

Management Discussion and Analysis



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With the imminent 2008 Beijing Olympics, continuous development of Olympic economy and its promotion for the development of various industries will gradually realise, in particularly favourable for the development of the property industry.

As one of the leading integrated property operators in China, BCL is confident of becoming a major internationalized integrated property operator, propelling the development of China's property industry.

Business Environment

Overview of the PRC Property Market

China's economy maintained strong growth momentum in 2006

In 2006, Gross Domestic Product (“GDP”) of the PRC reached RMB20.94 trillion, up 10.7% as compared with that of the previous year. Per capita disposable income of residents in cities and towns was RMB11,759, representing an actual growth of 10.4% upon excluding the impact of inflation. This indicated a significant increase in residents’ consumption. The rapid increase in residents’ income and affordability contributed to the stable growth in the demand for residential properties. (Source: National Bureau of Statistics of China, State Information Center)

Chinese property market achieved stable and rapid development in 2006

In 2006, the PRC Government strengthened the implementation of macroeconomic measures. By increasing the base rate for the second time, modifying tax collection and credit policies, adjusting the supply of residential properties and controlling foreign investment, the PRC Government aimed at further regulating the development of the property market. Government policies changed from control in supply to structural adjustment, which was favorable for the long-term and healthy development of the property market. Investment in property development



Tianjin Butchart Garden (Artist impression)

amounted to RMB1,938.2 billion in 2006, posting a year-on-year increase of 21.8%, of which commodity housing accounted for RMB1,361.2 billion, up 25.3%. Sales of commodity housing reached RMB2,051 billion, of which sales of pre-sold properties accounted for RMB1,436.6 billion, or 70.0% of the total sales of commodity housing. The PRC property market maintained stable and healthy development.

Domestic demand for residential property continued to be strong in 2006 while there might be tight supply in future

For the first eleven months of 2006, gross floor area (“GFA”) and sales revenue of commodity housing sold in China totaled 416 million sq. m. and RMB1,349.3 billion, representing year-on-year growth of 6.3% and 11.1% respectively. Economic growth, rapid increase in income coupled with accelerating urbanization led to the simultaneous growth of the demand for residential properties. Growth in property prices in 70 top cities increased by 5.5%, a reduction of 2.1 percentage points when compared with the growth for last year. Increase in property prices has been slowing down in recent three years, indicating that the austerity measures implemented since 2004 were effective. As the income growth outpaced the increase in property price, it is expected that the housing demand will further increase. Meanwhile, land supply continued to drop. For the first ten months of 2006, area of land being acquired was 268.27 million sq. m., a decrease of 2.6% when compared with the corresponding period of last year. In 2006, completed GFA of commodity housing amounted to 530.19 million sq. m., down 0.6%, which implies that future supply will remain tight. Currently, all land transfers are conducted through open transaction while credit has been tightening. In view of the prevailing strong market demand, it will be favourable for large-scale property operators to facilitate rapid expansion and increase its market share leveraging on their reputation and economy of scale. (Source: National Bureau of Statistics of China, State Information Center)

Overview of the Beijing Property Market

Beijing economy continued to experience robust economic growth in 2006

The GDP of Beijing reached RMB772 billion in 2006, representing a year-on-year growth of 12% and marking the eighth consecutive year for achieving double-digit growth in its economy. In terms of permanent population, GDP per capita in Beijing reached RMB49,505 (approximately US\$6,210), posting a rise of 8.8% as compared with that of the previous year. This is also the first time for Beijing’s GDP per capita exceeds US\$6,000. Per capita disposable income of residents in cities and towns was RMB 19,978, representing a year-on-year growth of 12.2% excluding the impact of inflation. As the residents’ affordability significantly increased, housing demand continued to surge. (Source: Beijing Municipal Bureau of Statistics).



Apartments of A-Z Town



Apartments of A-Z Town (Artist impression)

In 2006, demand of residential properties in Beijing exceeded supply, resulting in continuous decrease in vacancy rate

In 2006, total transaction area of Beijing residential properties amounted to 22.05 million sq. m., of which transaction area of pre-sold residential properties accounted for 15.84 million sq. m., or 72%, and that of completed residential properties accounted for 6,210,000 sq. m, or 28%. Affected by the structural adjustment of residential property supply, regulation on foreign investment and the credit tightening of property loan, residential property supply in Beijing reduced substantially in 2006, with completed construction area of residential properties dropped by 22.8% to 21.93 million sq. m. in GFA. Sales of residential properties amounted to RMB162.6 billion, an increase of 8.2% over that of the previous year, of which pre-sold residential properties and completed residential properties accounted for 76% and 24% respectively. Residential housing index of Beijing was 109.6 in 2006, increased by 9.6 percentage points over that of the previous year. Vacancy rate further reduced as a result of over demand of residential properties in Beijing. In 2006, vacant residential area was 4.94 million sq. m., a decline of 3.06 million sq. m. as compared to that of the previous year. (Source: Beijing Municipal Bureau of Statistics, State Information Center)

