

Equity Research  
Asia/Pacific

China

Property

## China Resources Land

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Resuming Coverage

August 25, 2005

*A New Lease of Life*

STOCK RATING	OVERWEIGHT
Price (August 24, 2005)	HK\$1.64
Price Target	HK\$2.10
52-Week Range	HK\$2.05-0.95

Stock ratings are relative to the relevant MSCI country index.

MSCI COUNTRY	CHINA
Asia Strategist's Recommended Weight	8.1%
MSCI Asia/Pac All Country Ex Jp Weight	7.2%

- **Resuming coverage with an Overweight rating; price target implies 30% upside**  
The stock price seems to be implying considerable risk, trading at a sizable discount to peers on a 56% discount to NAV and P/BV of 0.6 and P/E of 7.3. This is in contrast to our view that a fundamental turnaround is in sight. Our price target is based on a 45% discount to our estimated current NAV and 9 times forward earnings or PEG of 0.23.
- **Earnings re-rating looks imminent**  
We expect 40% EPS CAGR in 2004–07, driven by improved profitability, increased production volume and the end of bad debt provisioning. Portfolio diversification in second-line cities underpins earnings visibility. Upcoming results should provide concrete evidence of the start of a turnaround.
- **Catalysts and risks**  
Solid interim earnings and likely positive earnings revisions should underpin near-term share performance. Management execution, which we think was disappointing previously, appears an important driver for longer-term upside. The biggest threat to operating fundamentals remains the possibility of government policy changes.
- **We have an In-Line view of the China Property industry**  
Decent earnings momentum is being offset by regulatory risks and changing expectations among consumers.

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FY ending Dec 31:	2004	2005e	2006e	2007e
Modelware EPS (HK\$)	0.14	0.15	0.23	0.28
EPS Adj. for Consensus (HK\$)	0.10	0.16	0.23	0.28
Revenue (HK\$ m)	2,409	3,238	3,224	4,178
Net Income (HK\$ m)	150	234	339	414
P/E	16.4	10.5	7.3	6.0
P/E Rel. to (local index) (%)	1.1	0.8	0.5	NA
Dividend Yield (%)	1.8	2.8	4.1	5.0
Market Cap (US\$ m; HK\$ m)	317; 2465	NAV/share (HK\$)		3.76
Enterprise Value (HK\$ m)	4,679	Discount to NAV (%)		56%
Net Debt/Equity (12/04)(%)	54%	Local Market Index (MSCI China)		28.703
Return on Equity (12/04)(%)	3.6%	MSCI Country Weight (%)		0.15
Shares Outstanding (m)	1,503			

e = Morgan Stanley Research estimates

Please see explanation of Morgan Stanley ModelWare initiative later in this report

## CR Land: Financial Summary

HK\$ Millions; Years Ending December 31

## Balance Sheets

	2004	2005E	2006E	2007E
<b>Fixed Assets</b>				
Land & Buildings	863	1,519	1,856	2,177
Plant & Fixtures	9	16	20	23
Associates	694	958	978	1,000
Other Investments	557	314	314	314
<b>Current Assets</b>				
Stock	4,780	4,833	4,781	5,383
Debtors	906	542	781	949
Deposits & Prepays	37	918	1,321	1,606
Listed Securities	226	226	226	226
Cash & Deposits	1,536	473	744	524
<b>Sub-Total</b>	<b>7,484</b>	<b>6,992</b>	<b>7,852</b>	<b>8,689</b>
<b>Total Assets</b>	<b>9,608</b>	<b>9,800</b>	<b>11,021</b>	<b>12,203</b>
<b>Financed By:</b>				
<b>Current Liabilities</b>				
Short-Term Debt	1,937	601	1,231	1,937
Creditors	827	1,147	1,543	1,823
Taxation	-	94	172	205
Proposed Dividend	-	70	102	124
<b>Sub-Total</b>	<b>2,764</b>	<b>1,913</b>	<b>3,048</b>	<b>4,090</b>
Minorities	898	962	1,039	1,120
L/T Borrowings	1,813	2,628	2,400	2,169
Other Deferred Liabs	45	45	45	45
Share Capital	150	150	150	150
Reserves	3,938	4,102	4,340	4,629
<b>Shareholders' Funds</b>	<b>4,089</b>	<b>4,252</b>	<b>4,490</b>	<b>4,779</b>
<b>Capital Employed</b>	<b>6,844</b>	<b>7,887</b>	<b>7,974</b>	<b>8,113</b>
Commitments				
Contracted	-	-	-	-
Not Contracted	-	-	-	-
Contingent Liabs	-	-	-	-
Issued Shares	1,503	1,503	1,503	1,503

## Profit and Loss Accounts

	2004	2005E	2006E	2007E
<b>Turnover</b>	<b>2,409</b>	<b>3,238</b>	<b>3,224</b>	<b>4,178</b>
Share of Associates	20	20	21	21
Pretax Profits	188	392	589	700
After Charging				
Interest	103	95	107	121
Less Capitalized Int.	75	65	73	82
Depreciation	22	36	59	76
After Crediting				
Net Rentals	4	5	5	6
Interest Received	16	5	8	5
Investment Income	3	3	3	3
Tax	(81)	(94)	(172)	(205)
Minorities	43	(64)	(77)	(81)
Exceptionals	(117)	(50)	-	-
<b>Net Profit</b>	<b>150</b>	<b>234</b>	<b>339</b>	<b>414</b>
Extraordinaries	-	-	-	-
Dividends	41	70	102	124
Retained Profit	110	164	238	290

## Cash Flow Statements

	2004	2005E	2006E	2007E
Op Profit before Tax	188	392	589	700
Depreciation & Amortization	22	36	59	76
Other Non-Cash Adjustments	(67)	(94)	(172)	(205)
Changes In Work Cap	(264)	214	517	(120)
Cash Fr Operations	(122)	548	992	450
Disposal Of Fixed Assets	0	-	-	-
Cap. Expenditures/Prop Add	(2)	(1,000)	(1,000)	(1,000)
Decrease In Investments	-	-	-	-
Increase In Investments	-	-	-	-
Other Investing Activities	(27)	(20)	(21)	(21)
Cash Fr Investing Activities	(29)	(1,020)	(1,021)	(1,021)
Dividends Paid	(41)	(70)	(102)	(124)
Inc(Dec) In St Borrowings	-	(1,336)	630	706
Increase In Lt Borrowings	338	815	(228)	(231)
Increase In Capital Stocks	-	-	-	-
Decrease In Capital Stocks	-	-	-	-
Other Financing Activities	(0)	-	-	-
Cash Fr Financing Activities	297	(591)	300	352

