Company

5 January 2010 | 14 pages

Poly (Hong Kong) Investments (0119.HK)

Buy: Intact Expansion Pace, Right Geographical Exposure

Equity ☑
Target price change ☑
Estimate change ☑

- **Maintain Buy / Medium Risk (1M)** — Our 12-month target price of HK$12.46 is based on a 10% discount to our '10E NAV of HK$13.85/share. Poly (HK) trades at 29% discount to '10E NAV. Moreover, the potential asset injections can bring significant NAV enhancement and earning accretion.

- **Current land bank of 14.2m sqm GFA, 30% located in top tier cities** — After last year's asset injection and its recent land acquisitions from the market, Poly HK's asset base has grown to be comparable with second-tier property developers. Its total land bank reaches 14.2m sqm GFA, even bigger than Sino Ocean and Glorious. Moreover, 30% of the land bank is located in Shanghai, Beijing, Guangzhou and Shenzhen. Thanks to its parent's strong support, it won't be surprised to see its land bank increase to 20msm by the end of 2010. We appreciate Poly HK's prime city-focus development strategy, which can offer better margin than small cities either in bull market or downturn period.

- **Look ahead, more asset injections come** — Sustainable asset injection story. Following the previous round of asset injection, the parent still has around 5m sqm GFA land reserves potentially to be injected into Poly HK. A new round of asset injection should be likely done in 1Q10. The potential size of asset injection should be around 2.0-2.5m sqm GFA, including several projects in cities such as Shanghai, Hangzhou, Shenzhen, etc, which can bring significant NAV enhancement and improvement in asset quality.

- **Strong sales momentum continues, RMB10-12bn sales target in 2010** — Poly HK is confident to maintain sales CAGR of more than 30% in the coming several years. In 2010, the company is comfortable to achieve sales of RMB10-12bn, significant up from its sales of RMB8.0bn in 2009. Poly HK is expected to see a sales rally in 1-2 year later after building up a strong asset base.

Buy/Medium Risk	1M
Price (05 Jan 10)	HK$9.78
Target price	HK$12.46
from HK$11.69	
Expected share price return	27.4%
Expected dividend yield	0.5%
Expected total return	**27.9%**
Market Cap	HK$29,183M
	US$3,763M

Price Performance (RIC: 0119.HK, BB: 119 HK)

Statistical Abstract

Year to 31 Dec	Net Profit (HK$M)	Diluted EPS (HK$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2007A	427	0.28	115.8	34.7	3.4	10.2	0.2
2008A	223	0.12	-57.1	81.0	3.1	4.1	0.3
2009E	592	0.27	121.8	36.5	2.1	6.0	0.5
2010E	1,558	0.52	94.9	18.7	2.0	10.9	1.1
2011E	2,353	0.79	51.0	12.4	1.7	14.8	1.6

Source: Powered by dataCentral

Oscar Choi
+852-2501-2737
oscar.choi@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