Future residential supply in Beijing will remain tight

In 2006, new construction area of residential properties amounted to 63.11 million sq. m., representing a decrease of 13.3%. Land supply increased when compared with the previous year. Land area sold for residential property development in Beijing for the year amounted to 9.19 million sq. m., an impressive rise of 57% over that of 2005. However, supply is still insufficient to cater to market demand when compared with the total transaction area of 22.05 million sq. m. for pre-sold and completed residential properties. Based on the above leading indicators of residential property development, the future supply of residential property in Beijing will remain tight and selling price will maintain stable growth. (Source: Beijing Municipal Bureau of Statistics)

Overview of Tianjin Property Market

As one of the key cities in the Bohai Economic Rim, Tianjin's economy sustained stable and rapid growth in 2006 capitalizing on the opportunities brought forth by the development of the New Binhai District. In 2006, Tianjin's GDP totaled RMB433.8 billion, an increase of 14.4% in terms of comparable price. Per capita disposable income in Tianjin increased by 13% to RMB14,283 (approximately US\$5,177). It was the third city following Shanghai and Beijing, with per capita GDP exceeding US\$5,000.

The new Binhai District of Tianjin further strengthened its leading position in the region and achieved a GDP of RMB196 billion in 2006, surged by 20.2%, accounting for 45% of the total GDP of Tianjin, representing a growth of 1.1 percentage points when compared with the growth in last year. With the commencement of several infrastructure projects, including Beijing-Tianjin Express Railway, the second Beijing-Tianjin-Tang Highway and the extension of Tianjin Binhai International Airport, transportation and infrastructural facilities in Tianjin will become more comprehensive. During the year, urban infrastructure development attained new progress, of which the Tianjin section of Beijing-Shanghai Expressway completed construction and was put into operation; Route 1 of Tianjin Metro Transit Railway commenced trial operation; expressway in urban area expanded by 40 km to a total of 160 km; Route 2 of Tianjin Metro Transit Railway commenced construction; sea-river development and old roads upgrading work were also kick-started. The completion and operation of these infrastructural facilities will further expedite the development of Tianjin's economy and property market.

Amid rapid economic development, the Tianjing property market also experienced robust growth. In 2006, investment in property development totaled RMB40.2 billion, representing a year-on-year growth of 22.8%. New construction area of commodity housing grew by 18% to 61.65 million sq. m. and completed construction area of residential properties reached 21.55 million sq. m., posting a growth of 5.5%. Furthermore, area of commodity housing sold reached 14.59 million sq. m., up 4%, while sales revenue amounted to RMB69.6 billion, a surge of 21.2%. Average selling price of commodity housing was RMB4,774 per sq. m, an increase of 21.8%. For the first eleven months of 2006, sales area of commodity residential housing amounted to 10.12 million sq.m. up 2.7% while sales revenue amounted to RMB 47 billion, up 26.3%. (Source: Tianjin Municipal Government, Tianjin Municipal Bureau of Statistics, Management Committee of Tianjin Binhai New District)

Overview of Taiyuan Property Market

Taiyuan, located in northern China, is the capital city of Shanxi Province. In 2006, Taiyuan's economic development reached new heights with a GDP of RMB101.3 billion, posting a growth of 11.5%. Disposable income per capita in Taiyuan reached RMB11,740 in 2006, a growth of 12.1%. The surge in residents' income level boosted the demand for residential properties. For the first three quarters of 2006, property prices in Taiyuan recorded a growth of 8.7% over that of the previous year, of which the selling price of residential property grew by 6.4%. (Source: National Bureau of Statistics of China, Shanxi Provincial Statistics Bureau, Taiyuan Municipal Bureau of Statistics)

Overview of Chengdu Property Market

Chengdu, located in southwest China, is the capital city of Sichuan Province. In 2006, GDP of Chengdu amounted to RMB275 billion, representing a year-on-year growth of 13.8% and the 13th consecutive year of achieving double-digit growth. Per capita disposable income of residents in cities and towns was RMB12,789, posting a growth of 12.6%. Significant increase in residents' purchasing power led to the prosperous development of the property market. In 2006, investment in property development increased by 36.4% to RMB53.4 billion, of which investment in residential properties surged by 45.2% to RMB36.6 billion. The prosperous demand for commodity residential properties fuelled the impressive growth in the transaction volume of commodity housing. Total transaction area of commodity residential properties in Chengdu was 17.84 million sq. m. in 2006, representing a year-on-year increase of 35.7%. In 2006, completed construction area of commodity residential properties grew by 35.1% to 19.42 million sq. m.. It is expected that the development potential of Chengdu property market remains strong. In 2006, the average transaction price of residential properties in Chengdu was RMB3,511 per sq. m. (Source: Chengdu Municipal Government, State Information Center, Chengdu Municipal Bureau of Statistics, Chengdu Municipal Bureau of Land Resources and Housing Management)

