

### Injection comes true, facilitates future development

➤ **Inject assets in Beijing and Chengdu.** CR Land announced yesterday that its parent (CRH) would inject 2 pieces of land into listed company. The assets include a 49% interest of Oak Bay in Beijing and a 100% interest of Twenty Four City in Chengdu. Total considerations are HK\$2,733m, representing an 11.9% discount of the valuation. CR Land will pay HK\$1,533m in cash and issue 186.1m new shares at HK\$6.448 per share to the parent. Furthermore, the parent still owns another three pieces of land in Hangzhou, Wuxi and Dalian and we expect they may be injected into listed co in 2H07.

➤ **Aggressively replenished land bank.** Besides the recent assets injection, CR Land acquired 5 pieces of land last three months. Two are in Chengdu and the other three are in Ningbo, Changsha and Suzhou. Total GFA is 2.6m sqm. After we consider the recent land replenishment and assets injection, CR Land's attributable land bank increases to 9.05m sqm, of which 539,530 sqm are investment properties.

➤ **Gearing ratio rises to 51.6% after the deal completes.** This acquisition is financed partly by cash (HK\$1,533m) and partly by new shares. Furthermore, the land acquisitions were also paid with cash. Thus, net gearing ratio would jump to 51.6% after the deal completes. However, book value per share will rise to HK\$3.25 from HK\$3.06 in Oct 06. The stake holding of CRH will also increase to 67.1% from previous 65.1%.

➤ **Earnings forecasts and NAV revise upwards.** Due to the assets injection, we adjust our earnings forecast upwards by 6.5% to HK\$835m in 2006 and 0.5% to HK\$915m in 2007. Furthermore, 2008 earnings will benefit from the assets injection. We revise earning forecast by 37% to HK\$2,042m in 2008. Our target price is HK\$7.5, representing 10% discount to NAV of HK\$8.32 per share. Upside potential is 11%. Maintain BUY.

HK\$1=RMB1.01

Samson Man, CFA  
 (852)-2532-1539  
 samson.man@firstshanghai.com.hk

Industry China Properties

Price HK\$ 6.79

Target price HK\$ 7.50  
 (+10.5%)

Stock code 1109

Market cap. HK\$21,279mn

O/S shares 3,134mn

52wk high/low HK\$ 6.79/2.475

NAV per share HK\$8.32

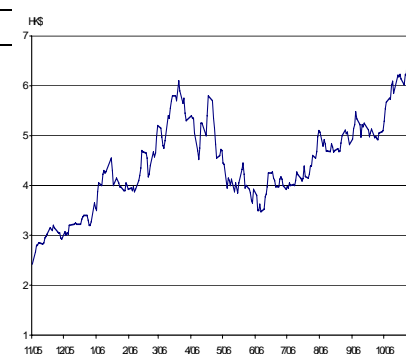
Major shareholder China Resources Holdings (65.1%)

### Earning Summary

Year-end 31 Dec	FY04A	FY05A	FY06E	FY07E	FY08E
Turnover (HK\$ m)	1,890	2,707	4,273	4,699	10,004
Growth (%)	51	43	58	10	113
Net Profit (HK\$ m)	21	385	835	915	2,042
Growth (%)	(73)	1,700	117	10	123
EPS (HK\$)	0.014	0.248	0.271	0.276	0.615
Growth (%)	(73)	1,643	9	2	123
PER (x)	477.7	27.4	25.1	24.6	11.0
DPS (HK\$)	0.030	0.033	0.040	0.050	0.060
Yield (%)	0.4	0.5	0.6	0.7	0.9

Source: Company information, FSSL

### Price Performance



Source: Bloomberg

## Assets Injection Comes True

Inject 2 pieces of land with total considerations of HK\$2.7 bn

China Resources Land (CR Land) announced yesterday that its parent (China Resources Holdings, CRH) would inject 2 pieces of land into the listed company. This transaction includes a 49% interest of Oak Bay in Beijing and a 100% interest of Twenty Four City in Chengdu. Total GFA of Oak Bay and Twenty Four City are 756,518 sqm and 2,634,514 sqm respectively. Total considerations are HK\$2,733.3m, representing a discount of 11.9% of the adjusted NAV of two assets. CR Land will pay HK\$1,533m in cash and issue 186.1m new shares at HK\$6.448 per share to CRH. After the completion, CRH will own 67.1% interest of CR Land, from previous 65.1% and the outstanding shares will be increased to 3,320m.