Fiscal year end 31-Dec	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	34.7	81.0	36.5	18.7	12.4
P/E reported (x)	34.7	81.0	36.5	18.7	12.4
P/BV (x)	3.4	3.1	2.1	2.0	1.7
Dividend yield (%)	0.2	0.3	0.5	1.1	1.6
Per Share Data (HK$)					
EPS adjusted	0.28	0.12	0.27	0.52	0.79
EPS reported	0.28	0.12	0.27	0.52	0.79
BVPS	2.85	3.18	4.58	5.01	5.64
NAVps ordinary	na	na	na	na	na
DPS	0.02	0.03	0.05	0.10	0.16
Profit & Loss (HK$M)					
Net operating income (NOI)	**311**	**162**	**1,242**	**3,185**	**4,686**
G&A expenses	0	0	0	0	0
Other Operating items	102	129	-18	8	-78
EBIT including associates	**413**	**291**	**1,224**	**3,193**	**4,608**
Non-oper./net int./except.	204	58	-50	-22	39
Pre-tax profit	**617**	**349**	**1,174**	**3,171**	**4,647**
Tax	-165	-75	-293	-1,127	-1,588
Extraord./Min. Int./Pref. Div.	-25	-52	-288	-487	-707
Reported net income	**427**	**223**	**592**	**1,558**	**2,353**
Adjusted earnings	427	223	592	1,558	2,353
Adjusted EBIT	411	295	1,172	3,111	4,608
Adjusted EBITDA	517	362	1,242	3,185	4,686
Growth Rates (%)					
NOI	107.0	-48.0	667.6	156.3	47.1
EBIT adjusted	86.8	-28.3	297.7	165.5	48.1
EPS adjusted	115.8	-57.1	121.8	94.9	51.0
Cash Flow (HK$M)					
Operating cash flow	**-822**	**-1,504**	**-4,150**	**2,510**	**6,803**
Depreciation/amortization	106	67	71	74	78
Net working capital	-1,414	-1,274	-4,044	419	3,398
Investing cash flow	**-50**	**152**	**0**	**0**	**0**
Capital expenditure	-639	-668	0	0	0
Acquisitions/disposals	-399	0	0	0	0
Financing cash flow	**2,037**	**2,782**	**5,669**	**-1,840**	**-6,338**
Borrowings	803	2,880	2,056	-1,169	-5,302
Dividends paid	-53	-97	-259	-671	-1,036
Change in cash	**1,210**	**1,430**	**1,519**	**670**	**465**
Balance Sheet (HK$M)					
Total assets	**10,234**	**22,316**	**36,584**	**44,814**	**51,204**
Cash & cash equivalent	1,830	3,163	4,824	5,494	5,959
Net fixed assets	2,835	4,430	4,359	4,285	4,207
Total liabilities	**5,222**	**15,159**	**21,782**	**28,638**	**33,005**
Total Debt	1,632	6,960	9,017	7,848	2,545
Shareholders' funds	**5,012**	**7,157**	**14,802**	**16,176**	**18,199**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	53.5	9.4	17.9	27.8	28.4
ROE adjusted (%)	10.2	4.1	6.0	10.9	14.8
ROA adjusted (%)	4.5	1.4	2.0	3.8	4.9
Net debt to equity (%)	-3.9	53.1	28.3	14.6	-18.8
Interest coverage (x)	135.6	6.5	24.6	142.6	na

For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific at CIRDataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Intact expansion pace, right geographical exposure

Latest land bank of 14.2m sqm GFA

In the past 1-2 years, Poly HK has been growing at a remarkable pace, driven by the parent's potential asset injections and its own powerful organic growth. After last year's asset injection and its recent land acquisitions from the market, Poly HK has grown up to be one of the second-tier property developers, in terms of asset base. Its total land bank reaches 14.2m sqm GFA, even bigger than Sino Ocean (3377.HK) and Glorious Properties (845.HK).

Parent China Poly Group should continue to offer strong support to Poly HK via asset injections and multi-channel financial supports. Now, the parent is estimated to have around 5m sqm GFA land bank on hand to be potentially injected into Poly HK. Riding on its strong financial position, Poly HK should maintain a rapid growth pace through land acquisitions from the market, target to replenish land reserves of 5m sqm in the year of 2010. It won't be surprised to see Poly HK's land bank increase to 20m sqm GFA by the end of this year.

Figure 1. China Prop – Landbank % in Tier-1 Cities

Company	Latest Landbank size ('mn sqm) mn sqm	% in Tier-1 Cities*
Agile Property	31.0	1.2%
C C Land	13.7	0.0%
Central China	7.5	0.0%
China Overseas	35.0	12.1%
China Resources Land	26.4	15.4%
Country Garden	43.5	0.0%
Glorious Prop	13.6	36.4%
Greentown China	27.9	4.7%
Guangzhou R&F	25.4	22.0%
Hopson	30.6	46.4%
Longfor	22.0	12.7%
KWG Property	6.3	51.5%
Poly (HK)	**14.2**	**30.0%**
Shenzhen Investment	12.0	16.1%
Shimao Property	27.5	6.0%
Sino-Ocean Land	12.5	23.5%
Yanlord	4.1	30.3%

* Represented Landbank in Beijing, Shanghai, Guangzhou and Shenzhen

Source: Company and CIRA

Further strengthen position in top tier cities; 30% of land bank there

As for development strategy, Poly HK puts top focus in key cities, especially in top cities (Shanghai, Beijing, Guangzhou and Shenzhen) and provincial capital cities. It is in the right way, we think, key cities can offer better margin than small cities either in the bull market or downturn period.

