

# Management Discussion and Analysis

## SUMMARY

(RMB million)	Year ended 31 December	
	2007	2006
Revenue	<b>17,735</b>	7,941
Gross Profit	<b>8,174</b>	3,018
Operating Profit	<b>6,965</b>	2,435
LAT provision	<b>1,155</b>	374
Profit attributable to equity owners	<b>4,136</b>	1,519
Profit per share (RMB cents)	<b>26.63</b>	11.17
Gross profit margin (after LAT)	<b>39.6%</b>	33.3%
Net profit margin	<b>23.3%</b>	19.1%

	As at 31 December	
	2007	2006
Total assets	<b>38,634</b>	15,311
Total liabilities	<b>(19,235)</b>	(13,836)
Net assets	<b>19,399</b>	1,475
Cash position (including restricted cash)	<b>9,497</b>	1,984
Borrowings	<b>(6,992)</b>	(4,081)
Net cash/ (Net borrowings)	<b>2,505</b>	(2,097)
Asset turnover	<b>65.8%</b>	54.1%
The rate of return on equity	<b>40.4%</b>	84.1%

## OVERVIEW

The preliminary statistics from the State Bureau of Statistics released that the GDP for the year of 2007 grew by 11.4% as compared with the corresponding period in 2006. According to a research from the National Development and Reform Commission and the State Bureau of Statistics, the average selling price of properties in 70 large and medium cities for the year of 2007 increased 7.6% as compared with corresponding period in 2006.

A series of control policies have been imposed in the year of 2007 on property sector by Chinese government, which include the clarification on the settlement measure and scope of land appreciation tax, stepwise lifting the bank borrowing interest rates and tightening of money supply. However, the Chinese property market still maintained steady growth.

With the capital raised upon the Initial Public Offering ("IPO") of the Company in April 2007, the Group becomes more competitive in the market place capturing the new opportunities in expanding its land bank in China. The Group's land bank has increased from approximately 19.0 million sq.m. upon listing in April 2007 to approximately 38.4 million sq.m. as at 31 December 2007. The Group is well positioned to expand property market into high growth economic areas both within and beyond Guangdong Province. Extending the success of the property development in Guangdong Province in the whole country, the Group had acquired more land in Guangdong Province and acquired land in other areas such as Liaoning Province, Anhui Province, Hunan Province, Hubei Province Chongqing municipality directly under the central government and Inner Mongolia Autonomous Region in 2007 to develop projects.

## Revenue

Revenue of the Group comprises primarily the proceeds from the sale of properties or provision of services after the elimination of transaction accounts between the companies now comprising the Group. The revenue is primarily generated from its four business segments: property development, construction and decoration, property management and hotel operation. The revenue increased by approximately 123.3% to approximately RMB17,735.0 million in 2007 from approximately RMB7,940.9 million in 2006, primarily attributable to the increase in sales of properties. In 2007, the revenue of the Group generated from property development, construction and decoration, property management and hotel operation is

approximately RMB16,666.9 million, approximately RMB631.1 million, approximately RMB221.7 million and approximately RMB215.3 million respectively.

## Property development

Revenue generated from property development increased by approximately 139.4% to approximately RMB16,666.9 million in 2007 from approximately RMB6,961.4 million in 2006, primarily attributable to an approximately 98.1% increase in total GFA of residential properties in respect of which sales revenue has been recognized to 2,611,315 sq.m. in 2007 as compared with 1,318,397 sq.m. in 2006. The average selling price increased approximately 20.4% to approximately RMB6,359 in 2007 from approximately RMB5,280 in 2006.

Property Development	Year ended 31 December			
	2007		2006	
	Revenue RMB'000	Percentage of Revenue %	Revenue RMB'000	Percentage of Revenue %
Huanan Country Garden — Phase One to Five and Phase Seven	1,031,987	6.2	3,912	0.1
Hunan Country Garden — Phase Six	604,081	3.6	1,404,084	20.2
Country Garden Phoenix City	2,687,226	16.1	2,036,523	29.2
Licheng Country Garden	684,328	4.1	425,513	6.1
Shawan Country Garden	944	—	3,597	0.1
Country Garden East Court	5,290	0.1	28,911	0.4
Nansha Country Garden	641,528	3.8	71,755	1.0
Holiday Island — Huadu	674,535	4.0	101,322	1.5
Shunde Country Garden (including Country Garden West Court)	2,396,823	14.4	816,696	11.7
Peninsula Country Garden	637,398	3.8	609,725	8.7
Jun'an Country Garden	193,679	1.2	4,006	0.1
Gaoming Country Garden	58,484	0.4	420,057	6.0
Wuyi Country Garden	856,653	5.1	428,933	6.2
Heshan Country Garden	1,098,721	6.6	332,672	4.8
Yangdong Country Garden	679,566	4.1	144,513	2.1
Chencun Country Garden*	—	—	3,369	—
Shanghai Moon River*	—	—	125,777	1.8
Nanghai Country Garden	2,128,687	12.8	—	—
Taishan Country Garden	412,667	2.5	—	—
Xinhui Country Garden	555,888	3.3	—	—
Changsha Venice	1,151,384	6.9	—	—
Gaoyao Country Garden	167,072	1.0	—	—
<b>Total</b>	<b>16,666,941</b>	<b>100.0</b>	<b>6,961,365</b>	<b>100.0</b>

