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HONG KONG RESEARCH
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CHINA OVERSEAS LAND & INVESTMENT LTD. (中國海外發展)

Sector	:	Real Estate	Chairman & Chief Executive	:	Kong Qingping
HKSE Code	:	0688			
Market Price	:	HK$11.56 (20/03/2008)			
HSI	:	21,108.221 (20/03/2008)	Vice Chairman	:	Hao Jian Min
Shares Issued	:	7,745.349 million			Xiao Xiao
Mkt. Cap.	:	HK$89,536.24 million			
52 weeks Hi/ Lo	:	HK$21.00/HK$9.35			

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

Final Results Highlights

	FY2007 HK$ million	FY2006 HK$ million	Change
• Turnover	16,632	10,910	*52.45%*
• Operating profit	7,102	3,421	*107.60%*
• **Increase in fair value of investment properties**	**443**	**205**	***115.76%***
• Share of profits from associates and jointly controlled entities	358	427	*-16.02%*
• Finance costs	(501)	(361)	*38.58%*
• **Net profit**	**4,180**	**2,371**	*76.30%*
	HK$	HK$	
• EPS – Basic	0.569	0.355	*60.28%*
• DPS - Final	0.07	0.06	*16.67%*
• DPS – Total	0.12	0.10	*20.00%*

- China Overseas Land & Investment ("COLI") posted a 76.30% y-o-y increase in net profit to HK$4.18 billion for the year ended 31st Dec 2007. The results were above market consensus.
- Turnover increased 52.45% to HK$16.63 billion, with PRC Property Development business making up the greatest proportion of about 74% of the turnover. Business in the PRC contributed 80% of the turnover.
- PRC Property Development contributed HK$4.821 billion in operating profit, an increase of 80% and accounts for about 68% of total operating income of HK$7.102 billion. Gross profit margin increased to 45.1% (2006: 34.4%).
- Increase in fair value of investment properties amounted to HK$443 million (net of deferred tax amounts to HK$319 million).
- During the year, newly acquired property land reserve added GFA 8.85 million sq.m. for development. GFA of properties for short term and under development increased by 55% to 23.6 million sq.m. (15.2 million sq.m. in 2006).
- In August 2007, COLI issued another bonus warrants to its shareholders, which if exercised in full will raise HK$7.69 billion equity fund to the Group. As at 31st Dec 2007, HK$4.54 billion was raised, of which HK$3.85 billion was coming from the Company's controlling shareholder China Overseas Holdings Limited.

- Net gearing of COLI was down to 30% at 31st Dec 2007 (vs. 34% as at 31st December 2006) due to HK$6.06 billion equity fund raised by exercise of bonus warrants and increase in proceeds from sales of development properties. As at 31st Dec 2007, the company had cash on hand of about HK$8.57 billion, bank loans of HK$14.17 billion and guaranteed notes payable of about HK$2.33 billion. Together with unutilized banking facilities of about HK$5.44 billion, COLI had about HK$14.01 billion financial resources available.
- Finance cost amounted at HK$501 million, up 38.58% y-o-y.
- EPS rose 60.28% y-o-y to HK$0.569 and a final dividend of HK$0.07 per share (16.67% higher y-o-y) was proposed. Payout ratio was 21.09% in FY 2007, decreasing from 28.17% in FY 2006.

Business Highlights

Breakdown of core operating profit (pre-revaluation gain) from continuing operations

	Year ended 31st December				
(HK$ million)	**2007**	**%**	**2006**	**%**	***Change***
Property Development	6,528	87.45	2,694	80.20	*142.31 %*
Property Investment	550	7.37	294	8.74	*87.45 %*
Infrastructure	19	0.25	14	0.41	*34.98 %*
Other Operations	421	5.64	378	11.25	*11.46 %*
Intragroup Eliminations	(53)	-0.71	(20)	-0.59	*164.20 %*
Total	7,465	100.00	3,359	100.00	*122.23 %*

Property development

- The Group achieved another record sale of HK$22.30 billion in 2007 (including a share of sales in syndicated projects), an increase of 57.2% from 2006. Total GFA of properties sold was 2.16 million sq. m., an increase of 25.3% over 2006.
- Total sales of properties in China remained robust, amounting to HK$21.83 billion, an increase of 70.7% y-o-y; GFA sold was 2.15 million sq. m, representing an increase of 29.0% from 2006.
- 24 projects were completed in China for occupation during FY2007 with total GFA of these projects amounted to 1.65 million sq. m. of which 73.2% of which has been sold out by the end of 2007 and raised HK$11.02 billion. 340,000 sq. m. of properties held for sale were sold at approximately HK$4.69 billion. At the end of 2007, properties held for sale remained at a low level of 620,000 sq.m.

Property Investment

- The Group has 100,000 sq. m. of investment properties. The total rental income for the period was HK$124 million, representing an increase of 18.7% from 2006. The results from this segment amounted to HK$550 million which included an increase in fair value of properties of HK$443 million. Operating profit was HK$105 million, representing an increase of 21.5% as compared with 2006.

Outlook & Prospects

- ***Aggressive land bank acquisition*** The Chairman, Mr Kong said the Group would target an annual net profit increase of over 20% this year. Meanwhile, COLI would replenish its land bank by 4.5 million sq.m. on top of its existing 21.76 million sq.m. In the first two months of FY2008, COLI acquired 6 sites in 5 cities with an attributable gross floor area of 1.43 million sq.m.
- ***Half of the 2008E earnings have been locked in*** Up to 15th March 2008, COLI has already achieved sales of RMB4.3 billion, implying around 16% of its 2008E sales target being secured. Together with around RMB 9 billion sales in 2007 that will be booked in 2008E, which implies that around 50% of 2008E earnings have already been locked in.
- ***Valuation*** The counter is now trading at FY2008 16X PE, which seems expensive compared with its peers like R&F's 11X PE. Given that COLI's strong balance sheet, high cash flow generating capability with moderate gearing level of 30%, we recommend to accumulate this nationwide developer on weakness.

Recommendation: Buy on weakness

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