

Analyst: Sabina Cheng

CHEUNG KONG (HOLDINGS) LIMITED (長江實業)

Sector	: Property developer	Chairman	: Dr. Li Ka-shing
HKSE Code	: 0001	Managing Director	: Li Tzar Kuoi, Victor
Market Price	: HK\$110.10 (27/03/2008)		
HIS	: 22,664.221 (27/03/2008)		
Shares Issued	: 2,316.16 million		
Mkt. Cap.	: HK\$255,009.6 million		
52 weeks Hi/ Lo	: HK\$159.50/HK\$94.35		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007	FY2006	Change
	HK\$ million	HK\$ million	
• Turnover	15,442	15,346	0.63%
• Share of net profit of jointly controlled entities	1,697	1,673	1.43%
• Increase in fair value of investment properties	1,815	1,936	-6.25%
• Operating profit	13,487	9,281	45.32%
• Share of net profit of associates	15,682	10,211	53.58%
• Net profit	27,678	18,075	53.13%
	HK\$	HK\$	
• EPS- Basic	11.95	7.80	53.21%
• DPS- Final	1.95	1.74	12.07%
• DPS- Total	2.45	2.20	11.36%

- Cheung Kong (Holdings) ("CKH") reported a better than expected FY07 profit, largely driven by a sharp rise in investment gains and increased property sales. Earnings, including contributions from subsidiary Hutchison Whampoa (0013), climbed 53.13% to HK\$27.678 billion (2006: HK\$18.075 billion), beating an average of HK\$26.01 billion from a Thomson Financial survey of 17 brokers.
- The Group recorded revaluation gains on investment properties totalling HK\$1.815 billion in FY2007 versus HK\$1.936 billion in FY2006.
- EPS rose by 53.21% y-o-y to HK\$11.95 and a final dividend of HK\$1.95 per share, up 12.07% y-o-y, was proposed. Payout ratio was 21% in FY07, decreased from 28% in FY06.
- Total borrowings of the Group stood at HK\$36.5 billion as at 31st Dec 2007 (31st Dec 2006: HK\$38.5 billion). Gearing ratio was 13.6% at 31st Dec 2007 (31st Dec 2006: 17.3%).

Breakdown of operating profits (including share of results of jointly controlled entities)

(HK\$ million)	12 months ended 31 st December				Change
	2007	%	2006	%	
Property sales	5,630	75.06	5,583	80.10	0.84%
Property rental	1,231	16.41	936	13.43	31.52%
Hotel and serviced suites	545	7.27	367	5.27	48.50%
Property and project management	95	1.27	84	1.21	13.10%
Total	7,501	100.00	6,970	100.0	7.62%

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.

Business Highlights – Cheung Kong (Holdings) LimitedProperties sales

- Turnover from property sales, including share of sales from jointly controlled associates, decreased 2.83% y-o-y to HK\$13.406 billion in FY07 (2006: HK\$13.796 billion). Contributors mainly included the sale of residential units of 3 property projects completed in FY07, the Legend at Jardine's Lookout and Crystal Cove of Caribbean Coast in Hong Kong and Costa del Sol in Singapore, as well as the sale of residential units of property projects completed during the year, including Central Park Towers Phase 1, The Apex, Le Point and Sausalito in Hong Kong and Regency Park Phase VI in the Mainland, of which approx. 57% of these completed units have been sold and recognised as of the year end date.
- Operating profit from properties sales was HK\$5.630 billion (up 0.84% y-o-y) with margin increased from 40.5% in FY06 to 42.0% on selling more luxury flats.
- As of mid-March 2008, most of the remaining completed residential units of Central Park Towers Phase 1, The Apex, Le Point, Sausalito and those of CASA 880 and The Capitol scheduled for completion have been sold or presold.

Property rental

- Turnover of property rental registered a 26.92% y-o-y increase to HK\$792 million (2006: HK\$624 million). Contribution from property rental (including share of results of jointly controlled entities) totalled HK\$1.231 billion, up 31.52% y-o-y. The increase was attributable to the Group's acquisition of the commercial portion of Metro Town in Hong Kong last year and increases in rental rates. The Group's existing investment properties comprise mainly retail shopping malls and commercial office properties in Hong Kong, which accounted for approximately 30% and 44% respectively of the turnover of the Group's property rental for the year.

Hotel operation

- Driven by higher occupancy and room rates on rising numbers of visitors, profit contribution from hotel operation jumped 48.50% y-o-y to HK\$545 million. The Harbourview Horizon All-Suite Hotel and the Harbourfront Horizon All-Suite Hotel have just commenced operation. Contribution from jointly controlled entities increased further from last year as Harbour Plaza Metropolis, The Kowloon Hotel in Hong Kong and Grand Hyatt Beijing in the Mainland all reported good operating results. The Apex Horizon was completed in the 2H2007 and will soon commence operation. Furthermore, The Harbour Grand, of which the Group has a joint development interest, is scheduled for completion next year. Both hotels are located in Hong Kong and will make contribution to profit in the coming years.

Outlook & Prospects

- **Hong Kong properties** Given limited new land supply and projected undersupply of residential units in Hong Kong in the coming years, CKH is in a favourable position with the biggest residential land bank, targeting the mass residential segment. The recent sale-out of The Capitol suggested that CKH's focus on volume sale, which appeared to be a flexible strategy amid the uncertain global economic environments.
- **Mainland properties** CKH has 92 million sq. ft. of land bank in 15 regions in China, and it is expected that going forward, its China earnings could further scale up from its current 19% of the total property earnings.
- **Hutchison** Given its larger customer base and strict cost controls, Hutchison's 3G business narrowed its losses to HK\$17.94 billion from HK\$20 billion a year earlier. EBITDA was HK\$1.19 billion after deducting customer acquisition costs, compared with a loss of HK\$7.4 billion a year ago, which is a positive sign. However, Hutchison's 3G operation is still suffering from the burden of heavy depreciation and amortisation expenses of about HK\$30 billion every year.
- **Valuation** The counter is now trading at a NAV discount of 23%. Given CKH's robust financial position and in particular its strong source of RMB from its port operations, we see the Group can expand its land bank for further growth in the PRC easier than that of many other developers amid the Mainland's financing tightening.

Recommendation: Buy

Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.