better living environment.

In Guangdong, the average selling price of commodity housing was RMB3,746 per sq.m. in 2005 which was 7.7% higher than the previous year. Beside, property developers sold an area of 36.93 million sq.m. in year 2005 and total sales increased to RMB138.39 billion, representing a year-on-year growth of 21.2% and 30.7% respectively over the year. In addition, the investment in the property development in China reached RMB149.83 billion in 2005, representing an increase of 10.5% compared with that in the previous year (source: China Business Daily News).

The Group continued to leverage its operations efficiency and effectiveness and the effect of brand equity into the existing and new development projects. According to the internal survey conducted by the Group, purchases made by existing customers, referrals by existing customers and first-time customers attracted by the brand of "Agile" were higher than 2004 and majority of customers will keep the units for their own use. In Chinese society, investment on real property can always hedge inflation and its return would be better than other investment alternatives. The Group had a commendable growth in sales volume and unit prices for the properties sold in Guangdong Province in 2005 as a result.

The Group's consolidated sales for the year ended 31 December 2005 was RMB5,371 million (2004: RMB2,549 million) comprising income primarily from sale of properties. Sales of property increased by 116.8% was mainly due to increase in number of units completed and sold during the year. In respect of the average selling price per sq.m. of the properties sold by the Group, it increased from RMB4,542 per sq.m. in 2004 to RMB5,581 per sq.m. in 2005.

With outstanding economic performance in the PRC and steady development of property market in Guangdong province together with the positive influence of the macro economic austerity measures over the change in structure and quality of property industry, the property market had become more mature and regulated. The Group recorded a consolidated net profit attributable to shareholders of RMB979 million for the year ended 31 December 2005 (2004: RMB228 million), which represented an increase of 330% when compared with 2004.

Management Discussion and Analysis

SALES

The Group's specialized in developing quality properties for sale primarily with particular focus on Guangzhou, Zhongshan and Foshan.

Sales generated from property development increased by 116.8% to RMB5,264 million in 2005 from RMB2,428 million in 2004, primarily attributable to a 76% increase in the recognized revenue from the sale of a total GFA of 943,270 sq.m. in 2005 (2004: 534,558 sq.m.) and increase of average selling price of the properties sold by the Group from RMB4,542 per sq.m. in 2004 to RMB5,581 per sq.m. in 2005.

The properties sold in terms of GFA among the cities are as follows:

Guangzhou — 424,274 sq.m.
Zhongshan — 367,693 sq.m.
Foshan — 151,303 sq.m.

Sales generated from property management business increased by 15.9% to RMB97 million in 2005 from RMB84 million in 2004, primarily due to an increase in cumulative GFA under our management.

Sales generated from our decoration decreased by 74.7% after eliminating the sales within the Group to RMB9 million in 2005 from RMB37 million in 2004, which was in line with our group's strategy that the decoration company will reduce the service provided to non-group companies.

OPERATING PROFIT

Gross profit increased by 169% to RMB1,739 million in 2005 from RMB647 million in 2004 primarily due to the increase in GFA sold in 2005 and the increase of average selling price. Gross profit margin increased to 32.4% in 2005 from 25.4% in 2004 because of more high value products sold, property price increase during the year and the benefit from the economies of scale.

Other income increased by 675% to RMB57 million in 2005 from RMB7 million in 2004 primarily due to interest received from the over-subscription of our public offerings in December 2005.

Selling and marketing costs increased by 15.4% to RMB217 million in 2005 from RMB188 million in 2004 primarily due to the increased advertising expenses of existing projects and the reinforcement of the brand name in the region. However, the percentage of selling and marketing costs on sales decreased to 4.0% in 2005 from 7.4% in 2004. This was attributable to the economies of scale achieved from higher sales volume and also further increase of brand awareness in the region.

Management Discussion and Analysis

As a result of increase of productivity, the administration expenses remained flat throughout the period although additional cost of maintaining the status of listed company in Hong Kong was incurred. The percentage of the administration expenses on sales decreased to 2.0% in 2005 from 3.9% in 2004.

The net attributable profit increased by 330% to RMB979 million in 2005 from RMB228 million in 2004 mainly due to the increase of sales, the improvement of gross profit margin and the efficiency.

FINANCE COSTS

Total loan interests (including capitalised interests) decreased by 18.7% to RMB82 million in 2005 from RMB101 million in 2004 primarily due to the reduction of bank borrowings during the year of 2005.

INCOME TAX EXPENSES

The Group's income tax expenses for the year increased by 298% to RMB475 million in 2005 from RMB119 million in 2004. This was mainly attributable to the increase in the operating profit generated from the existing projects in the PRC.

