

## Management Discussion and Analysis

### BUSINESS REVIEW

Applying dynamic and aggressive business development strategies, the Group enlarged its share in the primary and secondary property real estate agency markets, and reported satisfactory performance for the year under review. For the year ended 31 December 2006, the Group's turnover reached HK\$452.2 million, increased by 46% from HK\$310.2 million in 2005. Profit attributable to shareholders rose 26% from HK\$58.4 million in 2005 to HK\$73.5 million. Earnings per share were HK32.9 cents (2005: HK29.4 cents).

During the year under review, primary property real estate agency service business registered a turnover of HK\$266.3 million (2005: HK\$200.3 million), accounting for 56% of the Group's total turnover (2005: 61%). As for secondary property real estate agency service business, its turnover amounted to HK\$167.5 million (2005: HK\$101.8 million) and accounted for 35% of the Group's total turnover (2005: 31%). The remaining 9% or HK\$44.2 million was derived from property management, mortgage referral, property valuation and property auction, etc.

By geographical segment, Guangzhou contributed approximately 64% (2005: 62%) of the Group's total turnover, and around 36% (2005: 38%) came from outside Guangzhou.

### PRIMARY PROPERTY REAL ESTATE AGENCY SERVICE

In 2006, the Group achieved approximately 28,800 primary property transactions of amount totaling HK\$20.2 billion, 45% more than HK\$13.9 billion in 2005. During the year under review, the Group was the sole agent of 127 property projects, involving total transaction area of 28.7 million sq. ft.

Riding on its extensive industry experience and comprehensive marketing strategies, the Group has gained the trust and long-term support of many developers. It secured exclusive agency rights for more new projects during the year. In 2005, the Group became for the first time the sole agent for Vanke, a renowned property developer in China, marketing its property project in Foshan. So far the Group has provided service for nine property projects of the client in Guangzhou, Tianjin, Dongguan and Foshan. The Group also worked closely with Gemdale, a listed A-share company. It not only became the consultant for the initial planning and development of its large-scale property projects in Zengcheng, but also acted as the sole agent for its project in Dongguan and Zengcheng. The Group's outstanding services have attracted the attention of Hong Kong developers. During the year under review, the Group cooperated with Henderson Land for the first time, offering initial project planning and development consultancy service and sales & marketing service to Hangli Bay View (恒荔灣畔) in Guangzhou and becoming the sole agent for the residential property project. The project received good market response.

In 2006, the property market in Guangzhou continued to boom with average sale prices of different projects including Favorview Palace (匯景新城) and Everbright Riverside (光大花園) on continuous climb. The property markets in other cities in China also grew gradually as reflected in increasing transaction volumes. Many property projects, such as Gemdale Green Town (金地格林小城) in Dongguan, Vanke Wonderland (萬科四季花城) in Foshan, Bao-Link Centre (寶蓮城) in Shanghai, Olympic Garden (奧林匹克花園) and Binhai New Town (濱海新城) in Tianjin, and East Lake Sky Mansion (東湖天下公館) in Wuhan recorded satisfactory sales as well.



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**PRIMARY PROPERTY REAL ESTATE AGENCY SERVICE** *(Continued)*

During the year under review, the Group continued to expand its primary property real estate agency business and explore new opportunities in various cities. Currently, the Group has offices in 20 cities across China, including those set up in Urumqi, Chongqing, Dalian, Jinan, Zhengzhou and Nanchang during the year under review. By geographical segment, Guangzhou market accounted for 46% of the total turnover from primary property real estate agency service and around 54% came from outside Guangzhou.

In addition, the Group offered initial project planning and development consultancy services to 98 development projects in 30 cities in China in 2006.

**SECONDARY PROPERTY REAL ESTATE AGENCY SERVICE**

Along with a maturing primary property market, the secondary property market also prospers. Heeding this trend, the Group stepped up efforts in expanding its secondary property real estate agency business during the year under review. The number of branches grew from 130 in late 2005 to 203 during the year. With the opening of the 150th branch in Guangzhou in September last year, Hopefluent became the largest secondary property real estate agent with the most branches in Guangzhou. As at 31 December 2006, the Group had in all 174 branches in Guangzhou. In Shanghai, the property market has been recovering at a satisfactory pace. To capture emerging opportunities in the market, the Group accelerated its expansion plan and increased the number of branches in Shanghai to 15 by the end of 2006. The rest of the branches are located in Nanning and Foshan.