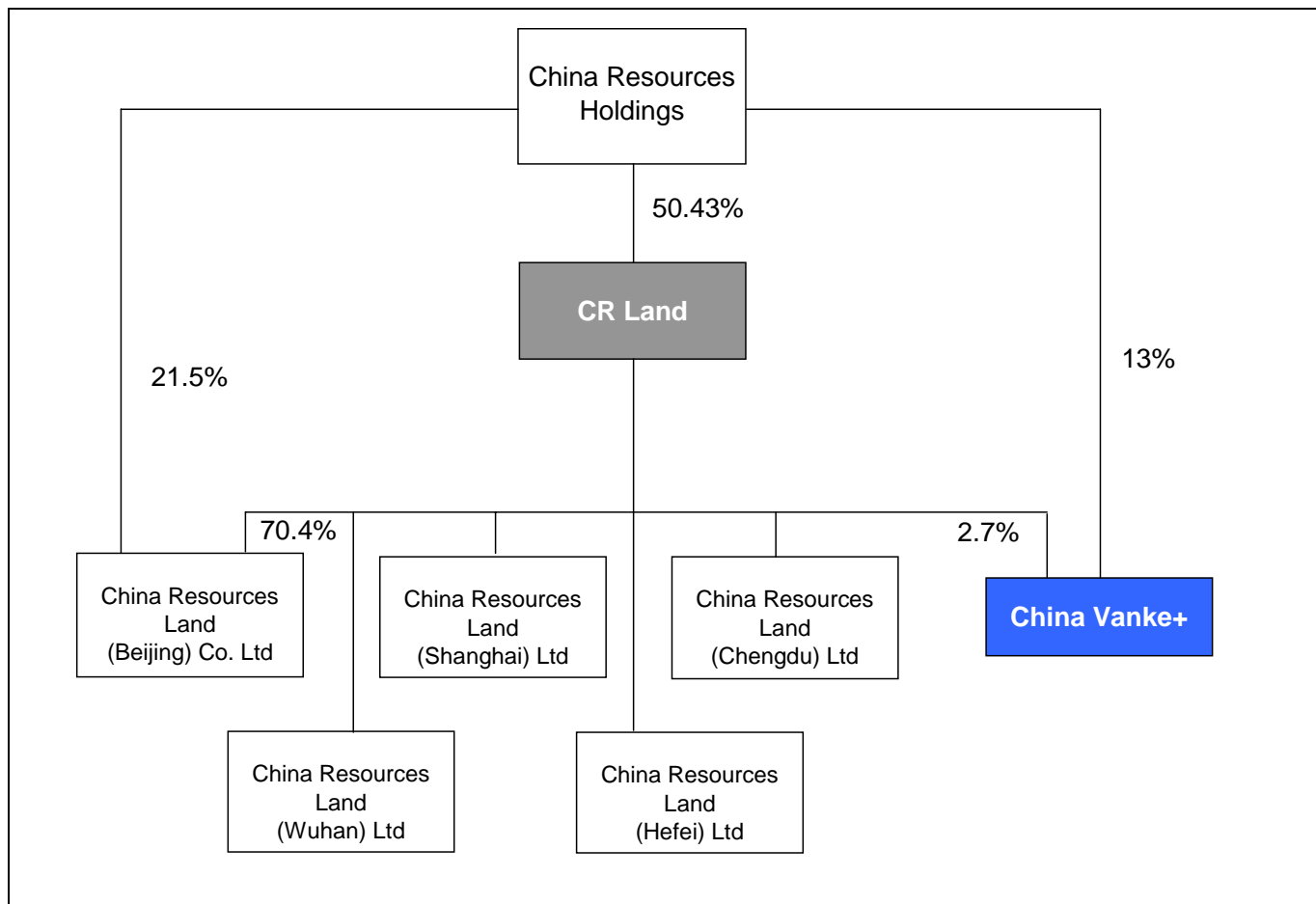
## Ratio Analysis

	Return on Total Assets	Equity to Total Assets	Return on Avg. Equity	Total Debt to Equity	Current Ratio	Quick Ratio	Net Profit Margin	Tax to Pretax Profit	Interest Cover	Profit to Cash Inflow
2002	1.4%	50%	2.7%	53.4%	418%	57%	9.3%	NA	0.9	NA
2003	0.9%	43%	2.0%	85.6%	372%	77%	6.3%	18%	1.4	NA
2004	1.6%	43%	3.7%	91.7%	271%	64%	6.2%	35%	3.1	NA
2005E	2.4%	43%	5.6%	75.9%	366%	37%	7.2%	29%	5.3	43%
2006E	3.3%	41%	7.8%	80.9%	258%	32%	10.5%	34%	6.9	34%
2007E	3.6%	39%	8.9%	85.9%	212%	18%	9.9%	33%	7.0	92%

Source: Company Data, Morgan Stanley Research

E = Morgan Stanley Research Estimates

Exhibit 1  
Group Structure



+Listed shares  
Source: Company Data

## A New Lease of Life

### Company Description

*China Resources Beijing Land Ltd. invests and develops properties in five cities: Beijing, Shanghai, Chengdu, Wuhan and Hefei. Other activities include investment holding, property management, electrical engineering, provision of exterior decoration services and the sale of building materials.*

### Summary and Investment Conclusion

We are resuming coverage of CR Land (CRL) with an Overweight rating and a 12-month price target of HK\$2.10, implying 30% total return from the latest close of HK\$1.64.

We expect a stock re-rating premised on:

**Inexpensive valuations:** Despite the recent rebound in CRL stock, the price remains at a deep 56% discount to NAV and 7.3 times forward earnings – both at a discount to the industry average of a 43% discount to NAV and a P/E of 8.2. The stock also trades at a significant discount to peers on a P/BV of 0.6x versus the industry mean of 1.28x. The valuations seem to imply severe risk in the company’s operations, which we think is unfounded.

**Earnings re-rating:** Dismal earnings performance in the past few years has resulted in the stock underperforming many of its peers for a long time. We expect a turnaround in earnings to be driven by 1) the sale of a less expensive land bank (improved profitability), 2) an increase in production and 3) the absence of provisioning for bad debts starting 2006. We expect 40% EPS CAGR for 2004–07. We think the upcoming interim result on September 12 should provide early evidence of such a turnaround.

**Diversification underpins visibility to growth:** Some investors (including ourselves) were skeptical about the company’s decision to step out of its foothold in Beijing and into several second-line cities a few years ago. However, the decision appears to have put the company in good stead for a possible turnaround in profitability (cheaper land bank) and improved earnings visibility amid the current slowdown in sales in major cities such as Beijing and Shanghai.

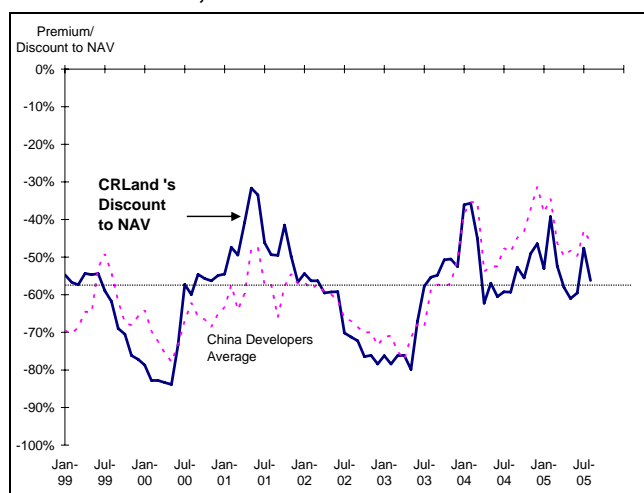
### Near-term Catalyst

In summary, the fundamental turnaround we see would be sufficient to narrow the stock’s valuation discount to its peers. We would not be surprised to see significant upward revisions in earnings post the interim as our EPS estimates

are 50% and 40% higher than IBES consensus estimates for 2006 and 2007, respectively. This has led us to believe that the fundamental improvement is yet to be fully priced in.

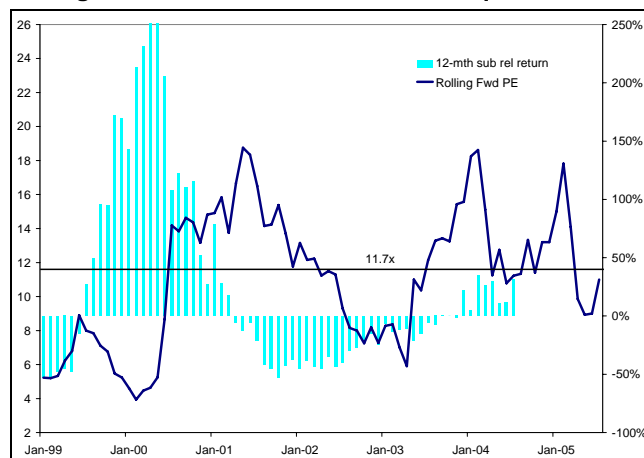
The ability to sustain earnings trajectory and NAV growth appear the longer-term drivers for the stock.

Exhibit 2  
**CR Land**  
**Discount to NAV, 1990–2005**



Source: Morgan Stanley Research

Exhibit 3  
**CR Land**  
**Rolling Forward P/E vs. 12-Month Subsequent Return\***



\*Performance vs. MSCI China

Source: Morgan Stanley Research

### Key Investment Concern

Although fundamentals appear to be turning around, we recognize that the stock has fallen off investors' radar screens for a long time largely because of the previous earnings downdraft, stubbornly low returns and less-than-sterling management execution. While improvements are likely, near-term returns may remain low compared with those of competitors. This begs the question about the ability to create shareholder value over the longer term. This is a limiting factor to our bullish outlook on the stock price stemming from a pure valuation discrepancy and amid a genuine pickup in fundamentals from previous low levels.

### Price Target and Risks

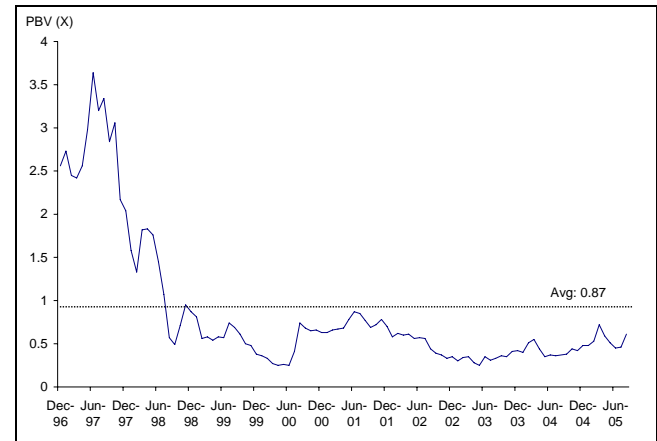
Our 12-month price target of HK\$2.10 is based on a 45% discount to our current NAV estimate of HK\$3.76 and 9 times our 2006 EPS estimate. The applied discount is tighter than the long-term discount to NAV of 53% for the stock but in line with the current industry average. The P/E multiple of 9 is at a discount to the stock's own trading pattern (Exhibit 3).