Overview of Wuxi Property Market

Wuxi is key economic hub of Jiangsu Province in the Yangtze River Delta Region. In 2006, the GDP of Wuxi amounted to RMB330 billion, which represented a growth of 15.3% in terms of comparable price. Per capita disposable income of residents in cities and towns reached RMB18,189, a year-on-year increase of 13.6%. Investment in property development in Wuxi surged in 2006, with investment amounted to RMB27.7 billion, a growth of 21.5% over that of the previous year. Sales revenue of commodity housing in Wuxi totaled RMB17.8



Chengdu A-Z Town (Artist impression)



North Ring Centre

billion in 2006, representing a year-on-year growth of 4.23%. (Source: Wuxi Municipal Government, Wuxi Municipal Bureau of Statistics, Wuxi Real Estate Index)

Overview of Shenyang Property Market

Shenyang, located in northeast China, is the capital city of Liaoning Province. In October 2006, Shenbei New District was identified as the fourth key development region of the nation by the State Council, following Shanghai Pudong New District, Tianjin Binhai New District and Zhengzhou Zhengdong New District. In addition, RMB7 billion will be invested in Shenbei New District in 2007, for the construction of urban infrastructural facilities, such as the redevelopment of road network. As the nation implemented its development strategy in Shenbei New District, Shenyang's economy and property market will enter into a stage of rapid and long-term growth.

In 2006, GDP of Shenyang amounted to RMB246.8 billion, representing a growth of 16.2%, which was 0.2 percentage point higher than the growth of the previous year. Fixed assets investment was RMB177.2 billion, up 30%. Per capita disposable income of residents in cities and towns rose by 14.7% to reach RMB11,580 and ranked high among other Chinese cities. This demonstrated the remarkable growth of the residents' affordability in Shenyang, which in turn bolstered the significant increase in the demand for residential properties. In 2006, the pre-sale price of commodity residential properties in Shenyang was RMB3,222 per sq. m., which posted a year-on-year increase of 3.6%. Property price maintained a stable rising trend. (Source: State Information Center, Seminar on Economic and Social Development by Shenyang Municipal Committee, Shenyang Real Estate Research Institute)

Business Review

During the year under review, the Government further strengthened its macroeconomic control and announced a series of policies and regulations, including the adjustment of residential property supply structure, increase in interest rate hikes, regulating foreign investment in real estate market, regulating foreign exchange management of real estate market, tightening control of land supply as well as the stringent imposition of individual income tax on housing transfer. In February 2007, the government promulgated the strict collection of land appreciation tax. As provision for the relevant taxation has been made, this measure will not significantly affect the Group. The Group proactively adjusted its operation strategy to mitigate the impact of macroeconomic control while strengthening the execution of the Group's projects in the nation, capturing favorable market opportunities and fully utilising its competitive advantages to achieve growth in its annual results performance.



The Financial Street No. 1 (Artist impression)

The Group's revenue for the year amounted to RMB2,039,352,000, representing a year-on-year increase of 80%. Operating profit was RMB362,203,000 and profit attributable to shareholders was RMB266,009,000, which posted a year-on-year increase of 31% and 26% respectively. Basic earnings per share totaled to RMB15.05 cents, which was RMB12.39 cents in 2005. The Board of Directors recommended the payment of RMB6 cents per share as the final dividend for the year ended 31st December 2006 (2005: RMB5 cents per share).

During the year under review, the Group achieved the following breakthroughs in different aspects of its operations and management.

- Established a strong foothold in Beijing and gradually expedited regional expansion strategy. — The Group is pursuing its nationwide expansion strategy with a focus on the development of three strategic regions, namely Bohai Rim, southwest China and Yangtze River Delta Region. With Beijing, Chengdu and Nanjing as the core city for each region, the Group extended its business reach to other cities in the regions. During the year, the Group successfully increased its land bank by approximately 1.93 million sq. m..
- Recorded impressive sales performance. — The Group's contracted sales revenue reached RMB8.58 billion in 2006, representing a year-on-year growth of 265%. Meanwhile, Beijing World Center and The Interwest Project ranked among the top ten Beijing property projects in terms of sales revenue in 2006, which demonstrated that its growing brand awareness.
- Enhanced financial position leveraging on its access to the capital markets. — In October 2006, the Group successfully issued an additional 310 million H shares, raising a net proceeds of approximately HK\$850 million.
- Strengthened international collaboration. — The Group further strengthened its collaboration with GIC by jointly investing in Chengdu and Shenyang projects, increasing the number of its joint venture projects with GIC from four in 2005 to a total of six in 2006. As for the Wuxi project jointly developed with AG, a US fund, the Group achieved new breakthrough in terms of cooperation partners and cooperation model.
- Optimised management control and workflow re-engineering. — The Group outlined clear goals for the operational management control during the transitional period and the strategic management control in the long run. The Group re-established its organisational structure, which clearly divided the scope of management and duties between the headquarters and project companies. In addition, the communications and coordination of different professions were enhanced. The Group carried out workflow re-engineering based on the new management model, so as to strengthen management control and improve management efficiency.

