Shanghai Forte 上海復地(2337)

Initial coverage

Buy

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Harmony Homes for Middle-class

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➢ **Middle class emerges in China.** We initiate the coverage for Forte. Forte's major base is in Shanghai. It is one of the leading developers in Shanghai city. The company mainly targets at middle class customers, which are the most affluent people in China. Forte mainly develops the properties projects in Shanghai sub-urban area. We believe Forte can take the advantage of the emerging of middle class. Forte owned the land bank of 5.5m sqm, that was sufficient for its 4 years development

➢ **Overseas partners work with Forte.** Overseas investors like to work with the local partner when they invest in China. Several overseas investors joined with Forte to participate into properties development projects. Furthermore, many institutional investors are the shareholders of Forte. As at 21 November, 2006, 7 major institutions owned 22.3% stake.

➢ **Robust earnings growth with a 26% CAGR for EPS in 2005-08.** Forte benefits from the expanded sales volume. We expect that net profit will surge by 28.0% to RMB 717m in 2006, and 47.9% to RMB 1,061m in 2007, then 15.0% to RMB 1,220m in 2008. It is estimated that Forte grow with a CAGR for EPS of 26.1% in 2005-08. Furthermore, financial position was improved after the shares placement in April 2006. We estimate that gearing ratio will further reduce to 30% at the end of 2006.

➢ **Attractive valuation.** We estimate that NAV of Forte is HK$4.29 per share by sum-of-the–parts method. Although the China property sector is trading at 4.6% premium to NAV, we believe implying a 10% discount for Forte is appropriate because most of Forte's assets expose to Shanghai. Our target price is HK$3.83, representing 13.4x 06E PE or 9.2x 07E PE. **BUY**

HK$1=RMB1.01

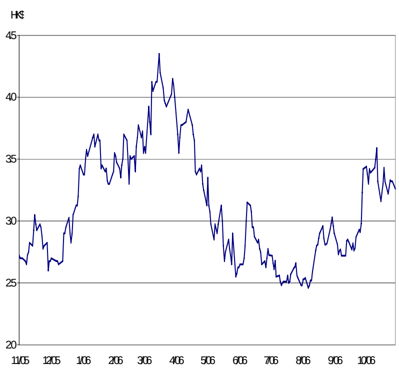
Industry	China Properties
Price	HK$ 3.28
Target price	HK$ 3.83 (+16.9%)
Stock code	2337
Market cap.	HK$8,296mn
O/S shares	2,529mn
52wk high/low	HK$ 4.45/2.405
NAV per share	HK$4.29
Major shareholder	Fosun Pharmaceutical (47%) Fosun Industrial (11%)

Earning Summary

Year-end 31 Dec	FY04A	FY05A	FY06E	FY07E	FY08E
Turnover (RMB m)	1,826	2,026	3,285	5,574	6,721
Growth (%)	(16)	11	62	70	21
Net Profit (RMB m)	450	561	717	1,061	1,220
Growth (%)	0	25	28	48	15
EPS (RMB)	0.210	0.241	0.289	0.419	0.482
Growth (%)	(31)	14	20	45	15
PER (x)	15.7	13.8	11.5	7.9	6.9
DPS (RMB)	0.120	0.110	0.120	0.180	0.220
Yield (%)	3.7	3.4	3.6	5.4	6.6

Source: Company information, FSSL

Price Performance



Source: Bloomberg

First Shanghai Securities Limited
www.mystockhk.com

Target at Middle Class Customers

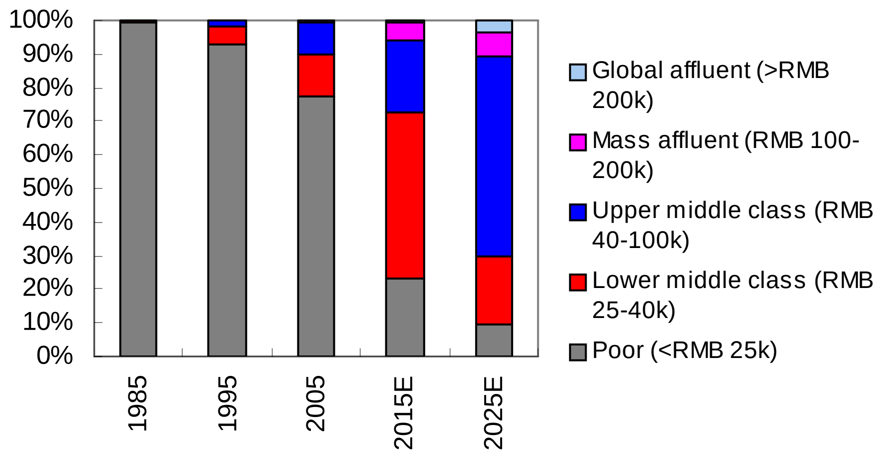
Forte builds the house for Chinese middle class

Forte started the business as a sales and marketing agency in 1993. Then, the company participated in property development project in Shanghai in 1994. Now, it is a major property developer in Shanghai. Working with the philosophy of "For Better Living", Forte mainly develops high-quality properties projects, especially targets at mid-end customers. The selling prices of its properties are mainly lie between RMB 4,000-8,000 per sqm. Within this price range, the properties built by Forte are totally fit for the middle class families in China.