The smaller discount reflects our view that the stock will be re-rated as a recovery in earnings takes shape over the next two to three years. Our price target implies a PEG of only 0.23 times and still a discount to its average long-term P/BV of 0.87 – hardly demanding, in our view.

The key risks to our price target include 1) a severe economic slowdown, 2) a significant increase in interest rates, 3) regulatory changes to restrict mortgage lending and pre-sale of properties, 4) a cyclical property downturn and 5) poor project execution.

Exhibit 4

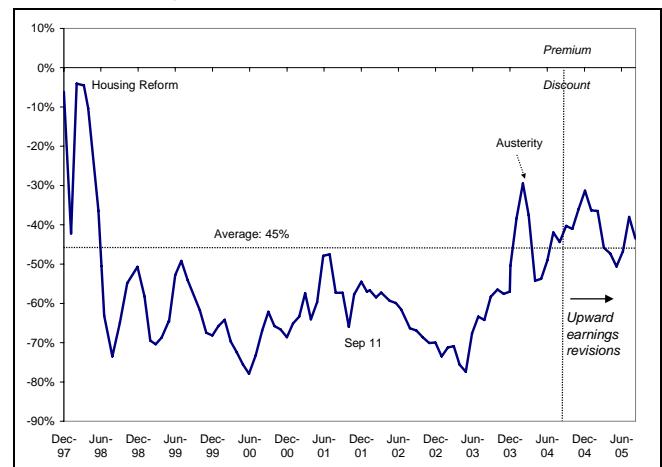
#### CR Land: Price to Book Value, 1996–2005



Source: Datastream

Exhibit 5

#### China Property Developers: Discount to NAV, 1997–05



Source: Morgan Stanley Research

## Investment Positives

### Stock Valuation

Based on our estimates, CRL stock is trading at a deep 56% discount to its current NAV and 7.3 times 2006E EPS – both at discounts to peer multiples. In addition, CRL is one of a very few China property stocks that are trading at a substantial discount to book value – P/BV of 0.6x versus an industry average of 1.28x. Although the stock has been trapped in very deep discount territory for most of the past three years, the expected substantial improvement in earnings prospects could, in our view, drive a re-rating in the stock.

### Substantial Improvement in Earnings Likely

We look for a 40% EPS CAGR for 2004–2007 to be driven by 1) the absence of further provisioning for bad debts from 2006, 2) improved profitability in property sales and 3) a meaningful pick-up in production volume. Our latest estimates, in accordance with HK-Int3, which requires the recognition of revenue and profit at the time of completions, imply that CRL would be the biggest turnaround story in the sector. Our earnings estimates are about 40% and 50% above consensus for 2006 and 2007, respectively. We expect positive earnings revisions by the Street.

### Diversification

In the past two to three years, the company has successfully diversified its portfolio into four cities, namely Chengdu, Shanghai, Hefei and Wuhan, in addition to its foothold in Beijing. The latter should account for only about half of its earnings from next year onwards. The Chengdu project, which has attracted overwhelming response, appears proof of management's capability outside Beijing. Diversification also reduces the operating risk, especially given the meaningful slowdown in major cities such as Shanghai and Beijing.

### Eyeing Growth

Increased vigor in land replenishment in the past 12 months seems to indicate renewed balance sheet's flexibility and management's penchant for growth. This is in contrast to the damage-control shown during 2001–03 when meaningful efforts were placed on restructuring management and sales teams in Beijing.

### Mass-residential Focus

The main product is mid-end apartments targeting middle-income families. This segment is likely to be supported by the prevailing government objectives to provide affordable housing. Demand for the segment appears sustainable, in our view. In 2004, the average selling price achieved was about Rmb6,000/sq m in Beijing and Rmb3,300/sq m in Chengdu – both are in line with the overall average sales price of housing in the two cities.

### Decent Transparency

Over the past 12–18 months, we have observed a meaningful improvement in the quality of disclosure as well as management accessibility. We are of the view that a certain comfort level in these respects is required for making an equity investment, especially in China.

### Affiliation with State-Backed Parent

China Resources Holding, a state-owned conglomerate, holds a 50% stake in CRL. This appears to be both a financial and strategic support. For example, CRL recently won a strategic JV project in Beijing, with the financial support of its parent. In the longer term, CRL could also explore opportunities to develop some of the vast land bank that is sitting in its parent's portfolio.

## *Investment Concerns*

### **Regulatory Risk**

China's government policy is highly volatile, and changes in either a tightening or loosening direction could produce contrasting effects on operational dynamics. For example, austerity measures since 2003 have already altered the cost, efficiency and return profile of property business models in the mainland.

Recent demand-side measures have also changed previous expectations among buyers, leading to a slowdown in sales nationwide. While we attach a low probability of a property crash, there appears a risk to near-term earnings for many players, especially those with exposure to Shanghai.

### **Shanghai Exposure**

Despite only 9% of CRL's portfolio being in Shanghai, the one project there should represent a sizable contributor to earnings in 2006 and 2007, accounting for 9% and 16% of our EPS estimates, respectively. Negative sentiment in Shanghai could trigger earnings estimate revisions.

### **Balance Sheets**

With a net debt to equity ratio of 54%, CRL's balance sheet appears more stretched than many of its peers. This may restrict further re-financing options in the near term. Given management's target to retain such leverage in the medium term, the speed of pre-sales appears an important funding source for growth amid prevailing tight credit conditions. Therefore, we would not be surprised by a wish to tap the equity market for funding if such an opportunity arises.

Without additional funding, the company may turn more aggressive on land replenishment only in 2007.

### **Return Profile**

The company is likely to lag many of its peers on profitability counts in the near term largely because of its previous high-cost land bank, relatively low hurdle rate (10% net margin) and the absence of meaningful property price increases in its portfolio. Cost overrun, a culprit previously, is also a consideration. We forecast a return to a more "normal" net margin of 10% only in 2006. Despite a forecast recovery in ROE to 8–9% in 2006/07 from 4% currently, it would still be at the low end of the industry range.

### **Track Record**

Given that it has taken the management more than five years to shake off the legacy of bad debt and turn its earnings around, some questions remain about its track record. Since this has coincided with an exodus of personnel in the past few years, it may take time for a commendable track record to be established.

### **Stock Liquidity**

The average 52-week daily turnover of US\$1.2 million seems tight for many investors despite a marked increase recently.

## NAV Analysis

Our current NAV estimate for CRL comes in at HK\$3.76/share. This compares with the end-2004 book value/share of HK\$2.72, translating into a revaluation surplus of HK\$1.56 billion.

We built our NAV estimate in a two-stage process. First, we value the existing land bank for which land titles have been secured. Second, we add a value for future development where land titles should be accrued within the next 12 months or so after deducting all outstanding land premiums payable. This is the same methodology we use in valuing other listed property companies in China.

Most of CRL's land bank has secured land titles except the recently-acquired project via auction in Qing He, Beijing. We have included the latter after deducting the attributable land premium of Rmb1.3 billion payable. Furthermore, a total of Rmb450 million has been deducted for remaining payables for sites in Hefei and Shanghai since end-2004.

The several key assumptions in deriving our NAV include the following.

- For development properties, we determine what is effectively a net present value based on a DCF analysis.
- We estimate the price that a given property would fetch if it were sold today. No price appreciation or depreciation is assumed except in the case of Shanghai where we have used prices last seen in 3Q04, reflecting our view that there would be some pullbacks in prices in the near term.
- We then estimate construction costs still to be incurred to complete the project and spread them over the balance of the construction period. We refer to management's account to assess the total development costs on a project-by-project basis although we would make certain judgments based on our industry experience.

- We discount the cash flow of those costs and the selling price over the balance of time to completion. A discount rate of 16% is applied as deduced by the sum of the risk-free rate, MSCI China equity risk premium and stock beta.
- As CRL holds a 2.7% stake in China Vanke's B-shares, we value these at the prevailing share price.

Based on the above, we derive our current market value estimate of its assets and then add to shareholders' funds the surplus (or deficits) over total book costs to derive the aggregate NAV.

We have cross-checked our calculation by comparing our estimated revaluation surplus with our earnings projections to 2009 and found them to be close.

Exhibit 6

### CR Land: NAV Breakdown

	HK\$ mn
<b>Book Values</b>	
<i>Book Value of Property Assets</i>	
Property in Fixed Assets	863
Property in Current Assets	4,773
Associates and JVs	694
Listed Investments	226
Associates and JVs	694
<i>Less Minorities and Deferred Tax</i>	<i>(898)</i>
<b>Total Book Value of Items to be Revalued</b>	<b>5,659</b>
<b>Market Values</b>	
<i>Market Value of Property Assets</i>	
Development Properties	12,135
<i>Less Construction Costs</i>	<i>(4,472)</i>
Investment Properties	929
<i>Market Value of Other Assets</i>	
Stake in China Vanke 'B' at market cap.	370
Recurrent Income since last yr-end	14
Outstanding Land Premium	(1,758)
<b>Total Market Values</b>	<b>7,219</b>
<b>Surplus/(Deficit) on Revaluations</b>	<b>1,560</b>
Shareholders' Fund	4,089
<b>Total NAV</b>	<b>5,649</b>
Number of Shares	1,503
<b>NAV/Share</b>	<b>3.76</b>
Share Price	1.71
Discount to NAV	-54.5%

See Exhibit 17-18 for further project-by-project valuations  
Source: Morgan Stanley Research

## Land Bank

CRL currently has a land bank of about 2.5 million sq m on an attributable GFA basis. About 43% of its land bank, in development GFA terms, is in Beijing followed by Chengdu (35%), Shanghai (9%), Hefei (7%) and Wuhan (6%).