Property Development

During the year under review, the Group together with its jointly controlled entities and associates completed five development projects with a total GFA of 332,400 sq. m..

Development Projects Completed in FY2006

Property	Type	Approximate GFA Completed (sq. m.)	Interests Attributable to the Group
North Ring Center Phase I	Residential	54,800	100%
A-Z Town Phase I	Residential	27,000	55%
Vancouver Forest District E	Villa	52,700	70%
Tianjin Butchart Garden Phase I	Residential	61,900	55%
Upper East Side Districts C6 and C7	Residential	136,000	25%
Total		332,400	

Property Sales Performance

In 2006, contracted sales area of the Group was approximately 678,000 sq. m., up by 152% from the previous year, in which residential, commercial and office properties accounted for approximately 480,000 sq. m., 9,000 sq. m. and 189,000 sq. m. respectively. Contracted sales revenue in 2006 increased by 265% to approximately RMB8.58 billion, in which residential, commercial and office properties accounted for approximately RMB5.26 billion, RMB250 million and RMB3.07 billion respectively.



Tianjin Butchart Garden



Urban Town (Artist impression)



Launch of Urban Town

During the year, the Group devised its development and sales strategies in a prudent manner in accordance with the changing landscape of the property market. By leveraging on its excellent project quality, effectively sales strategy and quality customer services, the Group recorded impressive sales growth and achieved historical highs in total contracted sales revenue and total contracted sales area, marking its rewarding stage for its corporate development. For the year under review, the Group and the Bank of China (“BOC”) jointly organised a one-week promotional roadshow exhibition of BCL’s famous projects, namely “Construction an Ideal Home” at BOC’s headquarters and received overwhelming response. The Group launched a number of projects, including The Reflections, Urban Town, A-Z Town, Tianjin Butchart Garden, Beijing World Center, The Interwest Project and North Ring Center. Capitalising on their prime locations, outstanding community planning and environment, excellent product quality and effective sales strategies, these projects became best selling properties in town. The Group also enhanced the competitive edges of the existing projects, such as Upper East Side and Vancouver Forest, with encouraging sales performance. Meanwhile, the occupation dates of North Ring Center, A-Z Town and Tianjing Butchart Garden were ahead of schedule, receiving extensive recognition from property owners.

As the representative projects of the Group’s “Urban Internationalised High-end Community” series, the outstanding quality and unique living philosophy of The Reflections and Upper East Side obtained recognition from the industry and property owners, becoming the model high-end residential projects in Beijing. Located next to the largest aquatic park, Yu Yuan Tan, The Reflections is a luxury residential project designed by Mr. Bofill, a maestro of the Spanish architectural industry. With royal living culture as the design theme, the project comprises three high-rise buildings in ladder-shaped order from west to east, realising the modern living concept of “urban lifestyle in a greenery environment”. The project is well-received by the market and recorded a contracted sales revenue of approximately RMB730 million during the year. With its differentiated positioning, Upper East Side continued to consolidate its leading market position as a high-end residential property in eastern Beijing and achieved contracted sales revenue of approximately RMB1,140 million.

In addition, the Group’s “Urban High-density Integrated Community” series also posted impressive performance. A-Z Town attracted a number of property owners and potential clients of high tastes, high social class and high income with its full-fledged services, unrivalled brand strategy and the concept of integrated community development. The Group established the leading position of A-Z Town in the high-end community of sub-CBD and achieved a contracted sales revenue of approximately RMB840 million in 2006. Meanwhile, the Group replicated the successful model of A-Z Town project in Chengdu, which marked the implementation of product standardization strategy. The Urban Town commenced sale in May 2006 and 90% of units were sold within a week of its launch, recording a contracted sales revenue of approximately RMB840 million.

Tianjin Butchart Garden is the Group's first project developed and completed in regions outside Beijing, signifying its regional expansion strategy and the roll-out of "Urban Low-density Community" product series. Located at Beichen District in Tianjing with extraordinary community environment, the project is adjacent to the largest botanical garden in Tianjin, which has a site area of over two million sq. m.. Tianjin Butchart Garden attained the development objective of "commencing construction, completing construction and delivery in the same year" and recorded a contracted sales revenue of approximately RMB430 million.