Poly HK has one of the highest proportions of its land bank located in top tier cities with 30% of its existing 14.2m sqm GFA land bank located in Shanghai (1.8m sqm GFA), Guangzhou (1.3m sqm GFA) and Shenzhen (0.96m sqm GFA) and Beijing (0.113m sqm GFA). All of the remaining land reserves are located in provincial capital cities and key cities such as Suzhou, Foshan, Liuzhou etc. We believe Poly HK has a high-quality land bank, which offers a solid base for its rapid growth in the coming several years.

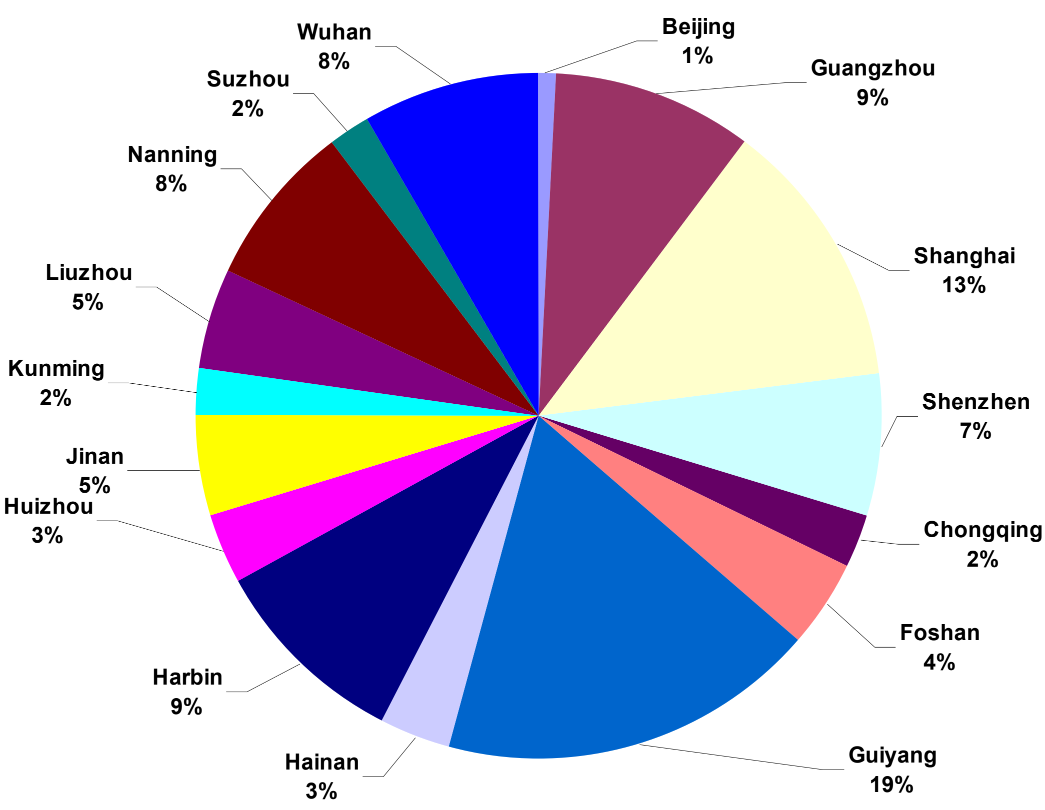
In 4Q09, the company has acquired six land plots in Guangzhou, Shanghai, Liuzhou and Jinan with a total GFA of 2.0m sqm GFA, the relevant consideration is RMB7.39bn, translating into AV of RMB3,958/sqm GFA. All of the newly acquired land bank in Shanghai and Guangzhou are located nearby Poly HK's existing projects, which can effectively bring down the overall development costs for these new projects.