McKinsey studies shows that middle class in China is the most affluent group

According to McKinsey & Co., Chinese middle class is the most affluent group in China and their spending habit should be studied. Currently, 70% of urban Chinese households earn less than RMB 25,000 a year and McKinsey & Co predicts that this percentage will drop to 10% by 2025. Upper middle class (household annual income within RMB 40–100k) and lower middle class (household annual income within RMB 25-40k) will represent 59.4% and 19.8% of total urban households in China by 2025, compared with 9.4% and 12.6% by 2005, respectively. By then, urban Chinese households will become one of the largest consumer markets in the world, spending RMB 20 trillion annually.

Figure 1: Share of Chinese Urban households



Source: McKinsey & Co

Spending in housing grows robustly in China

Furthermore, spending in housing and utilities will be the fastest growing category in China amongst eight major spending habits. Since private ownership of housing had emerged recently and government subsidies for housing had been reduced, Chinese households will spend more of their income for rental and mortgage installment. It is expected that the money spent on housing would reach 16.6% of household budget by 2025, compared with 9.3% by 2004.

Table 1: For Urban Chinese Household Spending Habit

Product category	2004 Consumption (RMB bn)	2025 Consumption (RMB bn)	2004-25 CAGR
Food	1,223	4,786	6.7%
Recreation, education	507	3,415	9.5%
Transportation, communication	452	2,920	9.3%
Apparel	369	1,322	6.3%
Housing, utilities	321	3,313	11.8%
Health care	257	2,582	11.6%
Household products	223	857	6.6%
Personal products	119	771	9.3%

Source: McKinsey & Co

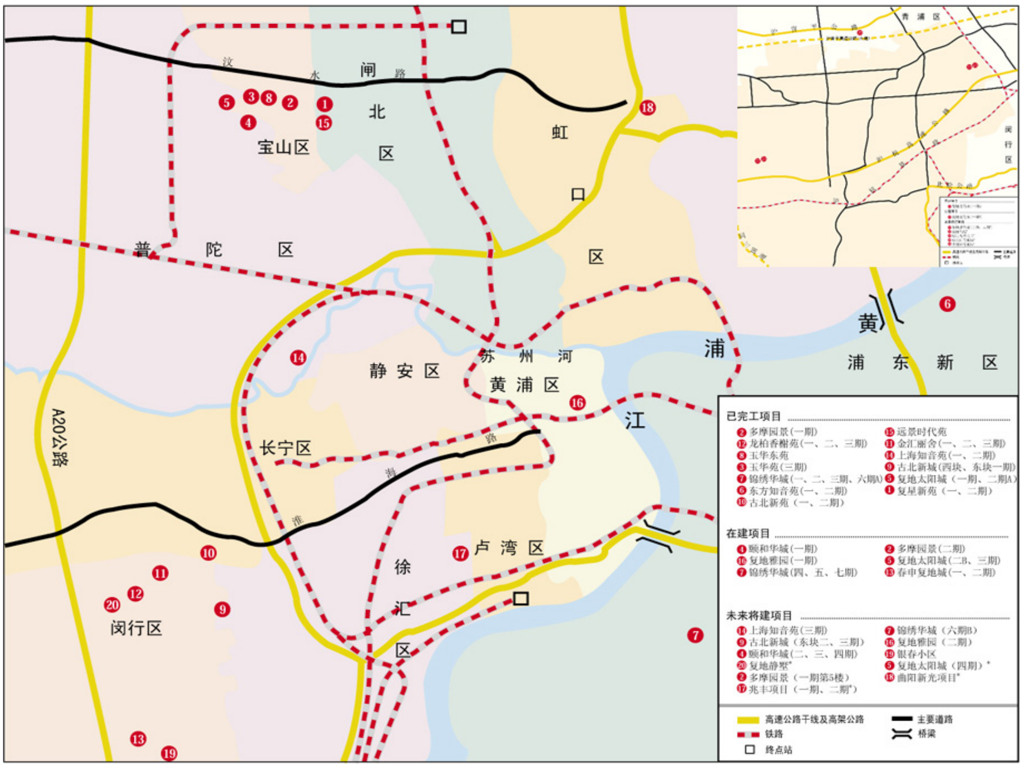
Develop Shanghai sub-urban areas

Land bank for 4 years

Except for the projects of Forte Elegant Garden and Forte International, all the projects in Shanghai are located outside Inner Ring area. Since the selling prices of properties in non-Inner Ring area are less expansive than that in Inner Ring area, we believe that the cheaper property price would meet the demand for the general public, especially for the middle class. Furthermore, high-quality products have created the values for Forte's customers and these match the standard of new middle class in China.

