

Analyst: Kelvin Li

Main Board Listing – Research

China Properties Group Ltd. [Stock Code: 1838] 中國地產集團有限公司

Sole global coordinator, sole bookrunner : Merrill Lynch International
Joint sponsors : Merrill Lynch Far East Cazenove Asia
Joint lead managers : Merrill Lynch International Cazenove Asia
Sector : Real Estate
Business : Real Estate development

<p>Total share offer: <u>450,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 45,000,000 shares (10%)</p> <p>Placing: 405,000,000 shares (90%)</p> <p>Greenshoe: 67,500,000 shares</p>	<p><u>Business of China Property Group</u></p> <p>China Property is a property development company in the PRC focusing on developing large-scale residential and commercial projects in prime locations. The company focuses on large-scale theme residential projects and upscale theme shopping street developments. Current property projects consist of Shanghai Cannes and Concord City.</p> <p>Shanghai Cannes is a four-phase residential and retail community in the Minhang district of Shanghai with a total GFA of about 2 million sq. m. As of 30 September 2006, China Property sold and pre-sold 99.6%, 94.1%, 92.4% and 27.3% of the total GFA at the residential units in Phase I, II, III and IV, respectively.</p> <p>Concord City is an integrated retail, residential and commercial project in Nanjing Road in Shanghai – one of the most premium shopping streets in Shanghai. Total GFA is about 409,000 sq. m.</p> <p>China Property intends to achieve a diverse mix of properties for sale and investment and to partner with property management companies and secure anchor tenants. The Group aims to acquire land use rights through private transactions and focus on pre-sale of properties.</p>
<p>Price: HK\$3.50– HK\$4.70 per share</p> <p>Market Cap: HK\$6,300 – HK\$8,460 million</p> <p>FY05 basic PER: 31.8X – 42.7X</p> <p>Adjusted NTA per share: HK\$4.81 – HK\$5.10</p> <p>Staffing: 497</p>	
<p>HK Public Offer period: 9th February 07 – 14th February 07 noon</p> <p>Receiving bank: Hang Seng Bank Bank of China (HK)</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 23rd February 2007</p>	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Hillwealth Holdings Limited (wholly owned by Mr. Wong Sai Chung, the Managing Director) 75.0%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,456.3 million to HK\$1,978.8 million. *(Being the offer price range of HK\$3.50-4.70 per share and assuming the over-allotment option is not exercised)*

	HK\$ million
For the development of Concord City	160 – 300
For the development of Shanghai Cannes	85 -150
For the settlement in full the amount due to the loan note issued to Indopark (a wholly owned indirect subsidiary of Merrill Lynch & Co. Inc.)	429
For repayment of short-term loan from Wing Hang Bank	332.9
For the acquisition and development of future projects, which may include the projects with an option to acquire an interest	340 – 600
For working capital purposes	109.4 – 166.9

Financial Highlights

HK\$ million	Year ended 31 st December			Nine months ended 30 th Sep
	2003	2004	2005	2006
Revenue	536.5	252.7	1,248.3	839.6
Gross profit	215.6	91.3	394.6	404.3
Changes in fair value of investment properties	1,971.0	1,854.1	(21.3)	56.4
Operating profit	2,149.6	1,873.1	329.0	410.8
Net profit	713.4	1,137.4	137.9	215.9
Net profit excluding changes in fair value of investment properties and the related tax effect	82.7	(14.0)	159.6	178.2
Gross margin	40.19%	36.14%	31.61%	48.15%
Net margin*	15.41%	-5.54%	12.79%	21.22%

* excluding changes in fair value of investment properties and the related tax effect

Breakdown of turnover

HK\$ million	Year ended 31 st December						Nine months ended 30 th Sep	
	2003	%	2004	%	2005	%	2006	%
Sales of properties	512.6	95.5	234.0	92.6	1,227.2	98.3	813.8	96.9
Property rental income	18.9	3.5	12.6	5.0	14.6	1.2	16.9	2.0
Property management income	5.0	0.9	6.2	2.4	6.6	0.5	8.9	1.1
Total	536.5		252.7		1,248.3		839.6	

Strengths/Opportunities

- ✓ **Prime location and featured design** Both of the two existing projects are located in prime strategic locations in Shanghai. Shanghai Cannes is located in Minhang district, a fast-growing suburban residential area in Shanghai. Concord City is located on Nanjing West Road of Jingan District, one of the prime shopping streets in Shanghai.
- ✓ **Design of the projects are relatively innovative** The Group incorporated different themes into the design of properties. For example, themes like “hill-top”, “islands” and “lakeside” themes were used in the design of Shanghai Cannes. Shanghai Cannes was awarded the title of “Shanghai No. 1 Housing Development” by the Hong Kong Property Journal in 2002. Such an approach may differentiate the Group from its peers.

Weaknesses/Threats



- × **A history of privatization draws concern** China Property is led by the same group of senior management of Concord Land Development and Pacific Concord Holdings. Pacific Concord was listed on the SEHK from October 1987 to October 2003. Concord Land Development was a subsidiary of Pacific Concord whose shares were listed on the SEHK from November 1996 to May 2001. Mr. Wong Sai Chung, the Managing Director of China Property, was the ultimate controlling shareholder of both Pacific Concord and Concord Land. These 2 previously Hong Kong listed companies were privatized at 77.88% and 55.39% discount to their respective NAV despite the independent financial advisor's view that the privatization offers were "not fair and reasonable" to the interests of the independent shareholders in both occasions.

China Property's current core projects – Shanghai Cannes and Concord City were part of the projects of the Concord Land and Pacific Concord group at the time of their respective privatizations. Mr. Wong will remain the controlling shareholder (through the ownership of Hillwealth) of China Property and continue to have interests in other companies outside China Property that are engaged in property development. Although there is adequate disclosure in the Prospectus and a non-compete undertaking, such a track record draws concerns over management quality.

- × **Further land bank expansion through exercise of Options** China Property currently has about 1.3 million sq. m. GFA available for sale/lease and under development. This amount is on the low side relatively to other HK-listed Chinese property developers who have anywhere from 2 to 23.3 million sq. m. GFA. China Property has been granted 3 options that enable it to acquire 3 projects from Mr. Wong Sai Chung. Although the 3 sites are at strategic locations, there are uncertainties with the relocation and vacation of current occupants of the site. The independent non-executive directors have the power to decide whether to exercise the options to acquire the projects.
- × Under the PRC regulations, any land that has been left vacant without development for more than 2 years after receiving the land use rights may be withdrawn by the land authorities. A charge of up to 20% of the land premium may be imposed. China Property acquired certain parcels of land for Concord City in 1992 and 1994, but failed to complete the required proportion of the project as laid out in the land grant contracts. China Property did not meet those requirements and land use rights for those parcels of land may be subject to withdrawal or revocation by the government. However, China Property has paid up the land premium and obtained the land use rights and has applied but pending for the final government approval for implementing the development plan and construction of the project. The profit attributable to those parcels of land at the Concord City has been material relative to the total net profit during the track record period.
- × China Property did not give any profit forecast for FY06.

Recommendation: Unattractive



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