Beijing World Center and The Interwest Project are the two landmark integrated developments of the Group, located at the CBD and central government district ("CGD") respectively. Phase I of Beijing World Center will be developed into a Grade A office with a unique arc-shaped outlook. This project combines advanced technology and user-friendly architecture and places a strong emphasis on environmental protection by pioneering the industry to adopt the "Closed-end and ecologically ventilated garbage treatment system". Beijing Interwest Project is positioned as a new urban integrated project with office, commercial, residential, hotel and club house properties at one location. The Group implemented the sales model of "order by anchor tenants" for the two projects and successfully entered into agreement with large-scale enterprises, such as Taikang Life, China State Shipbuilding Corporation, China Architecture Design and Research Group and China Information Technology Designing and Consulting Institute. During the year, Beijing World Center and The Interwest Project recorded contracted sales revenue of approximately RMB 1.44 billion and RMB 2.37 billion respectively.

During the year under review, the Group further integrated the resources of "BCL Customers Club". By collecting clients' comments and suggestion on the Group's products, maintaining long-term client relationships and carrying out project promotion among existing clients, BCL has become clients' choice for multiple housing purchases.



The Interwest (Artist impression)

The following table shows the sales of major development projects of the Group, together with its jointly controlled entities and associated companies, during the year under review:

Project	Approximate contracted sales area (sq. m.)	Approximate contracted sales revenue (RMB'000)	Approximate average contracted selling price (RMB/sq. m.)
Residential	480,300	5,264,700	11,000
Sydney Coast	4,200	42,800	10,200
Vancouver Forest	46,900	392,600	8,400
Upper East Side	75,900	1,144,700	15,100
A-Z Town	83,800	835,100	10,000
The Reflections	35,700	733,600	20,600
The Urban Town	81,400	841,200	10,300
Tianjin Butchart Garden	89,500	431,400	4,800
Residential Properties of North Ring Center	18,000	212,100	11,800
Residential Properties of The Interwest Project	44,900	631,200	14,100
Commercial	8,700	245,000	28,200
Commercial Properties of North Ring Center	900	22,700	25,200
Commercial Properties of Beijing World Center	1,700	48,900	28,800
Commercial Properties of The Interwest Project	6,100	173,400	28,400
Office	188,700	3,067,500	16,300
Office Properties of Beijing World Center	65,100	1,388,100	21,300
Office Properties of Capital Development Tower	14,400	113,000	7,800
Office Properties of The Interwest Project	109,200	1,566,400	14,300
Total	677,700	8,577,200	



Inter Continental Financial Street Beijing

Hotel Operation

During the year under review, Central Holiday Inn continued to focus on its positioning as a “conference and business hotel”. By launching various client-retention measures including “Prestige Club” membership scheme, introducing “Your Customer Services Manager” and “Guest Recognition Program”, the Group increased the number of long-term clients and attained remarkable performance in expanding its client base for conferences and business travelers. In 2006, the average occupancy rate of Central Holiday Inn was approximately 76%, representing a growth of nearly four percentage points when compared with that of 2005. Capitalising on its professional services, high standard facilities, outstanding staff and customer satisfaction as well as proven track record, BCL achieved extensive client recognition and market reputation.

As the first top-grade hotel on the Finance Street, Inter Continental Financial Street Beijing fully developed its unique edges and its influence in the industry and endeavored to become an internationalized high-end finance and business hotel. The president attending the “Forum on Sino-Africa Co-operation” in November 2006 stayed at Inter Continental Financial Street Beijing during his visit. This proved that the hotel has superb capability and quality services attaining international standards.

Land Bank

As at 28th February 2007, the Group’s land bank, when fully developed, will amount to a total GFA of approximately 5.55 million sq. m.. By geographical breakdown, land bank in Beijing, Tianjin, Taiyuan, Wuxi, Chengdu and Shengyang accounted for 42%, 18%, 11%, 6%, 6% and 17% respectively. In terms of land use, residential, commercial, office properties and hotel accounted for approximately 84%, 6%, 7% and 3% of the Group’s land bank respectively.

During the year under review, the Group acquired a land site in Beijing, which further strengthened its land bank in Beijing. In June 2006, the Group successfully acquired The Interwest in Beijing, increasing its land bank by approximately 310,000 sq. m. (excluding the contracted sales area of approximately 120,000 sq. m. before acquisition). The project is located between the West Second Ring Road and West Third Ring Road in Beijing, with a site area of approximately 98,000 sq. m. and planned GFA of approximately 430,000 sq. m.. The project commenced sales in 2005 and is expected to complete construction by 2007.



Gentle House (Artist impression)

From 1st January 2006 to 28th February 2007, the Group acquired four residential development projects in Wuxi, Chengdu, Shenyang and Tianjin respectively, signifying the implementation of its development strategy of “tapping into markets outside Beijing and extending business reach across the nation”.