Generally speaking, the selling prices of Forte's sub-urban projects in Shanghai lie between RMB 6,000 per sqm and RMB 20,000 per sqm, which is based on the product type, from apartment to villa. In addition, we believe that construction of transportation system in Shanghai, especially subway, would shorten the traffic time between sub-urban and urban areas and in turn enhance the value of sub-urban properties.

Figure 2: Forte's Projects in Shanghai



Source: Company Information

Penetrate into other second tier cities

Explore 1-2 second-tier markets

Besides Shanghai, Forte had also entered the markets of Wuhan, Chongqing, Wuxi, Beijing, Nanjing, Tianjin and Haikou. In the future, the company is looking for expansion into 1-2 new second tier cities in China but it all depends on the opportunities. In fact, penetration into other cities would diversify the risk of over-investment in Shanghai city.

Enter Hangzhou market recently

In October 2006, Forte announced that the company started to explore Hangzhou market. It acquired four pieces of adjacent land in Hangzhou. Total site area is 190,888 sqm and GFA is 420,170 sqm. The company will invest about RMB 2 bn in Hangzhou project.

Land bank for 4 years

Amounted to 5.5m sqm

Forte acquired the new land bank of Shanghai Baoshan Steel Logistics Service Base project through purchasing the interest of project company in 1H06. Total GFA for this project amounts to 262,800 sqm. As at 30 June 2006, total GFA owned by Forte amounted to 5.5m sqm and it is sufficient for next four to five years development.

On the other hand, the company may consider acquiring other developers with land resources in order to strengthen its land bank portfolio. Although China property market consolidated after the recent austerity measures, we agree that it is a right timing for the financial sound companies to replenish their land banks so that they can take the advantage of low land cost.

Table 2: Land Bank – Total GFA (sqm): as at 30/6/06

			Under construction		Not yet construct	
	Before interest attributed	After interest attributed	Before interest attributed	After interest attributed	Before interest attributed	After interest attributed
Shanghai	1,886,927	1,294,497	805,651	526,403	1,081,276	768,094
Nanjing	1,542,681	627,735	172,741	83,825	1,369,940	543,910
Wuxi	529,220	264,611	94,685	47,343	434,535	217,268
Wuhan	118,775	71,265	118,775	71,265	0	0
Chongqing	790,000	789,605	143,844	143,772	646,156	645,833
Beijing	379,716	344,492	291,990	258,551	87,726	85,941
Tianjin	151,600	151,266	0	0	151,600	151,266
Haikou	133,437	132,658	0	0	133,437	132,658
	5,532,356	3,676,129	1,627,686	1,131,159	3,904,670	2,544,970

Source: Company information

Chen Liangyu event over-shadows short-term sentiment

Downfall of Chen Liangyu

Former Shanghai CCP Secretary, Chen Liangyu, stepped down

Recently, Chen Liangyu, former Shanghai China's Communist Party Secretary, is under investigation for corruption related probe. The investigation focused on the misuse of social security fund and the confiscation of the land. Chen was removed from the post of Shanghai party chief and Han Zhang, Shanghai Mayor, was appointed as acting party chief.

Chen step down was related to the embezzlement of pension funds. More than 100 officers from Beijing went to Shanghai to investigate the case. The scandal became public in August 2006 when Zhu Junyi, head of Shanghai's social security bureau, was arrested for taking bribes and embezzling RMB 3.2 bn.

Uncertain short-term outlook

Shanghai property market is cloudy temporally

We believe that Shanghai property policy would be cloudy in the short term as the political uncertainty in Shanghai. The political decision-making will be slow down until new municipal government is appointed by the Central Government. Furthermore, we are afraid that new Shanghai government will implement a stricter rule to monitor and control the market, which in turn affects the market sentiment. In fact, most of the property buyers in Shanghai stood at the sideline, even it was the "Golden September and Silver October" period. However, we believe the extent of policy enforcement should be moderate as new Shanghai government would change the previous loose attitude and follow the Central Government's instruction.

Brilliant future

We are optimistic in the long run

Although the latest property sentiment in Shanghai becomes lukewarm, we are confident to its future. First of all, Shanghai is a gateway to China. Many mainland and overseas businessmen would meet in Shanghai. Thus, this results in a strong demand of residential market in Shanghai. Secondly, a clear land policy would benefit the developers as transparency environment can avoid the chance of mismanagement or corruption. Furthermore, acquisition timing and cost can be accountable and reduced. Thus, the operating risk can be reduced.

Overall speaking, we think that the risk of Chen Liangyu event to Forte is minimal. It is because majority of Forte's projects are located in the sub-urban area. So the chance of corruption is reduced because there are ample lands in the sub-urban area. So the competition of bidding land in sub-urban area is mild. Furthermore, its construction does not involve many resettlement issues because its sites are in the sub-urban or rural areas. Then, the chance of corruption is also reduced.

