

## Management Discussion and Analysis

### China Property Market

In 2006, the overall economy of mainland China continued its rapid growth. The gross domestic product (“GDP”) of mainland China reached RMB20.94 trillion, which represented a surge of 10.7% over 2005. The per capita disposable income of citizens residing in urban cities or towns grew by 12.1% in 2005. The steadily booming economy of mainland China and the rising household income of its citizens will continue to sustain a steady and rapid growth in demand for quality housing in the coming years.

The Chinese Government continued to introduce macroeconomic measures with the aim of stabilizing the property market. In mid-May 2006, the Chinese State Council announced six renewed general directives to dampen speculative demand for high-end residential properties, and to increase the supply of housing for low-to-mid income groups. It was followed by 15 detailed measures jointly issued by nine ministerial bodies effective 1 June 2006. The common goal is to nurture a stable property market providing affordable housing for end-users and to provide a steady stream of new property developments with slowly rising prices.

### Business Review

The Group continued to focus on the residential property development business in mainland China, which attained robust growth with a rapid rise in profit. The Group’s profit grew 27% over 2005, delivering the Company’s promise to investors and successfully maximizing the return for its shareholders.

At present, the Group is engaged in property development in Pearl River Delta District, Eastern Guangdong, Yangtze River Delta District, Western China and Hainan Province. At the beginning of 2006, the Group was still a leading property developer in Guangdong only, with approximately 1.1 million sq.m. total gross floor area (“GFA”) under construction. As at 31 December 2006, the Group had a total of 35 projects, of which 32 located in cities in Guangdong and 3 in major cities of other provinces. As at 31 December 2006, the total GFA under construction was approximately 1.2 million sq.m.. The Group anticipates that the total GFA to be completed in 2007 will be approximately 2.57 million sq.m..

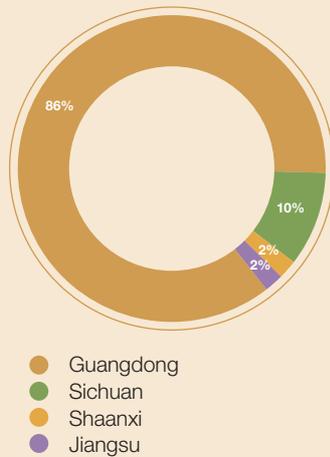
### Land Bank

A quality land bank is the essence of the Group’s success. As one of the most reputable brands in the China property industry, it is especially crucial for the Group to have an adequate and diversified land bank in certain strategic areas of the PRC.

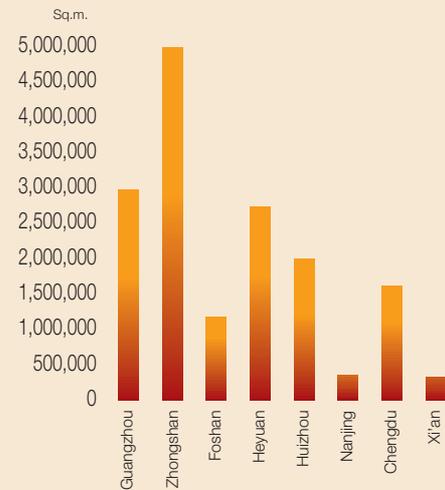
At the beginning of 2006, the Group had a total land bank of 8.4 million sq.m. of GFA in the Pearl River Delta District, all of which will be used for development of residential projects. During the year under review, the Group had invested an aggregate of RMB5.8 billion in expanding its land bank. 15 land sites were newly acquired during the year, amounting to a total GFA of approximately 9.3 million sq.m.. These newly acquired sites are mainly situated in cities such as Foshan, Heyuan, Nanjing, Chengdu, Xi’an and Huizhou. At the end of year 2006, the total GFA of the Group’s land bank amounted to 16.16 million sq.m..