Figure 2. Poly HK – Summary of Land Banks Acquired in Nov & Dec 09

Date	City	Location	Interest acquired	Usage	Total consideration (in RMB 'mn)	Total GFA (sqm)	Total Saleable GFA (sqm)	AV (RMB psm)	ASP of Ordinary Properties nearby (RMB psm)
Nov-09	Guangzhou	Automobile Park, Maxi Village	100%	Residential, Primary School	702	380,890	282,000	2,489	6.800-8,000
Nov-09	Liuzhou	Baisha Lu Project	100%	Residential and commercial	1,414	658,700	658,700	2,147	7,000-8,500
Dec-09	Shanghai	Jiading New Town - C10-6, C14-2	100%	Residential and commercial	1,200	119,150	119,150	10,071	18,000-25,000
Dec-09	Shanghai	Jiading New Town - A04-1, A04-2	100%	Residential and commercial	1,310	117,550	117,550	11,144	18,000-25,000
Dec-09	Jinan	Licheng District	100%	Residential and commercial	1,800	340,880	340,880	5,280	10,000-12,500
Dec-09	Guangzhou	Nanfeng Flower market	100%	Residential and commercial	960	380,480	348,000	2,759	7,500-9,000
Total					**7,386**	**1,997,650**	**1,866,280**	**3,958**	

Source: Company; Citi Investment Research and Analysis

Figure 3. Poly (HK) – Geographical Breakdown of Landbank



Source: Company; Citi Investment Research and Analysis

Look ahead, more asset injections come

Sustainable asset injection story

Last Sep, Poly (HK) has announced an asset injection from the parent company for five residential projects with a total GFA of 2.14m sqm GFA (attributable GFA of 1.89m sqm GFA). All of them are located in key cities such as Suzhou, Foshan, Shenzhen, Shanghai and Hainan. Different from other asset injection story, Poly (HK)'s asset injection is not a one-off game. The parent is determined to build Poly (HK) as a market leader, mainly via asset injection and organic expansion.

Following the previous round of asset injection, the parent still has around 5m sqm GFA land reserves potentially to be injected into Poly HK. Within the 4.93m sqm GFA residential land plots, around 2.0m sqm GFA are located in Shanghai and Hangzhou and the remaining are located in Ningbo, Wuxi, Nanning and Shenzhen etc. We believe there should be likely another 1-2 rounds of asset injections by the end of 2010

A new round likely in 1Q10

We believe a new round of asset injection should be likely done in 1Q10. The potential size of asset injection should be around 2.0-2.5m sqm GFA, including several projects in cities such as Shanghai, Hangzhou, Shenzhen, etc. Without a doubt, given the prime location and the scale of these projects, the assets to be injected in the next round may be even more attractive and value-enhancing. Based on our analysis and estimates, if these land assets can be injected into Poly (HK), it should bring an estimated NAV enhancement by HKD4.0/share if we assume all of the consideration was settled in cash. We are comfortable on the parent's determination, strong execution ability and political influence.

Strong sales momentum continues, RMB10-12bn sales target in 2010

2009 contracted sales of RMB8.0bn

Apart from the capitalization, Poly (HK)'s financial power is further strengthened by its strong contracted sale. The company announced that 2009 contracted GFA sold and contracted sales revenue amounted to approximately 1.2 msm and RMB8.0bn, respectively.

2010 sales target of RMB10-12bn

Poly HK is confident it can maintain sales CAGR of more than 30% in the coming several years. In 2010, the company is comfortable to achieve sales of RMB10-12bn. We think Poly HK has been replicating the growth story of CRL (1109.HK), which showed strong sales rally in 2009 after successfully building a strong asset base in 2006-08. In 2007 and 2008, CRL's contracted sales were only around RMB7-8bn per annum whilst the sales jumped to around RMB25bn in the year of 2009. Poly HK should see a sales rally in 1-2 year later when its land bank reserves increase to more than 20m sqm GFA. To maintain strong sales growth target, Poly HK should significantly increase its commencement of construction GFA from 1.6m sqm GFA to 3.6m sqm GFA.

High earning visibility, RMB8.3bn unrecognized contracted sales

Now, Poly HK has around RMB10.5bn contracted sales, which can be recognized in 2009 and 2010. It has 100% locked in our estimated 2009 revenues and 45% locked in the estimated 2010 revenues. The high earnings visibility further offers us strong confidence on the counter.

Figure 4. Poly (HK) – Lock-in Percentage of 09 & 10 Estimated Revenues

	RMB'bn
Pre-sold in 2008 (To be recognized in 2009)	2.50
Contracted sakes achieved in FY09	8.00
Total sales for recognition	**10.50**
Citi Estimated 09 Revenue (HK$bn)	6.30
Lock-in % of 09 Estimated Revenues	**100%**
Citi Estimated 10 Revenue (HK$bn)	10.56
Lock-in % of 10 Estimated Revenues	**45%**

Source: Citi Investment Research and Analysis Estimates

Earnings Revision

We have revised down our EPS estimates for 2009by 5.3% while up for 2010-2011 by 6.3-18.3% after we have factored in the new projects acquired by Poly HK recently and the latest development schedule.