Work with Overseas Partners

Large amount of FDI flows into China

Many foreign enterprises like to invest in China. In 2005, foreign direct investment (FDI) in China reached US$60.3bn in 2005. Although the latest austerity measures slowed down the growth, there are still large amount of overseas investment flowing into China. According to National Bureau of Statistics of China, FDI amounted to US$42.59bn in the first nine months of 2006.

Oversea investors jointly develop the projects

Join hand with overseas investors

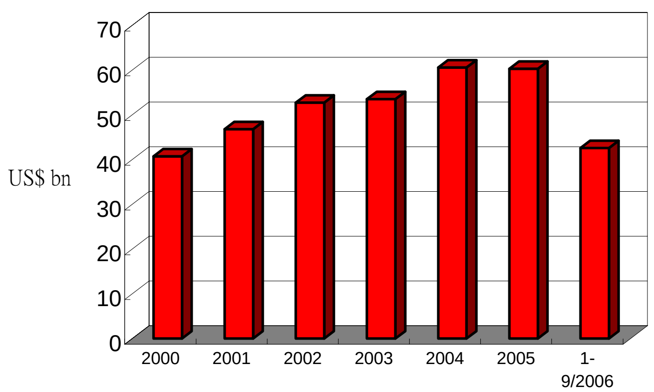
Many overseas investors want to have local partners jointly explore China property market. On the other hand, Forte also likes to have overseas partners so that it will reduce part of the financial burden and diversify the risk. Forte had commenced to invest the property projects with a Dutch institution since 2004. Recently, Forte also worked with a Canadian institution and a U.S. institution to develop the property projects in Wuxi and Tianjin in January 2006 and September 2006 respectively.

High transparency with institutional shareholders

Institutions own 22.3% interest

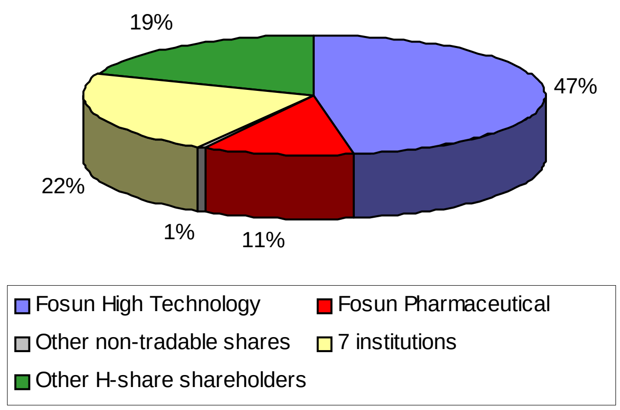
We believe that the benefits of working with the overseas institutions include not only risk diversification or lowering the financial burden, but also enhancing the corporate governance. Furthermore, overseas investors are interested not only in Forte's development projects, but also like to be its shareholders. According to the information from Hong Kong Stock Exchange as at 21 November, 2006, seven institution investors were the substantial shareholders of Forte. They owned totally 564.4m or 22.3% of outstanding shares.

Figure 3: Foreign Direct Investment in China



Source: National Bureau of Statistics of China

Figure 4: Shareholders Structure



Source: Hong Kong Stock Exchange

Financial Analysis

Strong top-line growth

Driven by the strong housing demand from Chinese middle class, Forte is expected to have a robust earning growth in 2006-08. We expect the completed GFA will increase from 847,204 sqm in 2006 to 1,027,109 sqm in 2007, and then further rise to 1,362,095 sqm in 2008, representing a CAGR of 26.8% in 2006-08.

Property development is the major income source

Since property development represents about 98% of Forte's gross amount of revenue, booming of property development business triggers the strong top-line growth. We expect revenue will surge 62% to RMB 3,285m in 2006, 70% to RMB 5,574m in 2007 and 21% to RMB 6,721m in 2008.

Table 3: Revenue Breakdown

(RMB m)	2004	2005	2006E	2007E	2008E
Property development	1,855.0	2,105.8	3,446.8	5,887.7	7,105.8
Property investment	0.0	0.0	0.0	0.0	0.0
Other	92.2	74.7	70.0	80.0	90.0
Less: Business tax	(121.3)	(154.1)	(232.1)	(393.9)	(474.9)
Total revenue	1,825.9	2,026.4	3,284.7	5,573.8	6,720.9

Source: Company information, FSSL

Smooth selling process, clear visibility

80% and 38% of projects completed in 2006 & 2007 were pre-sold

Although Shanghai property market remained silently in 3Q06, Forte had a good record for its pre-sales process due to the reputable brand name. As at 30 June 2006, Forte pre-sold 680,736 sqm and 384,678 sqm for the projects completed in 2006 and 2007 respectively, that representing 80.4% and 37.5% of GFA completion in the corresponding periods. The successful pre-sales not only lock in the profit in advance, but also enhance the cash flow, which in turn improve the financial position.