EARNINGS PER SHARE

The basic earnings per share increased to RMB0.386 in 2005 from RMB0.091 in 2004. The increase was primarily due to the improvement of profit attributable to shareholders of the Company to RMB979 million in 2005 from RMB228 million in 2004.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

As at 31 December 2005, the Group's consolidated bank borrowings were RMB1,286 million (2004: RMB1,417 million) representing a decrease of 9.2% or RMB131 million over the previous year. Gearing, measured by net debt to equity, decreased from 172% last year to net cash position this year as IPO net proceeds of approximately HK$3,053 million were still deposited at banks. As additional borrowings will be required for new projects development and land replenishment, the gearing ratio is expected to gradually increase to a reasonable level.

All bank borrowings were denominated in Renminbi. Bank borrowings of the Group, which are primarily obtained from the commercial banks in China with interests chargeable mainly based on certain agreed terms.

The Group's cash and cash equivalents as at 31 December 2005 was equivalent to RMB4,205 million and with restricted cash of RMB175 million.

Management Discussion and Analysis

CHARGE OF ASSETS

As at 31 December 2005, certain assets of the Group with an aggregate carrying value of RMB561 million (2004: RMB484 million) were pledged with banks for loan facilities used by the subsidiaries in the PRC.

EMPLOYEES

As at 31 December 2005, the Group had a total number of 3,572 (2004: 3,185) full time employees. Total staff costs including directors' emoluments and retirement benefits amounted to RMB102 million for the year ended 31 December 2005 (2004: RMB68 million). The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. The target management accountability system for each project had confirmed to have positive effect.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had contingent liabilities relating to guarantees given in respect of the credit facilities granted and buy-back guarantees to banks which granted mortgage loan facilities to purchasers of the Group's properties in the PRC amounted to RMB3,378 million (2004: RMB2,576 million).

DEVELOPMENT PROGRESS OF PROJECT

During the year under review, there were 18 projects under development with total GFA completed amounted to approximately 1.3 million sq.m. Details are as follows: —

Guangzhou — 500,452 sq.m.
Zhongshan — 635,410 sq.m.
Foshan — 166,199 sq.m.

As at 31 December 2005, the GFA completed and available for sale were 571,500 sq.m. (2004: 214,300 sq.m.).

Management Discussion and Analysis

COMMITMENTS

As at 31 December 2005, the capital commitments of the properties developed by the Group were RMB1,454 million. The Group has committed to acquire land use rights of approximately RMB805 million.

FOREIGN EXCHANGE RISKS

The Group conducts its business almost exclusively in Renminbi and does not have any direct exposure to foreign exchange fluctuations. In the event that the value of Renminbi appreciates, the Group would be indirectly affected, whereby the costs of goods imported would decrease.

For the time being, Renminbi is not a freely convertible currency. The PRC government may adopt measures which could result in a material difference between the exchange rate of Renminbi in future and that prevailing or in the past. Appreciation in Renminbi would have a positive effect on the value of any dividend to be declared by the Group in Renminbi, when translating into Hong Kong dollars. However, the Group may expose to exchange loss when converting the rest of IPO proceeds from Hong Kong dollars into Renminbi.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING (“IPO”)

The Company was listed on the main board of the Stock Exchange on 15 December 2005. The net proceeds from the IPO amounted to approximately HK$3,053 million. On 31 December 2005, the Company had applied approximately HK$104 million into existing and new projects and the balance had remained as bank deposits.

On pages 150–151 of the prospectus, the Company indicated the use of proceeds on the development of existing 5 projects. As the projects can be financed by their sales proceeds, the Company had changed the use of proceeds amounting to approximately HK$864 million for new projects and the acquisition of land for future development.

FUTURE GROWTH

Capitalizing on factors such as the continued tension between the demand and supply of the property market and overall optimistic outlook of the property market driven by the domestic economic growth and massive influx of foreign funds, the prices of residential properties will continue to rise in China.

The Group will continue to consolidate its leading position in middle to upper-middle residential properties market in Guangdong Province not restricted to our existing presences but beyond it in other first tier and second tier cities in China which have enormous development potentials. In the short to medium term, the Group will maintain not less than 70% of our investment in Guangdong Province.

Management Discussion and Analysis

Nonetheless, the Group will pro-actively expand to other major cities as well as second tier cities in China from 2006 and will consider the investment opportunities in the urban center and commercial properties. These investments should only account for approximately 10% of the Group's investment portfolio in short to medium term. In addition to the organic growth, the Group will consider the strategic development opportunities whenever they were commercially and financially viable and would benefit to the shareholders' interests as a whole.

The Group has been well prepared for moving beyond our presences with great success and has full confidence in capturing the opportunities in the new environment by offering our uniqueness to the people who will enjoy their lives in the oasis that we build with our heart for them.