Figure 5. Poly (HK) – Earning Revision

Year to	Net Income		FD EPS			DPS	
31-Dec	Old	New	Old	New	% Chg.	Old	New
2009E	626	592	0.283	0.268	-5.3%	0.057	0.054
2010E	1,316	1,558	0.441	0.522	18.3%	0.088	0.104
2011E	2,212	2,353	0.741	0.788	6.3%	0.148	0.158

Source: Citi Investment Research and Analysis estimates

Financial Statements

Figure 6. Poly (HK) – Consolidated Income Statement

HKDmn	2004	2005	2006	2007	2008	2009E	2010E	2011E
Property development	0	0	0	481	2,761	6,296	10,561	15,601
Property investment	91	113	133	159	273	222	536	544
Others	69	133	138	128	90	45	81	93
Total Turnover	**159**	**246**	**270**	**768**	**3,124**	**6,563**	**11,178**	**16,238**
Property development	0	0	(12)	50	155	1,007	2,717	4,207
Property investment	55	167	146	325	147	157	379	384
Others	210	172	86	36	(7)	8	14	16
EBIT	**265**	**338**	**220**	**411**	**295**	**1,172**	**3,111**	**4,608**
Net Interest Expenses	(15)	(49)	(35)	(4)	(56)	(50)	(22)	39
Net Operating Profit	**250**	**289**	**185**	**407**	**239**	**1,121**	**3,088**	**4,647**
Share of Associates & JV	4	(31)	(5)	2	(4)	52	82	0
Exceptionals	(72)	(47)	18	208	114	0	0	0
Pretax Profit	**182**	**212**	**197**	**617**	**349**	**1,174**	**3,171**	**4,647**
Taxation	(9)	(30)	(35)	(165)	(75)	(293)	(1,127)	(1,588)
Minority Interest	(20)	(17)	14	(25)	(52)	(288)	(487)	(707)
Net Profit	**153**	**165**	**176**	**427**	**223**	**592**	**1,558**	**2,353**
EPS	0.17	0.18	0.13	0.28	0.12	0.27	0.52	0.79
PE	38.8	36.0	50.7	27.7	64.6	36.5	18.7	12.4
Target PE	61.3	56.9	80.1	37.1	86.7	39.5	20.3	13.4
Core Net Profit	**225.1**	**211.2**	**157.7**	**218.8**	**108.9**	**592**	**1,558**	**2,353**
Core EPS	0.25	0.24	0.12	0.13	0.06	0.27	0.52	0.79
DPS	0.03	0.05	0.02	0.02	0.03	0.05	0.10	0.16
Dividend Yield	0.5%	0.8%	0.3%	0.3%	0.4%	0.6%	1.3%	1.9%

Source: Company Report; Citi Investment Research and Analysis estimates

Figure 7. Poly (HK) – Cash Flow Statement

As at 31 Dec	2004	2005	2006	2007	2008	2009E	2010E	2011E
OP Cash Flow before WC Change	222	241	181	271	362	1,242	3,185	4,686
Change in Working Capital	59	-80	369	-1,414	-1,274	-4,044	419	3,398
Operating Cash Flow	281	161	550	-1,142	-912	-2,802	3,604	8,084
Returns on inv/service of finance	-82	-102	-109	-77	-597	-699	-1,072	-1,229
Tax paid	-6	-14	-15	-59	-92	-908	-693	-1,088
NCF from Operating Activities	**192**	**44**	**426**	**-1,278**	**-1,601**	**-4,409**	**1,839**	**5,767**
NCF from Investing activities	**-291**	**-1,004**	**-788**	**352**	**152**	**0**	**0**	**0**
NCF before Financing	**-99**	**-960**	**-362**	**-926**	**-1,450**	**-4,409**	**1,839**	**5,767**
NCF from Financing activities	**298**	**799**	**679**	**2,090**	**2,880**	**5,928**	**-1,169**	**-5,302**
Increase in Cash/Bank	199	-161	318	1,164	1,430	1,519	670	465
Beginning Cash/Bank	241	440	274	632	1,823	3,253	4,772	5,443
FX and Other Adjustments	0	-5	20	46	0	0	0	0
Ending Cash/Bank	440	274	612	1,842	3,253	4,772	5,443	5,907
Net Debt	**-242**	**-1,195**	**-874**	**191**	**-3,848**	**-4,245**	**-2,405**	**3,362**
Net Gearing	10%	43%	24%	Net cash	63%	31%	16%	Net cash
OCF/Share	NA	0.18	0.41	(0.75)	(0.49)	(1.27)	1.21	2.71