Margins unavoidably narrow, but profits still up

Margins are under pressure

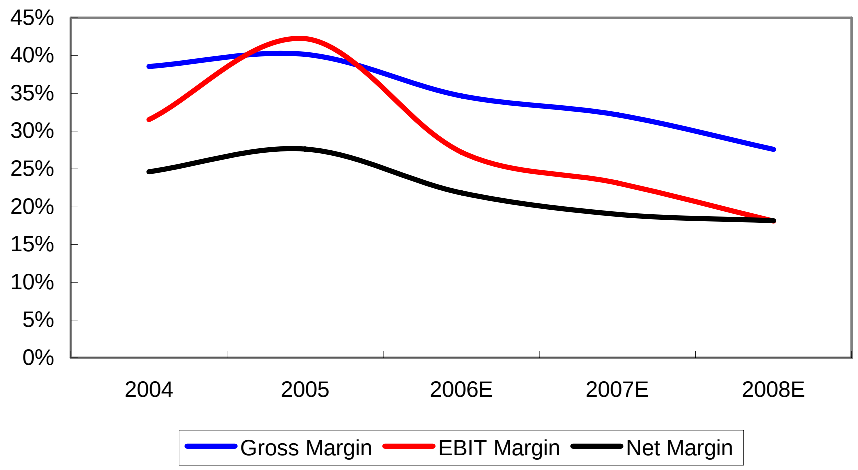
As the cheaper land bank that purchased in the trough exhausted, it is unavoidable to have the margin squeezing. We expect gross margin will edge downwards to 34.7% in 2006 from 40.2% in 2005, and further narrow to 32.2% and 27.6% in 2007 and 2008 respectively.

The company recorded a net profit of RMB 281.7m in 1H06, down 16.2% yoy. It is because of the asymmetric of projects completion. In 1H06, six projects with a GFA of 434,973 sqm

CAGR for EPS of 26% in 2005-08

Although the profit margin is narrowed, Forte benefits from the expanded sales volume so that profit growth can be sustained. We project that net profit will soar by 34.7% to RMB 717m in 2006, then by 47.9% to RMB 1,061m and 15.0% to RMB 1,220m in 2007 and 2008 respectively. Therefore, Forte is estimated to have a CAGR for EPS of 26.1% in 2005-08.

Figure 5: Margin Analysis



Source: Company information, FSSL

Gearing improves after shares placement

Forte proceeded a share placement in April 2006. The company issued 175.9m new H shares to investors at HK$3.95 per share. Net proceeds from placing amounted to HK$684.4m and were used for development of Forte's property projects.

Gearing ratio fell below 30% in 2006

Net gearing ratio was 41.9% at the end of 2005. Since the share placement enlarged the share capital base, net gearing ratio is estimated to reduce to 29.7% at the end of 2006.

Cash on hand amounted to RMB 1,826m as at June 2006 mainly because of the shares placement in April 2006. We project that cash on hand would increase to RMB 2,327m at the end of 2006. The sound financial status would enhance Forte's long-term growth as the company can replenish the land bank in the downturn period.

Valuation

NAV valuation method is appropriate

Although the earning growth of Forte is expected to be robust in 2006-08, we prefer to use discount to NAV valuation method, rather than PE ratio because we are afraid that delay of properties completed in one to two months would distort the earnings.

NAV is HK$4.29 per share

Using sum-of-the-parts valuation method, NAV of Forte is estimated to be HK$4.29 per share. Although the China property sector is trading at 4.6% premium to NAV, we believe implying a 10% discount for Forte is appropriate as the majority of Forte's projects are concentrated in Shanghai. Thus, our target price is HK$3.83, representing 13.4x 06E PE or 9.2x 07E PE, which are below the market average.

Table 4: NAV estimation

	(HK$ m)	NAV per share (HK$)	% of NAV	Remark
Properties under development	12,038	4.76	111.0%	DCF with WACC 13.6%
Investment properties	354	0.14	3.3%	10x 08 PE
Gross Amount	12,392	4.90	114.3%	
Less: Net debt	(1,548)	(0.61)	-14.3%	As at June 2006
NAV	10,844	4.29	100.0%	
No. of shares (m)	2,529			
NAV per share (HK$)	4.29			