### The properties

One in Beijing and one in Chengdu

The acquisition consists of two development sites in Beijing and Chengdu. After the acquisition, the equity interest of Oak Bay project will be increased to 95.88% from 46.88% and Twenty Four City project will be 100% owned.

Oak Bay project

Oak Bay is located at Anningzhuang East Road, Haidian District, Beijing with a site area of 281,952 sqm. The project comprises apartment, retail shops, school, sports centre and basement car parks. Total GFA is 756,518 sqm. The proposed development will be carried out in phases with Phases A1 is currently under development and the remaining phases are currently in planning stages. The tentative completion date of the proposed development is in 2010.

Twenty Four City project

Twenty Four City is located at the junction of East 2<sup>nd</sup> Ring Road and Shuangqing Road, Chenghua district, Chengdu with a site area of 559,880 sqm. It comprises residential, commercial, school, mart, ancillary and basement car parks. Total GFA is 2,634,514 sqm. The proposed development is currently in planning stages and will be developed by phases. The tentative completion date for the entire project is in 2018.

Table 1: Assets Summary

Project	Oak Bay	Twenty Four City
Location	Beijing	Chengdu
% of equity interests to be acquired	49%	100%
<b>Total gross floor area (sqm)</b>	756,518	2,634,514
-Residential (sqm)	558,243	1,862,308
-Commercial (sqm)	94,614	184,389
-Composite (sqm)	22,420	56,164
-Car park (sqm)	81,240	531,653
<b>Estimated completion, sqm GFA</b>		
2007	95,686	-
2008	142,080	300,000
2009 and beyond	518,752	2,334,514
Property value (RMB)	2,233 m	1,996 m

Source: Company information

## CRH still owns 3 pieces of land

CRH owns another 3 pieces of land

After the injection, CRH still owns 3 pieces of land in Hangzhou, Wuxi and Dalian. We do not believe that further asset injection will be happened soon because CR Land may take time for digestion.

We speculate that next asset injection may happen in 2H07. On the one hand, CR Land will become more financial stable. On the other hand, the development stage of these projects is in the proper moment so that CR Land would harvest at the right time.

Table 2: CRH owns 1.4m sqm land bank

Location	Total GFA (sqm)	Interest (%)	Attributable GFA (sqm)	Attri. Land Cost (RMB m)	Av. Land Cost (RMB/sqm)
Hangzhou	550,000	60%	330,000	660.0	2,000
Wuxi	1,450,000	60%	870,000	1,506.0	1,736
Dalian	435,800	55%	239,690	647.4	2,701
<b>Total</b>	<b>2,435,800</b>		<b>1,439,690</b>	<b>2,813.4</b>	

Source: Company information

# Aggressive Land Replenishment

## Bought 2.6m sqm last 3 months

Bought the lands through bidding or auction

Besides the assets injection, CR Land also aggressively replenished its land bank last three months. The company purchased 5 pieces of land through bidding or auction in China. Two are in Chengdu and the other three are in Ningbo, Changsha and Suzhou. The newly increased GFA is 2.61m sqm.

Table 3: Latest land bank replenishment

Site	Total GFA (sqm)	Land price (RMB m)	AV (RMB/sqm)	Timing
Chengdu	640,000	893	1,395	Jul-06
Chengdu	205,000	284	1,385	Sep-06
Ningbo	324,767	713	2,195	Sep-06
Changsha	1,378,036	410	298	Oct-06
Suzhou	61,415	785	12,782	Oct-06

Source: Company information

Attributable land bank will be 9m sqm

After the completion of the deal, attributable land bank will surge by 50% to 9.05m sqm, of which 539,530 sqm belongs to investment properties.