We think the existing land bank is sufficient to drive earnings growth up to at least 2008.

There are five key development projects in its portfolio accounting for more than 75% of the total gross asset value of HK\$12 billion, we estimate.

*Phoenix City Ph 2–3, Beijing:* The high-rise project, located in the third ring road in the city center, will provide a total GFA of 390,000 sq m, including residential and office space. Phase 2 is more than 50% sold at an average price of around Rmb12,000/sq m. The project will be fully completed in 2008.

*La Firenze Ph 2–3, Beijing:* Including the acquisition of a nearby plot last year, remaining phases will provide a total GFA of 170,000 sq m. Phase 2, due for completion this year, is already 90% sold at an average price of close to Rmb6,000/sq m. This suburban project should be a key earnings driver in the next one to two years.

*Qing He project, Beijing:* The 800,000 sq m project was acquired via auction in August 2005, beating off fierce competition from other major players, including R&F Properties and Tianjin Sunco with the financial support of CRL's parent. The latter has a 49% stake in the development. It is located near Zhongguancun high-tech zone in Haidian District. The plan is to develop it by phases up to 2010. An earnings contribution is unlikely until 2008 at the earliest, we estimate.

*Jade City, Chengdu:* This project, located near a natural lake in the city centre, will be developed into five phases with a total GFA of 996,000 sq m – easily the biggest of its kind in the city core. The overwhelming response for the initial phase of this project, of which 983 units (122,000 sq m) was sold out in just a few days, has firmly underpinned the company's brand name in the market.

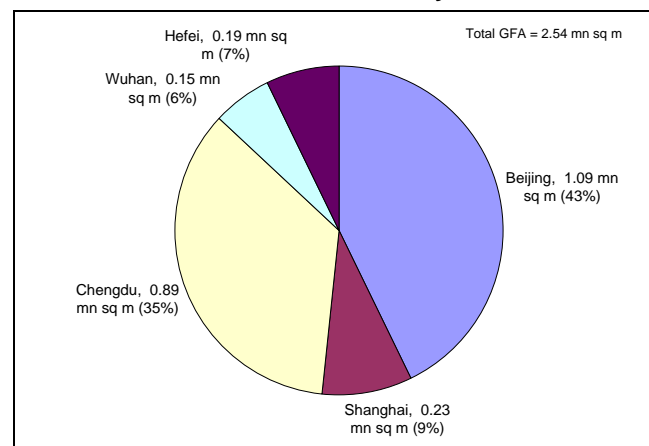
The average price of phase I was around Rmb3,200/sq m. Phase II has been recently launched at an average price of Rmb3,800/sq m. We estimate a development margin of at least 25% starting with phase II. The project will contribute to earnings up to 2009.

*The Bund Side, Shanghai:* There has been a prolonged delay for the 200,000 sq m project located near the Bund in Huangpu District. Although the site was acquired in 2002, this has proved to be a complicated project due to resettlement difficulties in the face of tight policy and fast-rising property prices in Shanghai. There has been a substantial increase in the development cost in the process caused by rising relocation costs although this should be offset by the likely higher sale prices.

Despite the completion of the superstructure in phase I (30,000 sq m), the company has yet to obtain part of the pre-sale consent. We expect a launch date before year-end with a conservative sales price of around Rmb16,000/sq m – 20% lower than comparable projects at the market peak in March 2005. The project, which carries the highest price tag in CRL's portfolio, should be an important earnings/profit driver in 2006–2008.

Exhibit 7

### CR Land, Breakdown of Land Bank by Area



Source: Company Data, Morgan Stanley Research

## Earnings Outlook

We project 40% EPS CAGR for CRL between 2004 and 2007, courtesy of 1) an absence of further provisioning for bad debts, 2) improved profitability and 3) increased volume of sales/completions. We estimate net profit to rise by 25% YoY to HK\$234 million this year, 45% to HK\$339 million in 2006 and 22% to HK\$414 million in 2007. ROE could recover to 8–9% in 2006/07 from 3.6% in 2004.

We believe that the existing land bank is sufficient to drive growth for the next three to four years. The gross profit margin should show meaningful improvement in the next couple of years –in line with the industry average of around 20% – through the disposal of the more profitable land bank than in the past few years.

To reflect the current slowdown in sales, we have mostly assumed 70–80% sales completion depending on the size and location of projects.

Our projected earnings growth puts CRL as one of the strongest turnaround stories in the sector albeit from a low base. This suggests to us that the stock is worth consideration as a potential investment.

### Outlook for 2005

We forecast net profit to come in at HK\$234 million (EPS: HK\$0.16) in 2005, representing 25% growth YoY. The gross and net margin may climb to 15% and 7%, respectively, assuming today's selling prices.

As the company is to report in accordance with the latest accounting requirement including HK-Int3, we estimate about 60% of our estimate is to be brought forward from last year as earnings recognition is now based on physical project completions.

Previous pre-sales of 350,000 sq m GFA will now be booked in 2005, meaning more than 70% of our estimate has already been locked-in.

Key profit contributors are La Firenze Phase 2 (90% sold), Phoenix City Phase 2 (70% sold) and Chengdu's Jade City Phase 1 (100% sold). We estimate Beijing and Chengdu to account for 84% and 16% of operating profits in 2005.

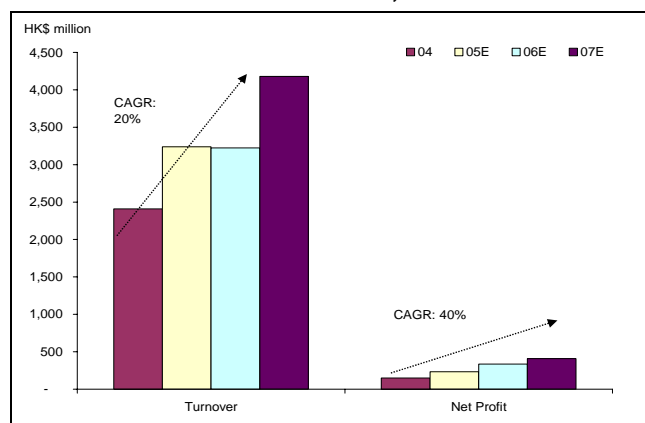
We look for 34% top-line growth to HK\$3.2 billion, driven by a total completion of 323,000 sq m.

China Resources Land – August 25, 2005

Bad debt provisions, which have dragged earnings down in the past five years, could feature for the last time. We have set aside HK\$50 million for this.

Exhibit 8

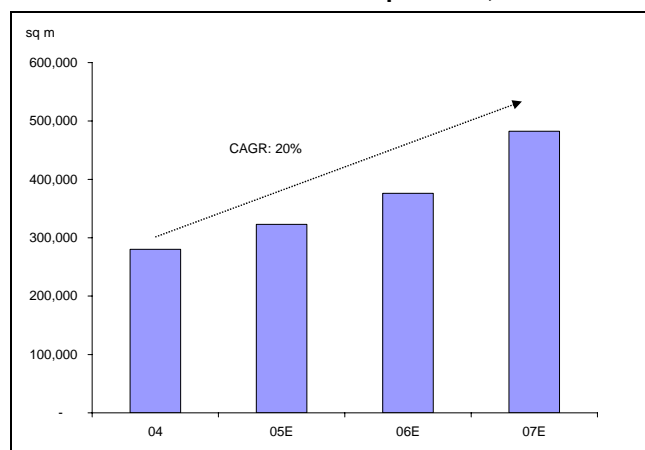
### CR Land: Turnover and Net Profit, 2004–07E



Source: Company Data E = Morgan Stanley Research Estimates

Exhibit 9

### CR Land: Estimated Annual Completions\*, 2004–07E



\*Morgan Stanley Research Estimates

Source: Company Data, Morgan Stanley Research

Exhibit 10

### Operating Profit by Cities, 2004–07E

City	2004A	2005E	2006E	2007E
Beijing	100%	84%	56%	48%
Chengdu	0%	16%	22%	22%
Shanghai	0%	0%	10%	16%
Wuhan	0%	0%	8%	9%
Hefei	0%	0%	4%	6%

E=Morgan Stanley Research Estimates

Source: Company Data, Morgan Stanley Research

Non-operating items including exchange gains and unrealized gains on China Vanke shares are swing factors for this year's profit.