Wuxi Gentle House is the first project developed by the Group in the Yangtze River Delta Region. The Group acquired this residential land site through public auction in January 2006, at a total consideration of RMB440 million. The project has a planned GFA of approximately 330,000 sq. m.. Located at a mid-to-high end residential district, it is adjacent to the downtown with convenient transportation access with close proximity to “Tianyi Secondary School”, the key secondary school in Wuxi. The project is expected to commence sales in the second quarter of 2007.

In March 2006, the Group acquired A-Z Town Project in Chengdu at a consideration of RMB390 million. The project has a planned GFA of approximately 360,000 sq. m.. Located at a prime location at the junction of East Second Ring Road and Construction Road in Chengdu, with the west facing the Sha River of pleasant view, the project is situated at the commercial district of Construction Road, which is the traditional commercial area. The project is expected to be launched in the second quarter of 2007.

In November 2006, the Group acquired the Yinhe Wan Project in Shenyang, with planned GFA of approximately 930,000 sq. m.. The project is located at the eastern part of Shenyang in the scenic area of Qi Pan Shan, with the south and the north facing Huhe River and Xikai River respectively. With Niao Tao at its southeast and neighboring Dongling Park, Shenyang Shengjing International Golf Club and Shenyang Expo, the project has an excellent surroundings and convenient transportation network, which is suitable for developing high-end residential properties.

Tianjin Binhai New District Residential Project, being the Group’s second property development project in Tianjing, has a planned GFA of approximately 530,000 sq. m.. This project was acquired by the Group in February 2007. It is only about 2 km from the Tanggu Exit of Beijing-Tianjin-Tanggu Expressway and is located at the northwest corner of Lijiao Bridge at Hebei Road, with Beijing-Tianjin-Tanggu Expressway at the south. Facing Hebei Road at its east and Chezhanbeilu of its west, the project is situated in prime location with high accessibility, which will be developed into mainly multi-storey and mid-to-high-rise buildings. The project is suitable for the development of high-end community as its peripheral communities are well-developed. It is expected to be launched in 2007.



Staff Activities



Staff Activities

The Group's existing land bank is sufficient for the development in the coming three years. With mid-to-high end residential properties as the development focus of its core business, the Group increased its land bank for residential use during the year. The Group will continue to optimize and adjust its existing non-residential projects taking into consideration the possibility of creating synergies with residential properties business and the development potential of the project, so as to further increase the proportion of residential land.

At the same time, the Group will continue to embrace its strategy of “tapping into markets outside Beijing and extending business across the nation” with a focus in the three strategic development areas namely Bohai Rim, south-west China and the Yangtze River Delta region, and increase its land bank nationwide in a prudent manner. In particular, the Group will focus on enhancing its market share in established markets and replicating its proven development model in markets outside Beijing. By accelerating project development and reducing operation risk, the Group is committed to securing stable revenue while becoming the most premium integrated property operator in China.

Human Resources

As at 31st December 2006, the Group has a team of 428 international professionals, with an average age of 33.5. Among them, 16.4% and 60.7% have received master degree or above and undergraduate education respectively. In addition, mid-level staff and senior staff members accounted for 37.4% and 7.5% of the total number of staff respectively.

During the year, the Group initiated the “Management Trainee Program” and selected 23 undergraduates, master degree holders and MBA students from renowned high schools domestic and overseas as management trainees to participate in a one-year all-rounded training program. As a result, the Group was accredited “The Most Satisfactory and Trustworthy Employer Elected by University Students in 2006” by the Beijing Association of Promoting Employment for University Graduates.

During the year, the Group further enhanced its performance management, established a comprehensive management system and related policies for international staff, implemented stringent performance appraisal and set up a performance-based and comprehensive management assessment system, so as to provide effective guidance to management staff member of different levels for the improvement and development of their integrated capability.

For the year under review, the Group organized 18 training programs according to the career development planning and capability of the employees. Total training attendance reached 585 and the number of training hours totaled 9,764 hours with an average of 34.8 hours per staff member. Furthermore, the Group launched a “Mentoring and Training Program” and provided training for 14 middle to senior management as the lecturers of internal training program. In addition, a series of induction trainings for new staff and exchange training of operations were conducted.



Panoramic view of Upper East Side (Artist impression)

Social Responsibility

The Group embraces the philosophy of “contributing to society with the wealth gained therein” and encourages contribution to social community at corporate and employee levels. In April 2006, the Group sponsored the “BCL Table Tennis Club” and organized a series of community events under the theme of “Triumph with Beijing”. In the same month, the Group also held a charitable auction by celebrities known as “Starry Night at The Reflections” which was accredited the “Grand Prix of Social Community” award. On 8th September 2006, which was 700 days prior to the opening of Beijing Olympics, a charitable auction known as “Olympic Sunshine Celebrity Golf Tournament”, was held at Vancouver Forest. All proceeds were donated to the Special Education School in Dongcheng District in Beijing for the installation of sports facilities and equipment.