Source: Company Report; Citi Investment Research and Analysis estimates

Figure 8. Poly (HK) – Consolidated Balance Sheet

As at 31 Dec	2004	2005	2006	2007	2008	2009E	2010E	2011E
Properties and equipment	1,016	1,981	1,719	875	1,037	966	892	814
Land-use rights	0	0	0	0	0	0	0	0
Investment properties	721	1,358	1,567	1,960	3,393	3,393	3,393	3,393
Other non-current assets	801	1,176	588	1,067	1,740	1,740	1,740	1,740
Fixed assets	**2,538**	**4,515**	**3,873**	**3,902**	**6,170**	**6,099**	**6,025**	**5,947**
Associates & JC entities	467	244	144	62	68	120	203	203
Deferred tax assets	0	0	0	2	149	149	149	149
Goodwill	6	0	1	0	0	0	0	0
Land/Prop under Dev	155	43	3,084	4,101	11,823	20,592	26,899	31,537
Bank balances & cash	472	296	723	1,830	3,163	4,824	5,494	5,959
Other current assets	299	499	901	338	944	4,800	6,045	7,410
Current Assets	**926**	**838**	**4,708**	**6,269**	**15,930**	**30,216**	**38,438**	**44,906**
Loans & overdrafts	279	624	752	307	1,553	1,491	927	609
Deposits on Prop Sales	5	5	206	533	1,739	5,264	10,548	17,188
Trade & other payables	319	272	664	1,028	1,626	3,282	5,589	8,119
LAT payables	0	0	0	0	0	0	334	760
Other current liabilities	112	175	1,567	1,711	4,253	3,638	3,738	3,812
Current liabilities	**714**	**1,076**	**3,189**	**3,578**	**9,170**	**13,675**	**21,136**	**30,487**
Total Net assets	**3,224**	**4,521**	**5,538**	**6,656**	**13,146**	**22,910**	**23,678**	**20,717**
Long term bank loans	241	606	746	1,325	5,408	7,526	6,921	1,937
Convertible bonds	168	240	0	0	0	0	0	0
Other long term liabilities	92	211	272	319	581	581	581	581
Long term liabilities	**502**	**1,056**	**1,019**	**1,644**	**5,989**	**8,107**	**7,502**	**2,518**
Minority interests	204	688	868	318	1,077	1,135	1,232	1,373
Shareholders' funds	2,518	2,776	3,651	4,695	6,080	13,668	14,944	16,826
Total capital employed	**3,224**	**4,521**	**5,538**	**6,656**	**13,146**	**22,910**	**23,678**	**20,717**

Source: Company Report; Citi Investment Research and Analysis estimates

Figure 9. Poly (HK) – Financial Ratios

	2004	2005	2006	2007	2008	2009E	2010E	2011E
ROE	4.7%	4.3%	3.5%	7.0%	2.3%	3.3%	6.7%	10.6%
ROA	30.5%	21.1%	16.9%	32.0%	6.3%	9.2%	21.6%	53.1%
Net Gearing	9.6%	43.1%	23.9%	Net cash	63.3%	31.1%	16.1%	Net cash
Interest Cover	18.0	6.8	4.0	3.0	0.6	2.7	7.7	23.7
Dividend Payout Ratio	N/A	N/A	15.3%	7.6%	40.0%	20.0%	20.0%	20.0%
Property Sales Margin	0%	0%	-9%	10%	6%	24%	33%	34%
EPS Growth YoY		8%	-29%	116%	-57%	122%	95%	51%

Source: Company Report; Citi Investment Research and Analysis estimates

Poly (Hong Kong) Investments

Company description

Poly (HK) Investment Ltd is a nationwide property developer, with high exposure in Shanghai and Southwestern China. Its major businesses include property investment, development and management. As a subsidiary of state-owned China Poly Group, it has unique advantages in acquiring land and capital. The group develops mid to high-end residential and commercial properties in Central and Southwestern China, with projects in Guiyang, Shanghai, Guangzhou, Nanning and Wuhan. It also maintains a high-quality investment portfolio comprising landmark properties such as Shanghai Stock Exchange and Beijing Poly Plaza. It has more than 30 projects at various stages of development, and land reserves and projects under development aggregating a total GFA of around 8.7 million sqm GFA.