## Land Bank as at 31 December 2006

Land bank by provinces



Land bank by cities



City/Province	Completed GFA for sale (sq.m.)	GFA under development (sq.m.)	*GFA	
			not yet developed (sq.m.)	Total (sq.m.)
Guangzhou, Guangdong	82,259	293,670	2,602,791	2,978,720
Zhongshan, Guangdong	594,638	514,963	3,881,042	4,990,643
Foshan, Guangdong	42,223	172,736	962,244	1,177,203
Heyuan, Guangdong	—	219,993	2,509,488	2,729,481
Huizhou, Guangdong	—	—	2,000,000	2,000,000
Nanjing, Jiangsu	—	—	358,980	358,980
Chengdu, Sichuan	—	—	1,606,753	1,606,753
Xi'an, Shaanxi	—	—	317,000	317,000
	719,120	1,201,362	14,238,298	16,158,780

\* GFA not yet developed includes approximate GFA of 4.8 million sq.m. pending the finalisation of certain procedures for issuing the land use rights certificate.

## Management Discussion and Analysis

Details of 15 land sites newly acquired during the year are as follows:

	<b>GFA</b> (sq.m.)
<b>Guangzhou district</b>	
Huadu Project No. 2	78,899
Jiacheng Building, Panyu	10,410
Zhujiang New City Project	88,466
	177,775
<b>Zhongshan district</b>	
La Nobleu (La Cite Greenville 392 Project)	392,220
Metro Agile Zhongshan	220,583
Zhongshan Dayong	219,924
Qijiang Land No. 1 (Qijiang Land No. 2)	160,001
Qijiang Land No. 3 (Qijiang Land No. 4)	486,079
Metro Agile Zhongshan (Sanxiang Town 137 Project)	155,267
	1,634,074
<b>Foshan district</b>	
Sanshui Project	479,999
	479,999
<b>Other districts</b>	
Heyuan Agile City Garden	2,729,481
Huizhou Bailuhu Project	2,000,000
Nanjing Qinhuai Project	358,980
Chengdu Shuangliu Project	1,606,753
Xi'an Project	317,000
	7,012,214
<b>Total</b>	<b>9,304,062</b>

## Property Development and Sales

The Group began its residential property development in Zhongshan and has more than 15 years of experience in the property development industry. Since we provide our owner occupants with premium properties and services that cater for their needs, many of the Group's property projects in certain cities have become leading brand names and have influenced the entire trend of the property sector therein. The Agile Property brand name and the supreme quality of our residential properties have won the trust of the property market.

In 2006, the PRC government continued to implement macroeconomic policies to rein in the overheating property market and curb speculation activities. These macroeconomic policies gradually stabilized the growth rate of the residential property sector. Nonetheless, property markets in major areas and cities in which the Group's property development operations were located maintained a robust demand.

The Group experienced another satisfactory year in property sales. In 2006, total GFA of completed residential projects available for sale amounted to 1.12 million sq.m.. Total GFA sold and delivered for the year was approximately 1.07 million sq.m. and sales revenue was approximately RMB6,544.7 million, an increase of 13.3% and 24.3% respectively compared to 2005. Of this, sales in Zhongshan city achieved satisfactory growth and reached RMB2,623 million, accounting for 40% of the total sales and representing an increase of 29.0% from 2005. The total GFA sold in Zhongshan city amounted to 424,282 sq.m., representing an increase of 15.4% over 2005. Sales in Guangzhou city amounted to RMB3,140.2 million, accounting for 48.0% of the total sales and representing an increase of 28.2% over 2005. The total GFA sold in Foshan city amounted to 150,584 sq.m., maintaining the same level as 2005.

### Property under development

The Group plans to complete approximately 2.57 million sq.m. of residential property in 2007. We have fully capitalized on our thorough research efforts into local market demand and consumer preference, together with our excellent project management expertise and extensive cost control experience. This adds value to every aspect of the production process of project development so as to provide quality properties catering specifically to our target customers. As a result, the Group attained rapid growth in both sales and profit margin by offering satisfaction to consumers.

## Management Discussion and Analysis

The following table sets forth the projects expected to be completed in 2007.