Source: FSSL

Table 5: Peer Group Comparison

Company	Ticker	Price* (HK$)	Market Cap (HK$ m)	06E PE	07E PE	06E P/B	06E ROE	NAV (HK$)	Discount to NAV
China Overseas Land	688 HK	7.63	53,178	21.4	18.1	4.40	16.7%	6.2	23.3%
Hopson	754 HK	17.4	22,361	13.6	9.0	3.73	27.5%	19.3	-10.0%
Agile	3383 HK	6.85	23,737	18.0	13.0	5.33	29.2%	7.3	-6.2%
Shanghai Forte	2337 HK	3.28	8,296	11.4	7.8	1.94	16.7%	4.3	-23.5%
Guangzhou R&F	2777 HK	14.28	46,015	17.6	13.4	8.36	46.9%	13.2	8.2%
Beijing Capital Land	2868 HK	3.65	6,263	21.5	9.8	2.42	11.3%	4.3	-15.8%
Beijing North Star	588 HK	3.22	17,356	21.0	20.6	1.18	5.6%	3.2	0.6%
China Resources Land	1109 HK	7.26	22,765	34.2	26.3	2.37	6.7%	8.3	-12.7%
Shanghai Real Estate	1207 HK	2.69	5,064	10.9	8.0	2.81	25.8%	3.2	-14.6%
Shimao	813 HK	11.9	36,472	17.9	14.2	5.29	29.9%	9.70	22.7%
Greentown	3900 HK	11.8	15,899	9.2	8.6	3.89	36.7%	14.0	-15.7%
Weighted Average			257,406	19.1	15.0				4.6%

Source: FSSL
* Share price as at 21/11/06

Risk

Interest Rate Risk. Due to the huge inflow of Foreign Direct Investment and robust growth of M2 in China, it is expected that China will raise its interest rate again after 0.27% hike in August 2006. Thus, it may affect the market sentiment and increase Greentown's interest expense.

Further austerity measures. Chinese Government had introduced several measures to control the property market recently, such as issue rules on foreign people investing China properties, set up regional bureaus monitoring land sales and enforce a 20% capital gain tax for property trading. We are afraid that further administrative policy would seriously dampen the market sentiment. Furthermore, we are afraid that Shanghai municipal government would introduce a stricter rule in the property market. That may affect the sentiment in Shanghai.

Appreciation of RMB. After China widened trading band in July 2005, RMB was appreciating past 12 months. Now, it is trading at US$1 to RMB 7.87, compared with RMB 8.09 before liberalization. Since majority of Forte's assets are in China, appreciation of RMB would bring positive effect to Forte's valuation.

New accounting rule for investment properties valuation. HKAS 40 "Investment Property" states that the company should use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognized directly in the profit or loss for the period in which they arise. Thus, it may be result in the volatility in the earnings forecast of the properties companies. However, this kind of uncertainty does not result in any effect to the cash flow and NAV valuation method because it is a non-cash item.

Global economy slowdown. US recently has announced that its GDP growth slowed down to 1.6% in 3Q06, compared with 2.6% in 2Q06. If oil price rebounds in the winter, it may result in global economy slowdown. Then, China economy will suffer and in turn adversely affect Mainland property market.