Prospects

In view of the development trend of China’s macro-economy and property industry, it is believed that the property industry will maintain robust growth in the coming years. The property industry in China will evolve from the traditional operational mode and embark on a new era of development. Firstly, rapid economic growth in China implies the continued increase in disposable income per capita of residents in cities and towns, which significantly propelled the demand for properties. Moreover, the acceleration of urbanisation will further expedite the growth of the property industry in China. The series of austerity measures policies promulgated by the PRC Government aim to better control the overheating property industry. These initiatives will contribute to the healthy and long-term development of the industry, further enhance the enforcement of laws and regulations, and enable the stable landing of macro-economic control. Meanwhile, the new policies launched and industry consolidation over the past two years provided a favorable environment for enterprises to carry out large-scale expansion as well as mergers and acquisitions. With the imminent 2008 Beijing Olympics, continuous development of Olympic economy and its promotion for the development of various industries will gradually realise, in particularly favourable for the development of the property industry.

As one of the leading integrated property operators in China, BCL is confident of becoming a major internationalized integrated property operator, propelling the development of China’s property industry.

The Group will continue to proactively implement the following strategies in 2007:

- Further implement management reform to reinforce management control and strengthen systematic management
 - Implement strategic management model, so as to develop the Group's headquarters into an investment center, regional/business headquarters as profit centers and project companies as cost centers. This will further enhance the integration of responsibility, accountability and interests
 - Promote the formation of Strategic Committee, Investment Committee and Product Committee to ensure systematic and effective execution of policies
 - Establish strategic, planning, budgeting and performance management systems to strengthen the consistency and effectiveness of the management systems
 - Continue to improve operational and management flow to promote the construction of information system
 - Improve the comprehensive incentive scheme to encourage innovation and create shareholders' value
- Introduce product standardisation to reduce development cost and enhance product quality
 - Strengthen the research on product standardization, optimize the three main production series, namely "Urban Low-density Community", "Urban High-density Integrated Community" and "Urban International High-end Community"
 - Reinforce efficient replication of product series to lower operation cost, enhance overall quality, accelerate development and improve project management efficiency
- Strengthen project execution and speed up nationwide expansion
 - Pursue expansion strategy in key regions through the standardized replication of the three product series
 - Optimise land bank by adjusting proportion of long-term and short-term investment
 - Enhance efforts in mergers and acquisitions and strengthen first class land development

FINANCIAL ANALYSIS

1. Revenue and Operating Results

During the year 2006, the revenue of the Group was RMB2,039,352,000 (2005: RMB1,134,769,000), representing an increase of 80% comparing with the year 2005. Such significant increase in revenue comparing with that of last year was attributable to high sales and tenancy rate of Vancouver Forest project, North Ring Center project, A-Z Town project in Beijing, Tianjin Butchart Garden project developed by the Group during the year.

During the year 2006, the revenue of the Group's hotel business was RMB211,347,000 (2005: RMB98,709,000), representing an increase of 114% comparing with the year 2005. It was mainly due to the fact that it was the first complete year of operation for Inter Continental Financial Street Beijing held by the Group, leading to a substantial increase in hotel turnover comparing with last year's.

During the year 2006, gross margin realised by the Group dropped as compared with that of last year. It was mainly due to the fact that income-deriving projects of the Group during the year were mostly residential properties launched earlier, with relatively low initial sales price, leading to a fall in gross margin.

During the year 2006, operating profit of the Group was approximately RMB362,203,000 (2005: RMB276,627,000).

2. Financial Resources, Liquidity and Liability Position

As at 31st December 2006, the Group's total assets were RMB15,386,861,000 (2005: RMB10,058,779,000) (of which current assets were RMB9,947,394,000 (2005: RMB5,216,135,000) and non-current assets were RMB5,439,467,000 (2005: RMB4,842,644,000)) and the total liabilities were RMB10,720,930,000 (2005: RMB6,873,312,000) (of which current liabilities were RMB5,225,006,000 (2005: RMB2,655,176,000) and non-current liabilities were RMB5,495,924,000 (2005: RMB4,218,136,000)), and the equity reached RMB4,665,931,000 (2005: RMB3,185,467,000).

The Group is of sound liquidity and solvency. Current ratio as at 31st December 2006 was 1.90 (2005: 1.96).

As at 31st December 2006, the Group's cash and short-term bank deposits amounted to RMB3,768,107,000 (2005: RMB1,889,534,000), which represented sufficient cash flow for operations.