\* Chencun Country Garden and Shanghai Moon River have been transferred to independent third party in May 2006 and June 2006 respectively.

## Construction and decoration

Revenue generated from the construction and decoration increased by approximately 13.5% to approximately RMB631.1 million for the corresponding period in 2007 from approximately

RMB556.1 million in 2006, primarily attributable to an increase in the volume of construction and decoration services rendered to Qingyuan Country Garden (related company).

## Management Discussion and Analysis (continued)

### Property Management

Revenue generated from the property management increased by approximately 30.1% to approximately RMB221.7 million in 2007 from approximately RMB170.4 million in 2006, primarily attributable to an increase in the cumulative GFA under management, primarily resulting from the construction completion and delivery of properties in this year such as Nanhai Country Garden, Shunde Country Garden and Country Garden Phoenix City.

### Hotel operation

Revenue generated from the hotel operation increased by approximately 11.0% to approximately RMB215.3 million in 2007 from approximately RMB194.0 million in 2006, primarily attributable to the steady increase in revenues of Heshan Country Garden Phoenix City Hotel and Jiangmen Wuyi Country Garden Phoenix City Hotel, the formal award of Qingyuan Country Garden Holiday Islands Hotel as five-star rating standard on 14 May 2007 and the formal opening of Yangjiang Country Garden Phoenix Hotel, Taishan Country Garden Phoenix Hotel and Changsha Venice Palace Hotel (which were constructed in accordance with fivestar rating standard) in May 2007, November 2007 and November 2007 respectively.

### Cost of sales

Cost of sales of the Group represents primarily the costs we incur directly for our property development activities which include construction, decoration and design costs, land use rights cost, business taxes, and land appreciation tax. Cost of sales increased by approximately 94.2% to approximately RMB9,560.9 million in 2007 from approximately RMB4,922.6 million ended 2006. The increase of cost of sales was approximately in line with the increase in aggregate GFA of the residential properties in respect of which sales revenue has been confirmed.

### Gross profit

Gross profit of the Group increased by approximately 170.8% to approximately RMB8,174.1 million in 2007 from approximately RMB3,018.4 million ended 2006, primarily attributable to the significant increase of the total GFA of the properties sold. The gross profit margin (after land appreciation tax) increased to approximately 39.6% from approximately 33.3%, primarily attributable to the increase of the average sales price of the properties sold is greater than the increase of the cost of the properties sold.

### Other gains-net

Other gains-net of the Group decreased by approximately 10.8% to approximately RMB34.6 million in 2007 from approximately RMB38.8 million in 2006. Other gains-net mainly arises from penalty revenue.

### Selling and marketing costs

Selling and marketing costs of the Group increased by approximately 44.9% to approximately RMB310.8 million in 2007 from approximately RMB214.5 million in 2006, primarily attributable to the advertising expenses increasing by approximately 85.1% to RMB154.9 million in 2007 from approximately RMB83.7 million in 2006 resulting from strengthening brand spread of the Group upon the listing of the Group in April 2007 in Hong Kong. In addition, pre-sale of new properties such as Zengcheng Country Garden, Huanan Country Garden, Shaoguan Country Garden and Heshan Country Garden in 2007 also enhanced the selling and marketing costs for the period.

### Administrative expenses

Administrative expenses of the Group increased by approximately 129.1% to approximately RMB933.2 million in 2007 from approximately RMB407.4 million in 2006, primarily attributable to the recruitment of a large number of talents in 2007 which was to satisfy the requirement of the Group's listing and rapid development of the Group. Consequently the salary expense increased substantially by approximately 72.1% to approximately RMB264.8 million in 2007 from approximately RMB153.9 million in 2006. Whilst, various administrative expenses also increased, primarily attributable to the increase of the number of projects of the Group from 23 in 2006 to 45 in 2007.