Table 6: Completion schedule

Project	Location	Interest	Saleable GFA (sqm)	Attributable GFA (sqm)	Selling Price (RMB/sqm)	Cost (RMB/sqm)	Gross Margin
In FY06							
Forte Allen Poem 2A	Shanghai	100%	56,920	56,732	11,000	6,500	40.9%
Forte Emerald Riverside	Shanghai	100%	37,372	37,331	5,200	3,200	38.5%
Forte Sunny City Phase 2B	Shanghai	98%	13,448	13,179	9,600	5,800	39.6%
Forte Elegant Garden Phase 1	Shanghai	88%	14,978	13,179	17,500	10,500	40.0%
Villa Espana Extilo De Vida Phase 1/	Shanghai	55%	32,733	18,003	6,800	4,200	38.2%
Silver Spring Garden Phase 1	Shanghai	100%	88,622	88,330	7,500	4,500	40.0%
Peking House Phase 1A	Beijing	98%	28,000	27,516	17,500	10,500	40.0%
Forte Cui Wei New City 1	Wuhan	60%	82,208	49,325	3,600	2,200	38.9%
Forte Cui Wei New City 2	Wuhan	60%	89,165	53,499	3,600	2,200	38.9%
CQ Jinyuntiancheng Phase 1	Chongqing	100%	27,000	26,987	2,800	1,800	35.7%
Graceful Oasis	Shanghai	40%	168,786	67,514	8,300	5,000	39.8%
Spring Town Phase 1A	Beijing	30%	65,912	19,774	6,300	3,600	42.9%
Spring Town Phase 1B	Beijing	30%	23,810	7,143	5,000	3,600	28.0%
Nanjing Graceful Oasis	Nanjing	38%	70,214	26,681	3,000	1,800	40.0%
Forte New City Phase 1A	Wuxi	50%	20,472	10,236	3,500	2,000	42.9%
Other		100%	27,564	27,564	6,000	3,600	40.0%
			847,204	542,992			
In FY07							
Villa Espana Extile De Vida Phase 1/	Shanghai	55%	68,898	37,894	7,000	4,500	35.7%
Forte Elegant Garden Phase 2	Shanghai	88%	23,241	20,450	18,000	11,500	36.1%
Forte Fucheng	Shanghai	75%	120,000	90,000	14,000	9,000	35.7%
Silver Spring Phase 1	Shanghai	100%	16,677	16,622	7,500	4,800	36.0%
Forte Emerald Riverside	Shanghai	100%	6,754	6,747	5,200	3,200	38.5%
Other	Shanghai	100%	5,424	5,424	6,000	3,600	40.0%
Forte Cui Wei New City 2A & 2B	Wuhan	60%	31,496	18,898	3,600	2,400	33.3%
Forte Ronchamp Villa Phase 2	Nanjing	100%	29,486	29,389	5,000	3,200	36.0%
CQ Jinyuntiancheng Phase 1	Chongqing	100%	96,068	96,020	3,200	2,000	37.5%
Peking House Phase 1A & 2A	Beijing	98%	99,213	97,497	17,500	10,800	38.3%
Value Stream Phase 1	Beijing	100%	44,713	44,494	15,000	9,000	40.0%
Forte Innateness Phase 1	Beijing	96%	15,465	14,846	9,000	5,800	35.6%
GuBei New City Phase 2	Shanghai	50%	60,612	30,306	12,000	7,500	37.5%
Yi He Hua Cheng 3A & 4	Shanghai	50%	100,992	50,496	8,000	5,000	37.5%
Shanghai Baoshan Steel Logistics	Shanghai	50%	120,000	60,000	7,500	4,800	36.0%
Nanjing Graceful Oasis 1C	Nanjing	38%	54,600	20,748	3,000	1,800	40.0%
Forte New City Phase 1A & 2A	Wuxi	50%	53,951	26,976	3,500	2,000	42.9%
Spring Town Phase 1B	Beijing	30%	19,519	5,856	6,000	4,000	33.3%
Beiyang Building	Tianjin	100%	60,000	59,868		5,164	
			1,027,109	732,529			
In FY08							
Forte Fucheng	Shanghai	75%	24,375	18,281	14,000	9,000	35.7%
Villa Espana Extilo De Vida Phase 1	Shanghai	55%	50,671	27,869	7,000	4,500	35.7%
Fudun Phase A	Shanghai	100%	132,597	132,451	16,000	12,000	25.0%
Forte Domo City Phase 1 #5	Shanghai	60%	3,905	2,343	6,000	3,500	41.7%
Silver Spring Garden Phase 2	Shanghai	100%	178,843	178,253	8,000	5,000	37.5%
Forte Allen Poem 2B	Shanghai	100%	16,543	16,488	12,500	7,500	40.0%
Gaofu	Shanghai	60%	99,165	59,499	8,000	5,500	31.3%
Peking House Phase	Beijing	98%	28,814	28,316	17,500	10,800	38.3%
Value Stream Phase 1	Beijing	100%	5,000	4,976	15,000	9,000	40.0%
Forte Innateness Phase 1	Beijing	96%	25,870	24,835	9,000	5,800	35.6%
CQ Jinyuntiancheng Phase 1	Chongqing	100%	47,776	47,752	3,500	2,000	42.9%
Forte Cui Wei New City 2A & 2B	Wuhan	60%	87,280	52,368	3,600	2,400	33.3%
Forte Ronchamp Villa Phase 3B	Nanjing	100%	37,835	37,710	6,000	3,800	36.7%
Xinshijie Building	Haikou	100%	69,677	69,538	4,500	3,000	33.3%
Yi He Hua Cheng 3 & 4	Shanghai	50%	46,935	23,468	8,000	5,000	37.5%
Shanghai Baoshan Steel Logistics	Shanghai	50%	30,013	15,007	7,500	4,800	36.0%
GuBei New City Phase 3	Shanghai	50%	31,630	15,815	14,000	8,000	42.9%
Zhaofeng Phase 1	Shanghai	45%	120,698	54,314	25,000	18,000	28.0%
Nanjing Graceful Oasis 1C	Nanjing	38%	53,953	20,502	3,000	1,800	40.0%
Nanjing Graceful Oasis Riverside Ga	Nanjing	38%	53,953	20,502	3,000	1,800	40.0%
Forte New City Phase 1A & 2A	Wuxi	50%	14,688	7,344	3,500	2,000	42.9%
Baoshan Steel Logistics Services Ba	Shanghai	50%	110,874	55,437	8,000	5,000	37.5%
Beiyang Building	Tianjin	100%	91,000	90,800		5,164	
			1,362,095	1,003,867			