Project	GFA (sq.m.)
<b>Guangzhou district</b>	
Agile Garden Guangzhou	181,000
Jiangbei Estate	65,000
Huadu Majestic Garden	113,000
Guangzhou Liwan Project	61,622
Conghua Agile Binjiang Garden	169,000
South Lagoon Guangzhou	10,400
	600,022
<b>Zhongshan district</b>	
Metro Agile Zhongshan	129,000
Qijiang Land	62,000
Zhongshan Dayong	103,000
Guinan Land	60,000
La Cite Greenville	268,000
La Nobleu	32,000
Majestic Garden	3,300
	657,300
<b>Foshan district</b>	
Nanhai Majestic Garden	173,000
Shunde Daliang Project	170,000
Foshan City Project	83,000
Sanshui Project	53,000
Nanhai Commercial Development Project	53,000
	532,000
<b>Other district</b>	
Heyuan Agile City Garden	153,000
Huizhou Bailuhu Project	201,000
Nanjing Qinhuai Project	22,000
Chengdu Shuangliu Project	238,000
Chongqing Nanan District Project	70,000
Hainan Qingshuiwan Project	100,000
	784,000
Total	2,573,322

### Sales of properties

All of the property projects developed to date by the Group are residential properties for sale. The properties we develop aim to meet the needs and demands of middle and upper-middle class income consumers who will be owner occupants.

## Management Discussion and Analysis

Agile Property has firmly established its brand name as a master community developer and our brand name has been well recognised by the market for our emphasis on the quality of our products and related property management services. Our outstanding market reputation has helped us achieve a customer referral rate of approximately 60.3%.

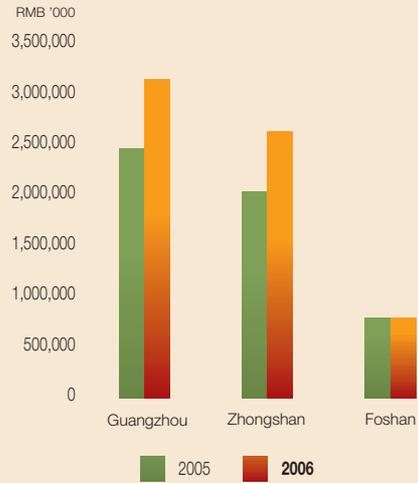
During the year under review, the Group completed and delivered properties amounting to a total GFA of approximately 1.07 million sq.m. with a total contracted sales revenue of approximately RMB6,544.7 million.

The following table sets forth the GFA sold and sales revenue of each project in 2006.

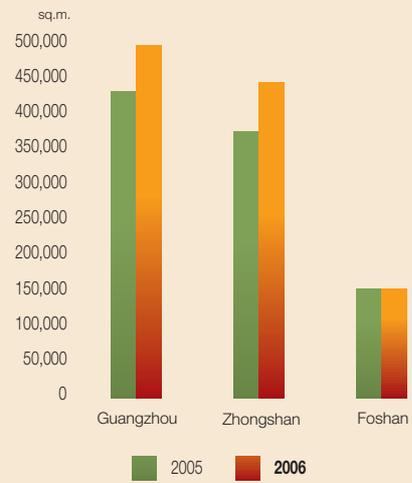
<b>Project</b>	<b>GFA</b> (sq.m.)	<b>Sales Revenue</b> (RMB'000)
<b>Guangzhou district</b>		
Agile Garden Guangzhou	215,200	1,351,799
South Lagoon Guangzhou	103,097	709,681
Royal Hillside Villa	13,061	161,882
Huadu Grand Garden	763	2,484
Huadu Flower Paris	90,584	344,592
Huadu Majestic Garden	55,359	441,392
Conghua Agile Binjiang Garden	16,059	128,363
	494,123	3,140,193
<b>Zhongshan district</b>		
Metro Agile Zhongshan	111,946	581,110
Metropolis	13,950	65,006
Majestic Garden	4,171	14,197
The Landmark	3,067	21,482
Grand Graden	14,065	71,372
Star Palace	85,230	358,958
The Riverside	31,784	187,614
La Cite Greenville	124,617	872,997
La Nobleu	35,452	449,851
	424,282	2,622,587
<b>Foshan district</b>		
Nanhai Majestic Garden	144,886	751,676
Nanhai Majestic Metropolis	5,698	30,250
	150,584	781,926
<b>Total</b>	<b>1,068,989</b>	<b>6,544,706</b>

## Management Discussion and Analysis

Sales revenue for the year of 2005 and 2006



Sales area for the year of 2005 and 2006



Grand opening of Conghua Agile Binjiang Garden



Miss Hong Kong 2006 at the grand opening of "Metro Agile Zhongshan"

## Property Management

It is our mission to provide quality property management services to our valued property tenants. We are committed to creating a warm and harmonious community by constantly improving the living environment and the quality of our services, and improving customer satisfaction.