Given 40% of its borrowing or around HK\$1.5 billion is denominated in either HK or US dollars, the recent 2% revaluation in the renminbi could give a HK\$30 million boost, we estimate.

Solid performance in China Vanke's B shares (200002 SZ, Not Rated, Rmb4.50) is also earnings accretive. Assuming the price remains at the end-June level of Rmb3.40, CRL's 2.7% stake in the shares would translate into a HK\$33 million accounting gain. This remains a long-term strategic stake.

#### **Outlook for 2006**

Net profit should post a decent 45% growth in 2006, reaching HK\$339 million (EPS: HK\$0.23) and driven by steady production volume (380,000 sq m) but improved profitability – steady turnover at HK\$3.2 billion on better margins. Gross and net margin should pick up to 21% and 10%, respectively as the company starts to sell from its cheaper land bank.

Key profit contributors are Phoenix City Phase 3a, La Firenze Phase 5, Shanghai's The Bund Side Phase 1a and Chengdu's Jade City Phase 2a (low-rise).

We estimate Beijing, Chengdu and Shanghai to account for 56%, 22% and 10% of operating profits in 2006. Projects in Wuhan and Hefei should also figure for the first time.

We are confident that the high-value project from Shanghai should contribute for the first time. Our recent site visit confirmed that Phase 1a, which comprises three blocks (30,000 sq m), has completed its superstructure and is pending pre-sale approval.

Clearly, the final achieved sales price in this project can also be a swing factor in earnings given its expensive price tag. We have assumed Rmb16,000/sq m for the fully fitted-out project in Huangpu District near the Bund – in line with

prices 12 months ago but 20% below prices of comparable projects at the recent peak in March 2005 – just to be conservative.

#### **Outlook for 2007**

We project net profit to climb a further 22% to HK\$414 million (EPS: HK\$0.28 on an increase in completions to 480,000 sq m. This is lower than the management's target production of 794,000 sq m as we assume no contribution from The Bund Side Ph 2 in Shanghai due to our view of further potential delays in resettlement.

Key contributors are Phoenix City Phase 3b, Chengdu's Jade City Ph 2a and 3 and The Bund Side Phase 1b. Hefei's Freach Ancey Phase 2 should also figure highly given its sizable completion of 70,000 sq m.

Relocation works for The Bund Side Phase 1b is close to being finished and should be completed in time for 2007's contribution.

Total turnover could rise to HK\$4.1 billion, representing 30% growth YoY. Beijing, Chengdu and Shanghai could account for 48%, 22% and 16% of operating profits in 2007.

#### **2008 and thereafter**

The existing land bank appears to be sufficient to drive growth into 2008, thanks to the remaining phases at The Bund Side and Qing He project. The key is construction start/progress, particularly in the Shanghai project, which requires resettlement of existing residents. The latter represents a big swing factor given the current political sensitivity in this area.

Other swing factors in our estimates for 2005–07 are non-operating items: accounting profit from Vanke's share price, exchange gains and provisions for bad debt. We have attempted to forecast these factors for 2005 but not in subsequent years.

The key risks to our earnings projections for 2005–07 are construction progress and a cyclical property downturn on a nationwide basis.

## Valuation Comparables

We use both the NAV metric and forward earnings multiple to assess fundamental value and growth (i.e. NAV crystallization) in China property stocks.

We understand P/E multiples often get more airplay in China than in other parts of the world as investors in China tend to be growth-oriented. Therefore, the build-and-sell process and speed of earnings delivery appear more relevant to many investors except that these multiples may not capture the value of land banks (a form of inventory), which determine longer term earnings potential.

Therefore, we think NAV analysis is also a useful check in its assessment of fundamental value. This is particularly useful in times of volatile or limited short-term earnings. A land bank that will produce earnings over the longer term might not benefit a company's P/E ratio in the near term, but it will show up in NAV – a good “here and now” reflection of future earnings capacity.

In Exhibit 11, we provide a summary of trading comparables for the China property universe. For BNS, COLI, SFL, we use our estimates, as these stocks are currently under our coverage; we compute the rest of the EPS data using IBES consensus estimates. We calculate our estimated NAV for each stock using our proprietary NAV model, from which we publish our list of 48 stocks on a weekly basis.

### The Value Choice

At a 56% discount to our current NAV estimate, CRL is trading at deeper discount than most of its peers and inferior to the current average discount of around 43% for the sector.

We think one of the main reasons for the stock trading at a deeper discount than the peer group was the lack of earnings power, and, hence, the rate of NAV crystallization. However, we see a decent probability for such a discount to peers to narrow based on our improved earnings forecast as discussed in the previous section.

Based on a forward earnings multiple, the stock is trading at a discount to comparables at 7.3 times 2006E EPS. This is in contrast to the recent past when the stock used to trade at or above the sector's average P/E – this seems to suggest that the stronger earnings trajectory has yet to be priced in, in our view.

*China Resources Land – August 25, 2005*

Exhibit 11

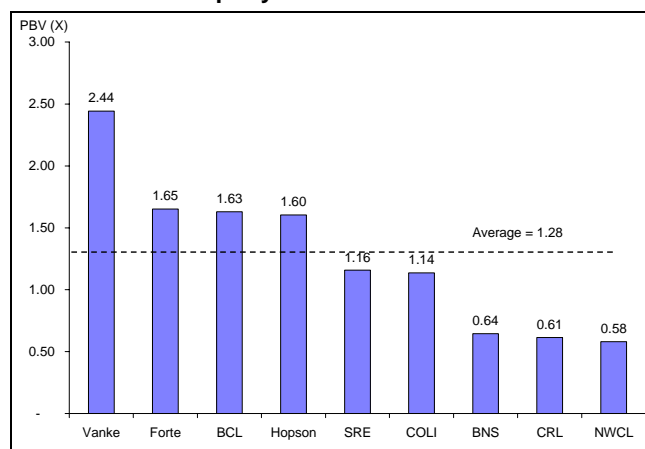
### China Property Stocks Valuation Comparables

Stock	Close	P/E Ratio				NAV/ share	Disc to NAV
	23/8/05	2004	2005E	2006E	2007E		
BCL	2.08	12.3	14.1	12.2	9.0	3.4	-39%
BNS	1.70	12.6	12.0	10.4	9.2	3.3	-48%
CRL	1.64	16.4	10.5	7.3	6.0	3.8	-56%
COLI	1.82	10.6	10.9	10.0	8.7	2.8	-36%
Hopson	6.10	10.0	10.6	8.2	6.3	7.9	-22%
Forte	2.23	8.6	6.9	5.2	4.7	4.0	-44%
SRE	1.00	6.1	5.2	3.4	4.7	1.9	-48%
Vanke	4.37	17.5	13.0	11.7	8.9	6.1	-28%
Market-cap weighted Avg		11.4	9.9	8.2	6.9		-43%
Simple Average		11.8	10.4	8.5	7.2		-42%

Source: Datastream, IBES, CICC, Morgan Stanley Research.

Exhibit 12

### P/BV of China Property Stocks



Source: Datastream, Morgan Stanley Research

Another angle to demonstrate fundamental value in CRL stock is via the book value approach given analysts can produce vastly different NAV estimates. At the latest book value/share of HK\$2.72, the stock is trading at P/BV of 0.61 – second lowest in the industry. This compares to a P/BV of 1.28 for the industry average. The significant discount to book seems to shed doubt on its book value. We could only blame this on its track record of bad debt provisioning in the past five years. Given that the previous indication from management seems to point to the tail-end of the provisioning cycle and that we are looking for an organic recovery in earnings, the stock warrants to trade closer to book over time, in our view. The key to longer term share performance lies in execution, especially as it relates to expansion policy and on-time/in-line earnings delivery.

## Market Outlook

China property markets, especially in major cities, have slowed meaningfully since peaking in February/March this year. Transaction volume has dropped about 60% and 30% in Shanghai and Beijing, respectively, since the peak. Pullback of smaller magnitude is seen in most other cities.

Demand-side measures announced on May 11 (see, “*Anti-speculative Measures*”, May 12, 2005) have proved effective in altering adaptive expectation among buyers.

Although official releases point to a 10% fall in Shanghai prices in the past three months, anecdotal evidence suggests residential prices in selective districts have corrected 20% or more from the recent peak. For projects which have benefited from ample non end-user demand, the pullback was even more severe. We believe secondary prices in Pudong and Minhang are down about 20% with Putuo’s prices down 25%.

While Shanghai was hit hard, prices in other cities remain resilient despite a slow down in sales following the withdrawal departure of most speculators and investors.

With China property gearing up for its traditional peak season in October (this and May are both busiest in terms of sales), developers are facing challenge to monetize their land bank at previous targeted prices amid the weak sentiment. The need to generate cash flow for both operating and expansionary purposes appears the foremost objective given the current credit crunch.