### Finance cost-net

Finance costs-net of the Group decreased by approximately 37.1% to approximately RMB153.8 million in 2007 from approximately RMB244.6 million in 2006, primarily attributable to (i) interest expenses increasing approximately 7.1% to approximately RMB283.6 million in 2007 from approximately RMB264.8 million in 2006 due to increase of interest rates of bank loans during the period from 1 January 2007 to 31 December 2007, and the increase of exchange losses (approximately RMB295.6 million in 2007) resulting from the continuously rising of the exchange rate of RMB against HK dollar, and (ii) the significant interest income of approximately RMB270.0 million from the application monies of subscribing IPO shares of the Group resulted in interest income increasing to approximately RMB425.4 million in 2007 from approximately RMB20.2 million in 2006.

### Profit attributable to the equity owners

Profit attributable to the equity owners of the Company increased by approximately 172.2% to approximately RMB4,135.9 million in 2007 from approximately RMB1,519.5 million in 2006. The net profit margin increased to approximately 23.3% in 2007 from approximately 19.1% in 2006, primarily attributable to the accumulated effects of the foregoing factors.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

### Cash position

Since the Group initially offered its shares in April 2007 and the aggregate raising fund amounted to approximately RMB14,671.2 million (including the portion of exercising the over-subscription), so that the Group's cash (including restricted cash) amounted to approximately RMB9,496.9

### Use of listing proceeds

The Group has used listing proceeds according to purposes stated in the prospectus and related particulars are as follows:

RMB million	Use conditions stated in the prospectus		Actual use conditions	Usage percentage
Acquired land	30%	4,278.9	4,131.8	96.6%
Existing projects	60%	8,557.9	8,353.3	97.6%
Operating capital	10%	1,388.2	1,057.9	74.2%
Total		14,225.0	13,543.0	95.0%

### Net current assets and current ratio

The Group had net current assets of approximately RMB9,704.8 million as at 31 December 2007. The current ratio, being current assets over current liabilities, increased to approximately 1.7 as at 31 December 2007 from approximately 1.1 as at 31 December 2006.

### Borrowings and charges on group assets

The Group had aggregated borrowings of approximately RMB6,991.8 million as at 31 December 2007, and the repayment time is as follows:

RMB million	Year ended 31 December	
	2007	2006
Within 1 year	2,764.4	1,223.1
1 to 2 years	2,527.4	2,044.4
2 to 5 years	1,700.0	813.8
Total	6,991.8	4,081.3

All the bank borrowings are secured by land use rights and properties of the Group or are guaranteed by Group companies.

million as at 31 December 2007 (2006: approximately RMB1,984.4 million), representing a significant increase as compared to that as at 31 December 2006. As at 31 December 2007, 63.0% and 37.0% of the Group's cash and bank deposits were dominated in RMB and other currencies (mainly Hong Kong dollars) respectively. As at 31 December 2007, the Group's restricted cash amounted to approximately RMB1,013.5 million (2006: approximately RMB454.7 million).

Pursuant to relevant regulations, certain of the project companies are required to deposit a portion of proceeds from pre-sales of properties into specific bank accounts as at 31 December 2007. Before the completion of the pre-sold properties, the proceeds deposited in the escrow accounts may only be used for the restricted purposes of purchasing construction materials, equipment, making interim construction payments and paying taxes, with the prior approval of the relevant local authorities.

## Management Discussion and Analysis (continued)

### Gearing ratio

Gearing ratio is measured by the net borrowings (total borrowings net of cash and restricted cash) over the capital and reserves attributable to the equity owners. As at 31 December 2007, the gearing ratio was -13.1% (2006: 160.1%). As the ongoing new project development and the land replenishment will utilize the listing proceeds and additional borrowings will be raised, the gearing ratio is expected to be gradually increased to a reasonable level.

### Interest rate risk

The weighted average interest rate of the Group increased from 6.222% in 2006 to 6.782% in 2007. Interest expenses occupy most of the financial expenses of the Group. The Group has implemented certain interest rate management policies which mainly include, among the others, close monitoring of interest rate movements and replacing and entering into new banking facilities when good pricing opportunities arise.

### Risk of exchange rate fluctuation

The Group mainly operates in the PRC ("PRC"), so most of its revenue and expenses are measured in Renminbi. In 2007, the exchange rates of Renminbi to Hong Kong dollars kept on increasing. Though the Group had progressively remitted the Hong Kong dollars IPO proceeds to China and made settlement shortly after remittance, there was still an exchange losses of RMB295.6 million. It was mainly due to the unexpected longer period for exchange process resulting from tightening foreign exchange policies in China. The Group is actively engaging in the process of converting Hong Kong dollars into Renminbi. The directors expect that any fluctuation of Renminbi's exchange rate will not have material adverse effect on the operation of the Group.

