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**HANG LUNG PROPERTIES LIMITED** (恆隆地產)

Sector	: Property developer	Chairman	: Ronnie C. Chan
HKSE Code	: 0101	Executive director	: Terry S. Ng
Market Price	: HK\$30.40 (20/02/2008)		
HSI	: 23,590.58 (20/02/2008)		
Shares Issued	: 4,144.292 million		
Mkt. Cap.	: HK\$125,986.4 million		
52 weeks Hi/Lo	: HK\$39.35/HK\$18.80		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007**
**Final Results Highlights**

	1H FY07/08 HK\$ million	1H FY06/07 HK\$ million	Change
• Turnover	7,792.0	1,961.0	297.35%
• Operating profit	4,773.0	1,255.6	280.14%
• Increase in fair value of investment properties	4,577.6	2,183.7	109.63%
• Share of profits of jointly controlled entities	55.2	35.8	54.19%
• <b>Attributable profit</b>	<b>7,272.0</b>	<b>2,286.4</b>	<b>218.05%</b>
• <b>Underlying net profit</b>	<b>3,775.0</b>	<b>860.7</b>	<b>338.60%</b>
	<u>HK\$</u>	<u>HK\$</u>	
• EPS- Basic	1.76	0.59	198.31%
• EPS- Diluted	1.74	0.59	194.92%
• DPS- Interim	0.15	0.13	15.38%

- Hang Lung Properties Limited (“HLP”) reported an interim profit of HK\$7.272 billion for the six months ended 31<sup>st</sup> December 2007, compared with HK\$2.286 billion a year earlier, mainly due to the revaluation gain in investment properties, the timely disposal of the residential properties and the stellar growth in leasing activities both in Hong Kong and Shanghai. Excluding the gain on revaluation of investment properties and related tax, underlying net profit surged by 339% to HK\$3.775 billion, beating market forecast of HK\$3.5 billion.
- Turnover vaulted by 297.35% y-o-y to HK\$7.792 billion in 1H FY07/08 from HK\$1.961 billion a year earlier, as revenue from property sales surged 1,032.93% y-o-y. The Group reported a revaluation gain of HK\$4.578 billion on its investment properties portfolio, mainly because of the booking of second office tower at Plaza 66, which was completed in December 2006 in Shanghai.
- EPS was HK\$1.76, against HK\$0.59 a year earlier. The Group declared an interim dividend of HK\$0.15 per share, which was unchanged from a year earlier. It led to a fall in payout ratio to 8.5% from 21.9% in 1H FY06/07.
- As of 31<sup>st</sup> December 2007, the Group held a net cash position of HK\$1 billion.

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## Business highlights

- **Breakdown of turnover and operating profit**

HK\$ million	Turnover					Operating profit		
	1H FY07/08	%	1H FY06/07	%	Change	1H FY07/08	1H FY06/07	Change
Property sales	6,010.2	77.1	530.5	27.1	1,032.93%	3,323.9	109.2	2,943.86%
Property leasing	1,781.8	22.9	1,430.5	72.9	24.56%	1,441.1	1,134.6	27.01%
Total	7,792.0	100.0	1,961.0	100.0				

- Revenue from **property sales** jumped by 1,032.93% y-o-y to HK\$6,010.2 million in 1H FY07/08, as the Group received overwhelming response from the market on its inventory. During the period, it sold over 768 units, with 605 units from The Long Beach, 109 units from The HarbourSide and 54 units from the AquaMarine. Average prices of The Long Beach and The HarbourSide were about HK\$7,100 and HK\$16,300 per square feet respectively. Profit margin for the segment jumped to 55.3% in 1H FY07/08, compared with 20.6% a year earlier.
- The **property leasing** segment booked a 24.56% y-o-y rise in revenue to HK\$1.781 billion in 1H FY07/08 thanks to a 57% y-o-y surge in rental income from its property investment (there was new contribution from the Plaza 66- Office Tower II which accounted for HK\$127 million during the same period) in Shanghai as well as an 11% increase in rental income in Hong Kong. Profit margin for property leasing in Hong Kong remained at 81% and that in Shanghai edged up 4 percentage points to 80%. Overall profit margin for this segment increased to 80.9% from 79.3% a year earlier. The proportion of rental profit from Shanghai to total rental profit increased to 37% from 29% in the same period last year.

## Outlook & Prospects

- **Relatively high level of inventory.** In Hong Kong, the company will release its inventory units over the next two to three years. As of 31<sup>st</sup> December 2007, Hang Lung Property got unsold inventory of 2,040 flats, which included, 1,224 units from The Long Beach, 767 units from The HarbourSide, 38 units from AquaMarine and 13 units from Carmel-on-the-Hill. This accounted for the 67%, 68%, 2% and 7% of the respective projects. In the near-term, however, after they have sold out all the inventory units, the sustainability of such high property sales growth should be depended on the Group's new projects. Yet, at present the Group does not have new projects in the pipeline.
- **Attractive future growth in new commercial properties in China.** The company has a land bank of 15 million square feet in Jinan, Shenyang, Tianjin and Wuxi, with the first shopping centre scheduled for completion after 2010. It also aims to invest RMB40 billion by next year to build 18 shopping centres on the mainland.
- **Seeking for new investment opportunities.** As at end of 1H FY08, HLP had a net cash position of HK\$1 billion. This should allow it to capture more new investment opportunities in the near future.
- **High estimation on FY07/08 earnings.** It was reported in the Thomson Financial survey, 17 brokers had estimated that HLP's full-year earnings for FY07/08 would increase 180.18% y-o-y to HK\$5.73 billion.

## **Recommendation: Defensive play**

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