Table 4: Key projects held by CR Land

	Completed for Sale (sqm)	Under Development (sqm)	Total GFA (Sqm)	Attributable GFA (sqm)
<b>Development Land Bank</b>				
-Beijing	164,065	1,440,147	1,604,212	1,347,968
-Shanghai	-	228,429	228,429	228,429
-Shenzhen	-	298,070	298,070	298,070
-Chengdu	10,696	4,482,257	4,492,953	4,492,953
-Wuhan	-	149,850	149,850	149,850
-Hefei	-	226,629	226,629	226,629
-Ningbo	-	324,767	324,767	324,767
-Changsha	-	1,378,036	1,378,036	1,378,036
-Suzhou	-	61,415	61,415	61,415
Sub-total:	174,761	8,589,600	8,764,361	8,508,117
<b>IP Land Bank</b>			<b>636,869</b>	<b>539,530</b>
<b>Total</b>			<b>9,401,230</b>	<b>9,047,647</b>

Source: Company information

# Financial Analysis

## Gearing increases post deal

Net gearing ratio jumps to 52% post deal

The acquisition is financed part by cash and partly by new shares. The split is 56.1% by cash and 43.9% by new shares. Net gearing ratio was 42.7% in Oct 2006. It is estimated that net gearing ratio will surge to 51.6% after the completion of acquisition. However, book value per share will rise to HK\$3.25 from HK\$3.06 because the new shares are issued at HK\$6.448 per share.

## Revise earnings and NAV

Due to the assets injection, we adjust our earnings forecast upwards by 6.5% to HK\$835m in 2006 and 0.5% to HK\$915m in 2007. Furthermore, 2008 earnings will benefit from the assets injection. We revise earning forecast by 37% to HK\$2,042m in 2008. Although CR Land will issue the new shares for acquisition, EPS dilution effect is insignificant as the new shares represent 5.6% of the enlarged capital.

Table 5: Earnings forecast revision

Fiscal Year	Net Profit (HK\$ m)		(%)	EPS (HK\$)		(%)
	Old	New	Change	Old	New	Change
2006E	784	835	6.5%	0.254	0.271	6.6%
2007E	911	915	0.5%	0.291	0.276	-5.2%
2008E	1,488	2,042	37.2%	0.475	0.615	29.5%

Source: FSSL

NAV is estimated to be HK\$8.32 per share

Due to the assets injection and change of the completion schedule, we revise our NAV estimation to HK\$8.32 per share from HK\$7.4 per share. Our target price is HK\$7.5, representing 10% discount to NAV. Upside potential is 11%. Maintain BUY.

Table 6: NAV estimation

NAV Estimation	(HK\$ m)	NAV per share (HK\$)	%
Properties under development	18,551	5.92	71%
-Beijing	5,677	1.81	22%
-Shanghai	1,761	0.56	7%
-Chengdu	5,548	1.77	21%
-Other	5,564	1.78	21%
Investment properties	10,089	3.22	39%
Gross amount	28,640	9.14	110%
Net debt as at 6/06	(2,558)	(0.82)	-10%
NAV	26,082	8.32	100%

Source: FSSL



**First Shanghai Securities Limited**

19/F Wing On House  
71 Des Voeux Road Central  
Hong Kong  
Tel: (852) 2522-2101  
Fax (852) 2810-6789

This publication is prepared by First Shanghai Securities Limited ("FSSL") and is intended for private circulation only. Any unauthorized use or disclosure is prohibited. This report is solely for information purposes only and does not constitute an offer, solicitation, representation or warranty with respect to the purchase or sale of any security. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. Neither this report nor anything contained in it shall form the basis of or relied upon in connection with any contract or commitment whatsoever. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, FSSL makes no representation as to its accuracy or completeness. Opinions expressed herein are subject to change without notice and may differ or be contrary to opinions expressed by other subsidiaries or affiliates of FSSL as a result of using different assumptions and criteria. Neither FSSL nor any officer or employee of FSSL accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents. FSSL and/or its affiliates may from time to time, perform investment, advisory or other services for companies mentioned herein.