Source: Company information, FSSL

Financial Summary

Income statement						Key statistics and ratios					
Year end Dec 31 (RMB m)	**2004**	**2005**	**2006E**	**2007E**	**2008E**	**Year end Dec 31**	**2004**	**2005**	**2006E**	**2007E**	**2008E**
Turnover	**1,826**	**2,026**	**3,285**	**5,574**	**6,721**	**Growth (%)**					
COSG	(1,121)	(1,213)	(2,146)	(3,780)	(4,865)	Turnover	(16)	11	62	70	21
Gross profit	**704**	**814**	**1,138**	**1,794**	**1,855**	Operating profit	(0)	49	4	44	(6)
Other revenue	45	307	141	150	149	Net profit	0	25	28	48	15
SGA	(74)	(135)	(200)	(340)	(410)	EPS	(31)	14	20	45	15
Operating profit	**576**	**856**	**895**	**1,292**	**1,218**	**Margins (%)**					
Interest expenses	(6)	(0)	(3)	(6)	(12)	Gross profit	39	40	35	32	28
Associated	139	3	234	395	692	Operating profit	32	42	27	23	18
Exceptional items	0	0	0	0	0	Net Profit	25	28	22	19	18
Pre-tax profit	**709**	**859**	**1,126**	**1,681**	**1,898**	**Others (%)**					
Tax	(169)	(190)	(338)	(504)	(569)	Effective tax rate	24	22	30	30	30
After-tax profit	**541**	**669**	**788**	**1,176**	**1,329**	Payout ratio	0	0	42	43	46
Minority interest	(91)	(108)	(71)	(116)	(109)	ROE	16	16	17	22	22
Net profit	**450**	**561**	**717**	**1,061**	**1,220**	ROA	7	6	6	8	9
Core earnings	450	561	717	1,061	1,220	**Valuation**					
Dividends	(274)	(259)	(562)	(455)	(556)	P/Sales (x)	3.9	3.8	2.5	1.5	1.2
Retained earnings	**176**	**302**	**156**	**605**	**663**	PE (x)	15.7	13.8	11.5	7.9	6.9
						P/B (x)	2.7	2.3	2.0	1.7	1.5
EPS (RMB)	**0.210**	**0.241**	**0.289**	**0.419**	**0.482**	P/Cash flow (x)	N.A.	N.A.	N.A.	10.8	10.6
DPS (RMB)	**0.120**	**0.110**	**0.120**	**0.180**	**0.220**	Dividend yield (%)	3.7	3.4	3.6	5.4	6.6

Balance sheet						Cash flow statement					
Year end Dec 31 (RMB m)	**2004**	**2005**	**2006E**	**2007E**	**2008E**	**Year end Dec 31 (RMB m)**	**2004**	**2005**	**2006E**	**2007E**	**2008E**
Cash & deposits	1,038	923	2,327	2,359	2,235	Operating Profit	576	856	895	1,292	1,218
Trade debtors	858	388	400	450	500	Depreciation	5	6	7	9	10
Inventories	2,747	5,450	5,750	6,000	6,400	Change in wc	(1,560)	(991)	(783)	(100)	(200)
Other current assets	33	54	30	40	48	Taxation	(280)	(352)	(337)	(497)	(561)
Intangible assets	27	32	0	0	0	Others	816	(1,062)	109	71	322
Other LT assets	1,540	2,702	2,825	3,228	3,530	**CF from Operation**	**(444)**	**(1,543)**	**(109)**	**774**	**789**
Associated	542	391	420	450	500						
Fixed assets	31	37	45	50	58	Capex	(55)	(171)	(15)	(14)	(18)
Total assets	**6,814**	**9,977**	**11,797**	**12,577**	**13,271**	Associated investments	(88)	154	(29)	(30)	(50)
						Others	5	2	20	(13)	(10)
ST debt	718	528	800	900	800	**CF from Investing**	**(138)**	**(15)**	**(24)**	**(57)**	**(78)**
Trade creditors	1,360	2,271	1,800	2,000	2,250						
Other current liabilities	1,674	1,372	1,560	1,710	1,860	Equity raised	1,698	430	705	0	0
LT borrowings	140	1,833	2,800	2,500	2,200	Change of Debts	(414)	1,333	1,239	(200)	(400)
Deferred taxation	0	219	230	240	250	Dividend paid	(159)	(319)	(400)	(500)	(455)
Other LT liabilities	0	0	0	0	0	Others	27	0	(8)	15	20
Total liabilities	**3,892**	**6,223**	**7,190**	**7,350**	**7,360**	**CF from Financing**	**1,152**	**1,443**	**1,537**	**(685)**	**(835)**
S'holders' funds	**2,747**	**3,432**	**4,292**	**4,897**	**5,561**	**Change in Cash**	**570**	**(115)**	**1,404**	**32**	**(125)**
Minorities	175	323	315	330	350	FX Change	0	0	0	0	0
Total	**6,814**	**9,977**	**11,797**	**12,577**	**13,271**	Cash at the beginning	468	1,038	923	2,327	2,359
						Cash at the end	1,038	923	2,327	2,359	2,235
Net gearing	**Net Cash**	**42**	**30**	**21**	**14**	Adj: OD or others	0	0	0	0	0
BVPS (RMB)	**1.24**	**1.46**	**1.70**	**1.94**	**2.20**	Cash at BS	1,038	923	2,327	2,359	2,235

Source: Company information, FSSL

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