It appears not a case of demand suddenly disappearing rather buyers are staying sideline in view of better prices to come. In Shanghai, projects that are launched at market prices received muted response whereas a 5% discount or cash rebates drew queues.

Consumer behavior is an area of concern in Shanghai given the likelihood that price cuts are likely in the next few months as a result of the weaker secondary prices and ample supply to come on stream for launch in the next few months.

We think Shanghai could remain sluggish until prices fall back to levels last seen in the Autumn of 2004. This will translate into a 20-30% correction on average from the peak but prices would remain close to 100% up since the end of 1Q00. Mainland media, a la the government, appears to

suggest crossing the 30% threshold would put the banking system at risk. Although the media has tuned down its language from previously negative mode to neutral, we think a positive tune remains month away and not until we get closer to a 20-30% average pullback.

This suggests to us that Shanghai could remain slow and cautious for the next few months. Daily sales would need to return to 600-700 units from the current 300-400 level to be considered a recovery in sentiment, in our view.

We have seen a two-tier market developing in Beijing in recent months. While sales have slowed across-the-board, prices and volume have held up much better at mass-residential projects than those which used to attract non end-users. For instance, R&F Properties (2777.HK, Not Rated, HK\$12.75) achieved Rmb800 million in sales in a five-project launch in July alone – a record. Developers which specialized in residential/commercial mix-use development have suffered from a collapse in sales in recent months. Nevertheless, overall prices are still edging up in Beijing.

Second-line cites including Chengdu, Wuhan and Hefei have largely been end-user driven markets and hence, less affected by recent policy changes.

We are of the view that the current pullback in volume is a necessary adjustment to restore supply/demand balance, in particularly, in Shanghai (Exhibit X). The shortfall in supply – inflationary in nature – was caused by the credit crunch put in place via austerity measures in 2003.

We think demand-side measures introduced this year have proved effective in arresting the runaway prices, especially in Shanghai, changing adaptive expectation among buyers and protecting end-users’ affordability to a large extent. The objectives appear reasonable.

Although policy risk remains high in this industry, we believe there will be no major changes for the rest of this year as objectives are partially achieved.

The current slowdown may remain for months to come, but it is unlikely to be the start of a longer-term downdraft. There are several reasons driving our thinking:

**Reminbi revaluation:** This reduces the probability of significant rate hikes in China for which mortgage provision is the key for housing demand. Currency appreciation should also cause a slowdown in export and reduces the flow of recycled export dollars into the property markets especially in the Yangtze River Delta. Uncertainty on property markets could also be accommodative to a rising currency as it stem out some of the potential inflow.

**Supply squeeze:** We believe austerity has effectively removed a large chunk of potential supply. This coupled with a pick-up in industry consolidation should support prices.

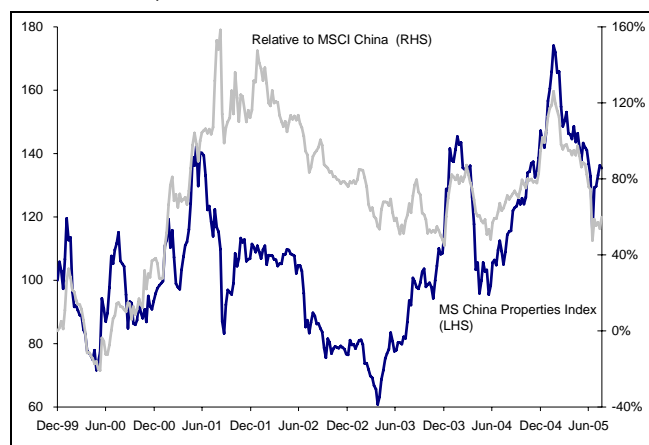
**Positive economic momentum:** Solid GDP growth should underpin consumer confidence and desire to upgrade (demand).

**Infrastructure improvement:** This remains firmly on the government's agenda for enhancing urbanization; housing is an integral part of the equation.

**Lack of policy flexibility:** The significant exposure by the banking system represents a meaningful risk should there be a property downdraft. As a result, we believe authorities do not wish to see a significant correction nationwide.

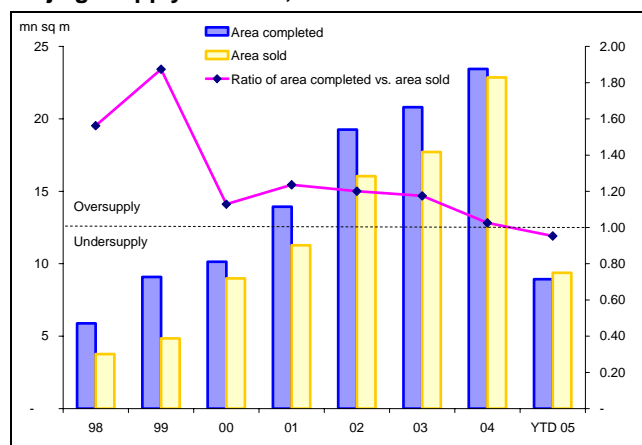
While consumer behavior remains the key in the near-term, companies with a diversified exposure and solid balance sheets are likely to offer superior earnings visibility.

Exhibit 13  
**China Property Stocks: Absolute and Relative Performance, 1999–2005**



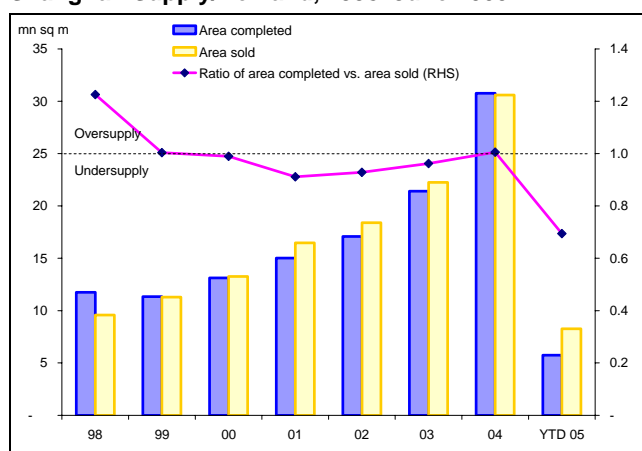
Source: Datastream, Morgan Stanley Research

Exhibit 14  
**Beijing: Supply/Demand, 1998–June 2005**



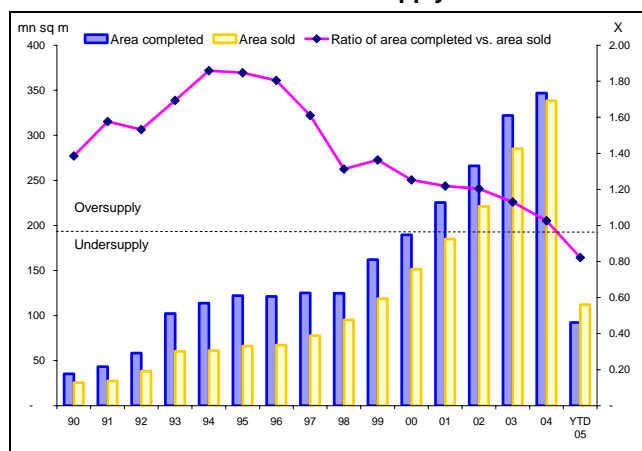
Source: CEIC

Exhibit 15  
**Shanghai: Supply/Demand, 1998–June 2005**



Source: CEIC

Exhibit 16  
**China: Demand Runs Ahead of Supply for the First Time**



Source: CEIC

## *Company Profile and Strategy*

CR Land, formerly known as China Resources Beijing Land (CRBL), was reorganized in 1993 as a joint-stock limited company and was subsequently acquired by China Resources Enterprise (CRE), the Hong Kong-listed commercial arm of CRH. CR Land was listed on the Hong Kong Stock Exchange in November 1996 at HK\$2.36. The parent, China Resources Holdings (CRH), is closely associated with China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC).

Until 2000, CRBL's main asset was a 70% stake in Beijing Huayuan (BH), a state-owned enterprise founded in 1987 as the property development arm of the Xicheng (Western) district government of Beijing. BH was one of the largest and most profitable domestic developers in Beijing and rated a Class 1 Comprehensive Development Company, meaning it could undertake most types of and large-scale redevelopment projects. BH was one of the most well-known brands in Beijing and used to contribute as much as 50-60% of the Xicheng district's tax receipts.

In 2001, CRBL underwent a structural change, which has had a significant impact on its operations since. First, the then managing director, Mr. Ren Zhiqiang, left CRBL and subsequently took the BH brand with him, setting up a new company in a joint venture with the Xicheng district government. CRBL lost its then most prized asset.

During the same year, in a group restructuring, CRBL became a direct subsidiary of CRH, which also owns 13% of China Vanke, the market leader in China property. The company was re-named CR Land. The plan then was to merge CRBL and China Vanke to form the biggest developer group in China. This never happened due to valuation disagreements.