In 2006, our property management services companies recorded property management fee income of RMB130 million, representing an increase of 34.6% over 2005. Agile Property added 8,384 new property owners and attended 102,000 service requests. Our round-the-clock property management services were extended to over 31,400 property owners. At as 31 December 2006, our property management services companies managed a total GFA of approximately 5 million sq.m. in mainland China.

According to our internal survey, the overall customer satisfaction rate for 2006 reached 98.8%.

## Decoration

As the Group's philosophy is offering "Value-for-Money to our customers", it is the long-term goal of our decoration services companies to ensure the quality of their products and materials for our property development business.

In 2006, our decoration services companies continued to exercise stringent control over the quality of products and materials at all stages of the process. The decoration services companies also strengthened the inspection of the environmental impact of materials, ensuring all materials meet environmental protection requirements.

For the purpose of maintaining the quality of the Group's property products, starting from the beginning of 2006, our decoration services companies only provide services for our Group companies.



## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Group finance

##### *Borrowings*

The Group will continue to adhere to our prudent financial policy.

At 31 December 2006, the Group's bank loans and senior notes denominated in US\$ payable were RMB2.31 billion and RMB3.05 billion (equivalent) respectively, and their repayment schedule is as follows:

Repayment schedule	2006 (RMB million)	2005 (RMB million)
<b>Bank loans</b>		
Within 1 year	651	508
Between 1 and 2 years	253	400
Between 2 and 5 years	1,410	378
	<b>2,314</b>	1,286
<b>Senior notes</b>		
Over 5 years	3,045	—
	<b>5,359</b>	1,286

The Group's bank borrowings of RMB2.14 billion as at 31 December 2006 are secured by the Group's land use right, completed properties held for sale and bank deposits with an aggregate carrying value of RMB892.3 million. The senior notes are jointly and severally guaranteed by certain subsidiary companies of the Group and by pledge of their shares. The net assets of these subsidiary companies were approximately RMB884.5 million as at 31 December 2006.

##### *Funds available*

At 31 December 2006, the Group's cash balance was approximately RMB5.2 billion. Together with the unutilized banking facilities of RMB700 million, the total funds available at 31 December 2006 amounted to approximately RMB5.9 billion. These capital resources and our stable financial structure provide a strong support for the Group to explore other best property development opportunities and accelerate its business expansion in China.

##### *Gearing*

The Group's net current assets at 31 December 2006 increased by 95% from 2005 to RMB9.18 billion, and the current ratio increased from 2.17 times in 2005 to 2.9 times in 2006. The net debt to equity ratio of the Group at 31 December 2006 was only 2.3%.

### Financing cost

During the year, the Group's total cost of borrowing was RMB186 million, representing an increase of RMB103 million over 2005. The increase was attributable to the interest incurred on the 9% senior notes issued in September 2006. The interest coverage ratio (calculated on the basis of gross interest charge over EBITDA) was 10.5 times.

### Currency

The proportion of each currency of the Group's bank borrowings, senior notes and cash balances is listed below:

	Bank borrowings	9% Senior notes	Cash balances
Hong Kong dollars	—	—	42%
US dollars	—	100%	28%
Renminbi	100%	—	30%
Total	100%	100%	100%

The Group conducts its business almost exclusively in Renminbi. Other than the 9% senior notes, which are denominated in US dollars, the Group does not have any other material direct exposure to foreign exchange fluctuations. In the event that the value of Renminbi appreciates, the Group would be indirectly affected, in that the costs of goods imported and the interest on and the repayment of the senior notes would decrease.

For the time being, Renminbi is not a freely exchangeable currency. The Chinese 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 declaring any dividend by the Group, and on paying interest on the senior notes or repayment of the senior notes, in Renminbi, when translating into foreign currencies.

However, the Group may be exposed to exchange risk when converting the Hong Kong dollar bank balances into Renminbi.