Bank loans of the Group as at 31st December 2006 amounted to RMB5,651,261,000 (2005: RMB5,168,136,000), of which the long-term loans amounted to RMB5,134,261,000 (2005: RMB4,218,136,000), which were mainly used to fulfill the capital requirements of the Group's property development projects.

The Group now makes investment in the PRC only. Except for loan facility obtained by its two subsidiaries from DBS Bank, and the loan facility in actual use of US\$30,000,000 as at 31st December 2006, all of the Group's bank loans come from banks in the PRC and are borrowed and repaid in RMB, and there exists no significant currency risk. All of the Group's long-term bank loans are granted on a floating rate basis.

As at 31st December 2006, our gearing ratio was 30.13% (2005: 51.82%). Our gearing ratio is calculated by first adding up(i) the Group's short-term and long-term bank loans and (ii) net amounts due from/to parent company, net of (iii) net cash and bank balances (the balance of (i), (ii) and (iii) being referred to as "(A)"), and then have (A) divided by the aggregate of (A) and net assets of the Group.

3. Establishment and acquisition of substantial subsidiaries

During the year 2006, the Company and Reco Ziyang Pte. Ltd. jointly contributed in the establishment of Chengdu Capital Ziyang Real Estate Company Limited, and joined hands with AG Wuxi Residential SRL to establish Jiang Su Capital Land Ltd.

During the year 2006, the Company and Super Sunshine Company Ltd.(廣西陽光股份有限公司) jointly contributed in the establishment of Beijing Capital Hui Huang Real Estate Ltd.(北京首創輝煌置業有限公司); and obtained the land use rights of Beijing Chaoyang District Da Tun Bei Din Cun project (北京市朝陽區大屯北頂村項目) through setting up a tender coalition. Later on, due to changes to the project, the Company and Super Sunshine Company Ltd., together with Beijing Municipal Bureau of State Land and Resources, discharged the "Contract on the Grant of the State-owned Land" and retrieved the land grant deposit. The Company and Super Sunshine have decided to clear the accounts of Beijing Capital Hui Huang Real Estate Ltd.

During the year 2006, two subsidiaries of the Company, namely Beijing Shang Bo Ya Investment Consultant Limited (北京尚博雅投資顧問有限公司) and Beijing Shang Bo Di Investment Consultant Limited (北京尚博地投資顧問有限公司), acquired all equity interests in Beijing Dong Hai Joint Investment Co. Ltd..

During the year 2006, the Company acquired an additional 20% equity interest and rights to revenue of the foreign shareholders in Beijing Maple Real Estate Co. Ltd., a then joint venture of the Company and was in turn entitled to all its equity interest and 70% of rights to revenue of Beijing Maple Real Estate Co. Ltd.(北京楓樹置業有限公司).

4. Other Gains — Net

During the year 2006, the Company acquired a subsidiary named Beijing Dong Hai Joint Investment Co. Ltd.(北京東海聯合投資發展有限公司), leading to an excess of acquirer's interest in fair value of identifiable net assets over cost amounting to RMB127,480,000.

During the year 2006, the Company disposed its 30% equity interest in a subsidiary named Beijing Jinyaguang Real Estate Development Co., Ltd.(北京金亞光房地產開發有限公司), realising a revenue of RMB72,694,000. As at 31st December 2006, the Company held 45% of the equity interest of Beijing Jinyaguang Real Estate Development Co., Ltd., accounted for by the Company as an associate.

5. Income Tax Expenses

After tax auditing for the year 2006, one of the Company's subsidiaries finalised its income tax payable and reversed an overprovided income tax charge of RMB65,309,000.

6. Entrusted Deposits and Overdue Time Deposits

As at 31st December 2006, the Group had not held any deposits under trusts or any time deposits in financial institutions in the PRC. All of the Group's cash were held in commercial banks in the PRC in accordance with applicable laws and regulations. The Company had no bank deposits which is not recoverable upon maturity.

7. Pledge of Assets

The land use rights of certain properties were pledged by the Group as security for long-term bank loan of US\$30,000,000 (2005: US\$58,000,000).

The right to yield of certain properties (yields from transfer of such land or by other means of utilization of the same) was pledged by the Group as security for long-term bank loan of RMB4,500,000,000 (2005: RMB4,000,000,000).

8. Financial Guarantees

The Group had arranged bank facilities for certain purchasers of its properties and provided guarantees to secure the repayment obligations of such purchasers. The outstanding guarantees amounted to RMB1,243,183,000 as at 31st December 2006 (2005: RMB677,632,000).

As at 31st December 2006, other than guarantees provided for a long-term bank loan of RMB400,000,000 (2005: RMB450,000,000) granted to a subsidiary of the Company, the Group had no material external guarantee. As at 31st December 2005, the Group also had a guarantee provided to a jointly controlled entity for its short-term bank loan of RMB50,000,000.