Since then, CR Land has taken a different route and started acquiring projects outside Beijing, including Shanghai, Chengdu, Wuhan and Hefei, in a bid to go "national," using the China Resources brand.

CR Land has two main lines of business: property development and property investment. The latter, with a portfolio of about 90,000 sq m of commercial and retail facilities in Xicheng, represents a small part of business.

The company's stated financial goal is to reach an annual turnover of Rmb8 billion by 2009 and to attain double-digit ROE. To achieve such a goal, it will continue to expand its business nationwide and penetrate more cities with a focus on developing mid-to-low density projects in the sub-urban areas and high-density projects in the urban areas.

Exhibit 17

**CR Land**  
**Earnings Analysis, 2000–2007E**

HK\$ million	2000	2001	2002	2003	2004	2005E	2006E	2007E
Year Ending Dec 31								
<b>Turnover</b>								
Property sales	1,611	3,385	1,058	1,184	2,313	3,129	3,110	4,060
Rental income	6	0	13	8	22	32	33	33
Property mgmt and others	15	36	59	60	74	77	81	85
<b>Total Turnover</b>	<b>1,632</b>	<b>3,421</b>	<b>1,130</b>	<b>1,252</b>	<b>2,409</b>	<b>3,238</b>	<b>3,224</b>	<b>4,178</b>
Cost of Sales	(1,433)	(3,049)	(1,078)	(1,165)	(2,098)	(2,757)	(2,531)	(3,336)
<b>Gross Profit</b>	<b>199</b>	<b>373</b>	<b>52</b>	<b>87</b>	<b>311</b>	<b>481</b>	<b>693</b>	<b>842</b>
Other operating income	75	37	82	101	86	84	22	22
Dividend income from listed securities	4	4	3	3	2	2	2	2
Exchange gain	0	0	0	1	0	30	0	0
Disposal gain	0	0	0	0	0	0	0	0
Interest income	53	33	18	20	16	15	15	15
Unrealized holding gain on other investments	0	0	8	74	59	33	0	0
Others	18	0	52	2	10	5	5	5
Selling expenses	(7)	(77)	(34)	(14)	(19)	(25)	(25)	(33)
Admin. Expenses	(21)	(42)	(50)	(56)	(65)	(88)	(87)	(114)
Allowance for bad and doubtful debts	(35)	(218)	(71)	(55)	(117)	(50)	0	0
<b>Profit from Operations</b>	<b>210</b>	<b>72</b>	<b>(20)</b>	<b>63</b>	<b>197</b>	<b>403</b>	<b>602</b>	<b>718</b>
Finance costs	(9)	(17)	(5)	(34)	(29)	(31)	(35)	(39)
Share of associates and JVs	(16)	(18)	21	7	20	20	21	21
<b>Profit before Tax</b>	<b>185</b>	<b>37</b>	<b>(4)</b>	<b>36</b>	<b>188</b>	<b>392</b>	<b>589</b>	<b>700</b>
Tax	(47)	116	74	(17)	(81)	(94)	(172)	(205)
Minority interests	(40)	15	36	60	43	(64)	(77)	(81)
<b>Net Profit</b>	<b>98</b>	<b>168</b>	<b>106</b>	<b>79</b>	<b>150</b>	<b>234</b>	<b>339</b>	<b>414</b>
% Change	-213%	71%	-37%	-25%	90%	25%	45%	22%
<b>EPS (HK\$)</b>	<b>0.07</b>	<b>0.11</b>	<b>0.07</b>	<b>0.05</b>	<b>0.10</b>	<b>0.16</b>	<b>0.23</b>	<b>0.28</b>
DPS (HK\$)	0.02	0.02	0.03	0.03	0.03	0.05	0.07	0.08
Gross Margin	12%	11%	5%	7%	13%	15%	21%	20%
Net Margin	6%	5%	9%	6%	6%	7%	10%	10%

E=Morgan Stanley Research Estimates

Source: Morgan Stanley Research

Exhibit 18

**CR Land: Development and Investment Properties**

	Residential	Office	Retail	Industrial	Hotel	Car Parks	Total
<b>Investment Properties Floor Area (sq. ft.)</b>							
China	31,485	364,219	337,768	0	0	0	733,472
Others	0	0	0	0	0	0	0
Total	31,485	364,219	337,768	0	0	0	733,472
% of Total	4.3%	49.7%	46.1%				100.0%

<b>Development Properties Floor Area (sq. ft.)</b>							
China	21,582,425	2,429,958	1,499,960	0	0	0	25,512,343
Others	0	0	0	0	0	0	0
Total	21,582,425	2,429,958	1,499,960	0	0	0	25,512,343
% of Total	84.6%	9.5%	5.9%				100.0%

<b>Investment Properties Value at Current Market Prices (HK\$ mn)</b>							
China	14	416	500	0	0	0	929
Others	0	0	0	0	0	0	0
Total	14	416	500	0	0	0	929

<b>Development Properties Value at Current Market Prices (HK\$ mn)</b>							
China	9,360	2,215	533	0	0	0	12,108
Others	0	0	0	0	0	0	0
Total	9,360	2,215	533	0	0	0	12,108

<b>Value of Development Properties by Completion Dates (HK\$ mn)</b>							
31-Dec-05	1,425	346	0	0	0	0	1,772
31-Dec-06	2,209	185	0	0	0	0	2,394
31-Dec-07	2,675	387	20	0	0	0	3,082
Later	3,051	1,297	513	0	0	0	4,861

<b>Potential Returns at Current Market Rates on Investment Property</b>							
Gross Area (Sq.Ft.)	31,485	364,219	337,768	0	0	0	733,472
Value (HK\$Mil.)	14	416	500	0	0	0	929
Rent (HK\$/Sq.Ft.)	4	8	9	0	0	0	8
Rental Income (HK\$Mil)	1	37	35	0	0	0	73
Gross Yield	10.0%	8.8%	7.0%	0.0%	0.0%	0.0%	7.9%

<b>Estimated Current Net Asset Value</b>						
<b>Surplus on Valuation</b>	<b>Total NAV</b>	<b>Share Price</b>	<b>NAV per share</b>	<b>Share Price</b>	<b>EV</b>	
<b>(HK\$ mn)</b>	<b>(HK\$ mn)</b>	<b>(HK\$)</b>	<b>(HK\$)</b>	<b>Variance from NAV</b>	<b>to AV</b>	
1,560	5,649	1.67	3.76	-55.6%	-40.3%	

E = Morgan Stanley Research Estimates

Source: Company Data, Morgan Stanley Research

Exhibit 19

**CR Land: Development Properties**

Project Name	Location	% Held	Est Date of Completion	Total Floor Area (sq. ft.)	Attri. Floor Area (sq. ft.)	Cost of Construction (Rmb/sq. ft.)	Pending Const Cost (Rmb mn)	Market Price (Rmb/sq. ft.)	Market Value (Rmb mn)
Phoenix City II, III & Later	Chaoyang, Beijing								
Residential		70%	Aug-05	848,552	597,381	300	60	1,037	616
Residential		70%	Jul-06	582,733	410,244	300	92	1,250	441
Residential		70%	Dec-07	817,521	575,535	300	147	1,250	494
Office		70%	Jun-08	1,937,457	1,363,970	500	560	1,500	1,297
Chengdu Jade City I-V	Jinjiang, Chengdu, PRC								
Residential (Ph 1)		100%	Jun-05	39,987	39,987	169	2	380	15
Residential (Ph 2 - high rise)		100%	Dec-06	1,104,749	1,104,749	169	173	380	338
Residential (Ph 2 - low rise)		100%	Dec-06	602,205	602,205	200	112	450	218
Residential (Ph 3)		100%	Dec-07	1,967,854	1,967,854	169	283	380	513
Residential (Ph 4)		100%	Dec-08	2,268,644	2,268,644	169	289	380	505
Retail (Ph 4)		100%	Dec-08	810,761	810,761	160	99	400	190
Residential (Ph 5)		100%	Dec-09	2,615,405	2,615,405	169	296	380	496
Qing He project	Haidian, Beijing								
Residential		51%	Dec-07	1,937,457	988,103	200	168	800	543
Residential		51%	Dec-08	3,013,822	1,537,049	200	232	800	720
Residential		51%	Dec-09	1,506,911	768,525	200	103	800	307
Retail/Office		51%	Dec-09	1,270,111	647,756	340	149	1,000	323
The Bund Side 1-2	Huangpu, Puxi, Shanghai								
Residential		100%	Jun-06	315,666	315,666	400	90	1,500	413
Residential		100%	Mar-07	609,987	609,987	400	227	1,500	708
Residential		100%	Dec-09	1,101,810	1,101,810	400	295	1,500	825
La Firenze I, II & Later	Daxing, Beijing								
Residential (Ph 1A)		70%	Dec-04	182,487	128,471	250		634	81
Residential (Ph 2A)		70%	Jul-04	58,726	41,343	250		634	26
Residential (Ph 1B)		70%	Dec-05	71,298	50,194	200	5	541	26
Residential (Ph 2B)		70%	Dec-05	242,161	170,481	200	17	541	87
Residential (Ph 5)		70%	Dec-06	1,189,114	837,136	200	155	600	404
Retail (Ph 5)		70%	Dec-07	58,866	41,442	300	11	700	20
Unsold inventories	Xicheng, Beijing								
Residential		70%	Dec-03	1,639,465	1,154,184	200		450	519
Wuhan Phoenix City I & II	Wucheng, Wuhan								
Residential		100%	Dec-06	747,535	747,535	200	139	450	271
Residential		100%	Dec-07	747,535	747,535	200	127	450	231
Majestic Garden III	Chaoyang, Beijing								
Office		70%	Dec-07	800,816	563,774	400	197	1,000	387
Hefei French Annex I-III	Gaoxin, Heifei								
Residential		100%	Dec-06	430,546	430,546	200	80	360	125
Residential		100%	Dec-07	753,456	753,456	200	128	360	186
Residential		100%	Dec-08	938,730	938,730	200	142	360	198
Grand Constellation	Xicheng, Beijing								
Office		70%	Jun-05	245,874	173,095	500	18	1,500	260
U-Space Ph I-II, Chaoyang	Chaoyang, Beijing								
Residential		70%	Dec-03	59,372	41,798	250		875	37
Office		70%	Dec-06	363,327	255,782	400	79	900	185
Top Box	Chaoyang, Beijing								
Office		70%	Sep-04	104,171	73,336	400		1,182	87
Various sites	Beijing, PRC								
Land		70%	Exist	383,455	269,952	0	0	100	27
Jing Tong Sunny Uptown	Beijing, PRC								
Residential		70%	Dec-03	53,797	37,873	200		471	18
<b>Total</b>					<b>25,512,343</b>		<b>4,472</b>		<b>12,135</b>