### Credit rating and senior notes

After receiving the credit ratings from Moody and Standard and Poor's respectively in July 2006, the Company successfully issued 7 year senior notes worth US\$400 million (equivalent to RMB3,168 million) at an interest rate of 9% per annum in September 2006, for the purpose of providing financial support for the Group's property development business and expansion. This debt market issuance affirms that the Group is capable of tapping the debt market through various types of instruments.

The Group's prudent financing strategy not only focused on lowering the funding costs but also on reducing the financial risk.

## Management Discussion and Analysis

### Contingent liabilities

The Group provides buy-back guarantees to banks which granted home mortgage facilities to buyers of the Group's properties in mainland China. At 31 December 2006, the outstanding buy-back guarantees amounted to RMB3.69 billion.

### Return on equity

Return on equity is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the year ended 31 December 2006.

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	<b>1,242,488</b>	978,693
Weighted average equity during the year (thousands)	<b>5,722,827</b>	4,504,209
Return on equity (%)	<b>21.7%</b>	21.7%

### Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	<b>1,242,488</b>	978,693
Weighted average number of ordinary shares in issue (thousands)	<b>3,502,903</b>	2,536,853
Basic earnings per share (RMB per share)	<b>0.355</b>	0.386

Diluted earnings per share equals to basic earnings per share as there were no potential dilutive shares in issue during the years ended 31 December 2006 and 2005.

### Commitments

At 31 December 2006, commitments in respect of the property development expenditures of the Group were approximately RMB1.2 billion (2005: RMB1.5 billion). The Group has also committed to paying the land premium on land acquisitions amounting to approximately RMB3.2 billion (2005: RMB0.8 billion).

### Human resources

The Group is led by an experienced and dedicated management team. The Board of Directors, who have led the Group through its rapid growth and expansion since its establishment in 1993, have an average of approximately 15 years of experience in the property development business. Other senior executives have an average of 8 years of experience in the field. The Group also retains talented people from overseas with professional qualifications to

augment its management team. Through management leadership, vision and drive, and its consistent effort to implement international best practices, the Group has become one of the market leaders within a short period of time. Most of the senior executives have been with the Company or its subsidiaries since their establishment.

We believe that the quality of the Group's human resources, particularly its senior executives and professional project management staff, are critical to its ability to compete effectively. The Group aims to achieve and exceed international standards of performance excellence by following international best practices for management processes and corporate governance.

As at 31 December 2006, the Group had a total of 4,728 employees, among which the Group's senior management accounted for 53 and middle management accounted for 456. By geographical location, there were 4,707 employees in mainland China and 21 in Hong Kong and Macau. Total staff costs, including directors' emoluments, for the year ended 31 December 2006 amounted to RMB189 million.

### **Major acquisitions**

One of the Group's key focus points in 2006 was the expansion of the land bank.

During the year, the Group made the following two acquisitions:

- Acquisition of a 99.5% equity interest in Huizhou Bailuhu Tour Enterprise Development Co., Ltd. ("Bailuhu"). Bailuhu was established for the development of a residential property project in Huizhou City of Guangdong Province.
- Acquisition of the entire equity interest in Shaanxi Haorui Real Estate Development Co., Ltd., a property development company with a residential property development project in Xi'an City of Shaanxi Province.

### **Management Focus in 2007**

Currently, the Group has secured a total land bank of approximately 22.52 million sq.m. of GFA in over 18 different districts in mainland China. Based on our planned development schedule, the land bank is sufficient for the Group's medium to long term development.

However, Agile Property management does not consider that the key value of a property developer rests solely on land bank expansion. We believe that the drivers for maximizing the company's value to our shareholders are also based on how we can roll out our development plan. Our efficiency and effectiveness in handling the higher volumes and productions of our land bank in more cities should be the most crucial factor in determining how successful we will be in the future.

## Management Discussion and Analysis

Therefore, the key management focus from 2007 onwards will be on the Group's operational and financial systems and quality of human resources. Agile Property management will fully review the existing business process and redesign it to enhance its efficiency and effectiveness. The Group is also in the process of implementing enterprise resource planning ("ERP") for its property development operations. This will manage, control and track all aspects of operation of the property development business. A complete re-engineering of our business process and the full implementation of the resource planning system is scheduled in 2008. The ERP system is expected to provide the Group with up-to-date information to determine optimal resource allocation in terms of financial planning and operations management.



*Management's operational analysis video conference*