During the year under review, the Group handled approximately 20,500 secondary property transactions, a surge of 71% when compared with approximately 12,000 transactions in 2005. Guangzhou remained as the Group's core secondary property real estate agency service market, accounting for 94% of the total turnover from secondary property real estate agency service.

**MORTGAGE REFERRAL SERVICE**

In addition to providing property real estate agency service, the Group also offers one-stop mortgage referral service through its wholly owned subsidiary Bola Realty Financing (Guangzhou) Limited ("Bola Financing"). Driven by continuous growth of the Group's secondary property real estate agency service business, mortgage referral service business also grew. Income from this business segment has been increasing. During the year under review, the business of Bola Financing expanded from Guangzhou to Dongguan and brought in more diverse income to the Group.

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**OTHER BUSINESSES**

The Group also provides customers with a range of other real estate related services including property management, property valuation and property auction, etc. During the year under review, the Group provided property management services to 30 residential and commercial projects and shopping arcades in Guangzhou, Shanghai and Wuhan. 20,000 units occupying a total gross floor area of over 20 million sq. ft. were involved, generating stable income for the Group.

**AWARDS**

The Group won many awards during the year under review in honour of its relentless efforts in past years. They included:

- “Hong Kong Outstanding Enterprise 2006” from Economic Digest for three consecutive years
- “China Superbrand 2006”
- Mr. Fu Wai Chung, the Group’s Chairman, received the “Entrepreneurial Spirit Awards 2006” from Capital Entrepreneur
- “Top 10 China’s Real Estate Consulting Company 2006” from the China Real Estate Top 10 Research Team, which is formed by the Enterprise Research Institute of Development Research Centre of the State Council of China, the Institute of Real Estate Studies of the Tsinghua University and the China Index Academy
- “Top 10 Chinese Real Estate Business Corporations Awards” at the China International Real Estate & Archi-tech Fairs (CIHAF)
- “The Most Preferred Real Estate Agency Service Provider 2006” at the 3rd China Property Summit in Guangzhou

**PROSPECTS**

At the macroeconomic austerity measures implemented by the Chinese government in the past few years, the overheated property market has cool down and is developing at a more healthy and stable pace. After the details of the different measures are clearly defined by the authority, developers are expected to hasten property projects and step up sales efforts, which will in turn lead to stronger property supply in 2007 when compared with last year. Buyer jittery will also vanish and market sentiment will improve.

Transactions of primary and secondary properties in Guangzhou have been more active since late 2006. This trend is expected to continue in 2007 with demand for residential properties remaining strong. The property market in other cities such as Shanghai and Tianjin also continue to enjoy rosy prospects, which will translate into more exclusive agency service business and opportunities for initial project planning and secondary property real estate agency businesses for the Group.

Looking ahead, the Group has clear goal set for 2007 which is to expand its primary property real estate agency service market to cities such as Chengdu, Qingdao, Huhehot, Ningbo and Guiyang and achieve foothold in 25 cities. As for the secondary property real estate agency service business, the Group will strive to expand business coverage and add about 100 to 150 new branches in 2007. In addition to enlarging its market share in Guangzhou, it will also increase the number of branches in Shanghai. Currently, a total of 35 branches are set up in Shanghai. Moreover, the Group will seek to develop the secondary property real estate agency market in Dongguan, Zhongshan, Tianjin, and Beijing to capture the immense opportunity in the cities, and had opened 10 branches in Dongguan in March 2007.

Moreover, the Group will boost its mortgage referral business and diversify its income stream leveraging the relationship forged with customers from its primary and secondary property businesses.

Hopefluent will continue its dual focus on primary and secondary property real estate agency service businesses to expand its market share. That will give the Group the edge to take its business forward to new heights and bring satisfactory returns to shareholders.