Source: Company Data, Morgan Stanley Research

Exhibit 20

**CR Land: Investment Properties**

Project Name	Location	% Held	Est Date of Completion	Total Floor Area (sq Ft)	Attri. Floor Area (sq Ft)	Monthly Rent (HK\$/Sq Ft)	Annual Rental (HK\$M)	Market Price (HK\$/Sq Ft)	Market Value (HK\$M)
Xidan Cultural Center Retail	Xicheng, Beijing	70%	Exist	389,472	274,188	9	30	1,600	439
Huawei Centre Office	Xicheng, Beijing	50%	Exist	466,832	233,416	11	32	1,500	350
Retail		50%	Exist	116,708	58,354	8	5	1,000	58
Guan Hua Building Office	Xicheng, Beijing	70%	Exist	86,431	60,847	3	2	500	30
Huan Yuan Building Office	Xicheng, Beijing	70%	Exist	82,049	57,763	3	2	500	29
Guanyingyuan Residential (resettle)	Xicheng, Beijing	70%	Exist	44,723	31,485	4	1	450	14
Huanan Building Office	Xicheng, Beijing	2%	Exist	527,856	12,193	3	0	500	6
Retail		2%	Exist	226,224	5,226	4	0	500	3
<b>Total</b>					<b>733,472</b>		<b>73</b>		<b>929</b>

Source: Company Data, Morgan Stanley Research

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Morgan Stanley

**ModelWare**<sup>SM</sup>

**Modelware is a proprietary framework for financial analysis created by Morgan Stanley Research.** This new framework rests on the principles of comparability, transparency, and flexibility, and aims to provide investors with better tools to view the anticipated performance of an enterprise. The result of an 18-month global effort, Modelware harmonizes the underlying data and calculations in Morgan Stanley models with a broad set of consistently defined financial metrics. Our analysts have populated the database with over 2.5 million data points, based on an extensive taxonomy of more than 3,500 unique metrics and more than 400 Morgan Stanley calculations. The Modelware framework will also have the flexibility to allow analysts and investors to add or change data elements, even quickly customize their own analytical approach.

**What makes the Modelware architecture distinctive lies in the separation of data from calculations.** Its transparency will permit users to see every component of every calculation, to choose elements or recombine them as they wish without laborious adjustments or recalculations. When choices must be made in defining standard or industry-specific measures, Modelware defaults to economic logic, rather than favoring one accounting rule over another. This discipline facilitates comparability across sectors and regions. Underlying the Modelware data is a new set of systems that check the internal consistency of forecast data in each of our analyst's models.

**Modelware EPS** illustrates the approach taken. It represents Modelware net income divided by average fully diluted shares outstanding. Modelware net income sums net operating profit after tax (NOPAT), net financial income or expense (NFE), and other income or expense. Modelware adjusts reported net income to improve comparability across companies, sectors, and regions. These adjustments include the following: We exclude goodwill amortization and items deemed by analysts to be "one-time" events; we capitalize operating leases where their use is significant (e.g., in transportation and retail); we convert inventory to FIFO accounting when LIFO costing is used; and we include unrealized gains and losses on available-for-sale securities in earnings (financial services companies only). For more information on these adjustments and others, as well as additional background, please see "Introducing Modelware: A Road Map for Investors," by Trevor Harris and team, August 2, 2004.

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## Global Stock Ratings Distribution

(as of July 31, 2005)

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	682	35%	263	40%	39%
<b>Equal-weight/Hold</b>	891	46%	305	46%	34%
<b>Underweight/Sell</b>	379	19%	96	14%	25%
<b>Total</b>	1,952		664		

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**Overweight (O).** The stock's total return is expected to exceed the total return of the relevant country MSCI index, on a risk-adjusted basis, over the next 12-18 months.

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**Underweight (U).** The stock's total return is expected to be below the total return of the relevant country MSCI index, on a risk-adjusted basis, over the next 12-18 months.

**More volatile (V).** We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

## ANALYST INDUSTRY VIEWS

**Attractive (A):** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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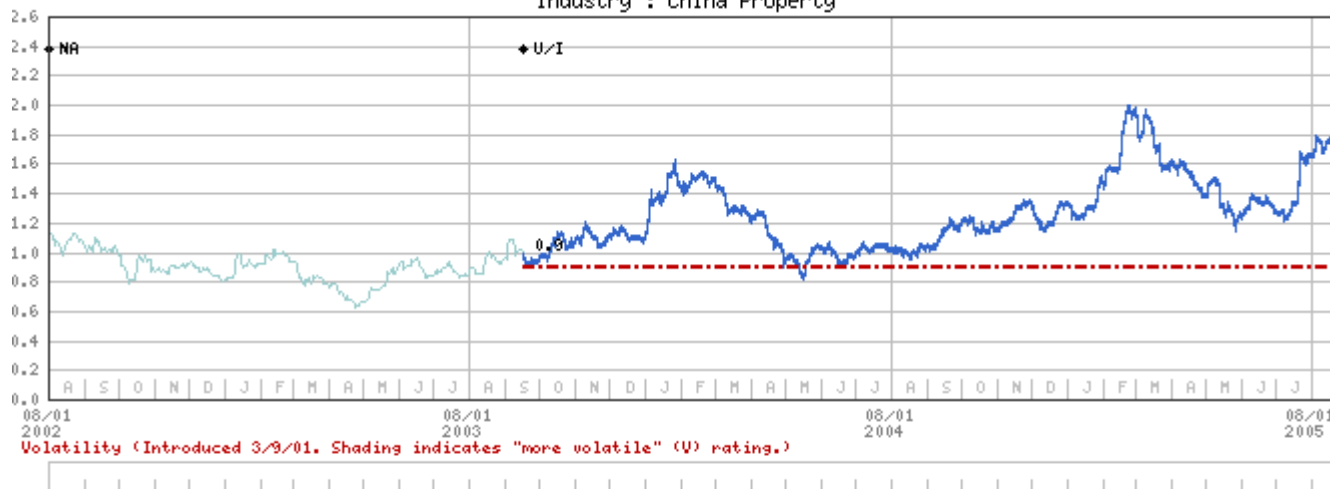
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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index; Europe - MSCI Europe; Japan - TOPIX; Asia/Pacific - relevant MSCI country index.

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**Stock Price, Price Target and Rating History (See Rating Definitions)**

China Resources Land (1109.HK) - As of 8/23/05 in HKD  
 Industry : China Property



Stock Rating History: 10/22/99 : NA; 9/17/03 : U/I  
 Price Target History: 10/22/99 : NA; 9/17/03 : 0.9

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target - -      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) - -      Stock Price (Covered by Current Analyst) - -  
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦  
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)  
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)  
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## INDUSTRY COVERAGE: CHINA PROPERTY

Company	Ticker	Rating as of	Price at 08/22/05	Company	Ticker	Rating as of	Price at 08/22/05		
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China Overseas Land & Inv.	0688.HK	E	03/22/05	HK\$1.85	<i>Stock ratings are subject to change. Please see latest research for each company.</i>				
China Resources Land	1109.HK	O	08/25/05	HK\$1.70					