### Land appreciation tax

The State Administration of Taxation issued an announcement of GuoShuiHan 2004 No. 938 on 2 August 2004 in respect of imposing land appreciation tax on property developers. Subsequently, the State Administration of Taxation issued GuoShuiFa 2006 No. 187 on 28 December 2006, announcing its intention to strengthen the mechanism for collection of LAT on property developers and authorizing the local tax bureau to issue a detailed implementation rules and procedures appropriate to local environments, which became effective from 1 February 2007. In the past the Group has paid and confirmed prepaying land appreciation tax based on multiplying certain of tax rate (varying from 0.5% to 3%) assessed by local tax bureau by the sales amount. The Group is advised that the implementation details of the relevant announcement have not been announced after seeking advices from advisers of taxation authority and tax bureau of certain cities in which the Group is located. As a result, the Group has not confirmed the time to pay land appreciation tax in the future. The provision of

approximately RMB1,155.4 million was made by the Group in 2007 in respect of land appreciation tax (2006: approximately RMB373.9 million). As at 31 December 2007, accumulated land appreciation tax provided by the Group while not yet paid amounted to RMB1,595.7 million.

### Contingent liabilities

As at 31 December 2007, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities purchasers amounting to approximately RMB9,637.3 million (2006: approximately RMB5,822.7 million).

This 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 responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Of the amounts as at 31 December 2007, approximately RMB537.2 million (2006: approximately RMB764.4 million) was to be discharged two years from the day the mortgaged loans become due; and approximately RMB9,100.1 million (2006: approximately RMB5,058.3 million) was to be discharged upon earlier of (i) issuance of the real estate ownership certificate which are generally be available within three months after the purchasers take possession of the relevant properties; and (ii) the satisfaction of mortgaged loan by the purchasers of properties.

The Directors consider that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

### Contractual commitment

As at 31 December 2007, the contractual obligations in connection with the property development activities amounted to approximately RMB2,808.8 million (2006: approximately RMB710.7 million). This amount is primarily arising from contracted construction fees or other capital commitments for future property developments. The Company expects to fund such contractual obligations principally from presale proceeds of the properties and partly from bank borrowings.

### Material acquisition and disposal of subsidiaries

In May 2007, the Group acquired effectively 100% equity interest of a company engaged in property development in Shenyang, Liaoning Province for a total cash consideration of RMB550,000,000.

The Group does not have disposal of subsidiaries during the year.

### EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2007, the Group had 27,839 full-time employees. An analysis of employees by function as the same date is as follows:

Administration and Human Resources Management	197
Marketing and Sales	1,210
Finance Management	387
Project Management	1,904
Construction and Decoration Management	5,548
Property Management	15,785
Hotel	2,808
<b>Total</b>	<b>27,839</b>

The remuneration package of the employees includes salary, bonus and other cash subsidies. The Company has designed an annual review system to assess the performance of the employees, which forms the basis of the determination on salary raise, bonus and promotion. The Group is subject to social insurance contribution plans organized by the PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, the Group is required to pay on behalf of the employees a monthly social insurance premium covering pension insurance, medical insurance, and unemployment insurance and housing reserve fund. The Group believes the salaries and benefits that the employees receive are competitive in comparison with market rates. The employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. The Group believes its relationship with the employees is good. As of the date of the annual report, no significant labor disputes which adversely affect or likely to have an adverse effect on the operations of the business occurred.

### EMPLOYEE INCENTIVE SCHEME

Subsequent to the balance sheet date, the Company proposed to set up an employee incentive scheme for the benefit of the senior management and employees of the Company which excludes any connected persons of the Company. The purpose of the employee incentive scheme is to provide the participants with an opportunity to hold a personal stake in the Company so as to motivate such participants and to enhance performance and efficiency.

### BUSINESS VENTURE AND PROSPECT

As at 31 December 2007, the Group had 45 projects with an aggregate completed GFA of 8,760,936 sq.m., on which it had built 47,998 units to house an estimated approximately 191,000 people, an aggregate GFA under development of 9,884,000 sq.m., and an aggregate GFA of 28,560,443 sq.m. relating to properties held for future development.

The Company is currently expanding further into other parts of the country. Outside of Guangdong Province, we have already established presence in Liaoning province, Jiangsu Province, Anhui Province, Hunan Province, Hubei Province, Inner Mongolia Autonomous Region and Chongqing Municipality. Looking ahead, we are confident in our ability in leveraging on our strong capital base, wide brand recognition and unique business model, further expand our business both within and outside of Guangdong Province.

### MANAGEMENT EMPHASES IN 2008

Since 2008 the Group has induced Enterprise resource management system including financial sector, supply chain sector, human resource sector and capital management sector. The new management system will satisfy the requirement of corporate rapid development and establish a management platform with various projects' operation and integration of finance and business so as to make resource allocation of the Company more reasonable and management more standardized.