Investment strategy

We maintain our Buy/Medium Risk (1M) on Poly (HK). It trades at a 29.4% discount to our estimated 2010E NAV of HKD13.85, which is attractive in our view given the quality landbank and strong sales performance. Poly (HK) is a well-established nationwide developer with good execution ability and sizeable land bank reserves. We do not believe the large discount is justified. The P/E valuation methodology underpins our bullish view on the stock with 2010E PER of 18.7x (2011E PER of 12.4x). Moreover, given potential asset injections from the parent, its own aggressive expansion schedule and a scarcity of investment properties in Shanghai, we expect significant upside for Poly (HK)'s estimated NAV. Trading at such an attractive valuation offers strong defensiveness, even in a market downturn, in our view.

Valuation

Our HKD12.46/share target price is based on a 10% discount to 10E NAV of HKD13.85. The revision in NAV is mainly due to the factoring in the newly acquired land bank. Our 10% targeted NAV discount, which in our view, is deserved given its strong growth potential and powerful background. We compute NAV based on our estimation on property values, excluding net debt. We value Poly (HK)'s Forward 2010E NAV at HK$41.33bn, based on these assumptions: For residential projects, ASP is assumed to rise by 0-5% in 2010E, then flat in 2011E and onwards. In deriving our NAV estimate, we use a discount rate of 10.5%, higher than the average of 10.3% WACC for Chinese property stocks under our coverage, to reflect Poly (HK)'s smaller operating scale. As for investment properties, we estimate value using a cap rate of 7.5-8.5% for its commercial property projects. We choose discount to NAV to derive our target price as it is the most widely used method for valuing Hong Kong and China property stocks.

Figure 10. Poly (HK) – Breakdown of Estimated 2010 NAV

	NAV (HK$m)	NAV (HK$/Share)	% of NAV	% of GAV
Development Properties				
Residential	29,942	10.03	72.5%	63.5%
Retail	1,642	0.55	4.0%	3.5%
Office	4,170	1.40	10.1%	8.8%
Carparks	841	0.28	2.0%	1.8%
Subtotal Development Properties	**36,594**	**12.26**	**88.5%**	**77.6%**
Investment Properties				
Office	5,331	1.79	12.9%	11.3%
Retail	3,937	1.32	9.5%	8.3%
Hotels	1,301	0.44	3.1%	2.8%
Subtotal Investment Properties	**10,569**	**3.54**	**25.6%**	**22.4%**
Gross Asset Value (GAV)	**47,163**	**15.81**	**114%**	**100.0%**
Net Cash/(Debt)	(2,405)	(0.81)	-5.8%	
Potential LAT Liabilities	(3,431)	(1.15)	-8.3%	
NAV	**41,327**	**13.85**	**100.0%**	

Source: Citi Investment Research and Analysis estimates

Risks

We rate Poly (HK) Medium Risk although our quantitative risk rating system, which tracks 260-day historical volatility of the shares, rates Poly (HK) High Risk. We think Medium Risk is appropriate because Poly (HK) is well-capitalized and is now diversifying its portfolio in mainland China, which should help diversify away the unsystematic risks inherent in the property market of a single mainland city. Fundamentally, Poly (HK) is exposed principally to the property market in mainland China. With regard to economic risks, any weaker-than-expected GDP growth for the Chinese and/or global economy, and the risk of a hard landing in the domestic economy could negatively affect buyer sentiment in China's property markets, leading to elusive demand, rendering our sales and earnings estimates for Poly (HK) unrealizable. In addition, any stronger-than-expected pickup in inflation could result in a sharp rise in interest rates, affecting housing affordability for homebuyers. This could also attract new austerity measures, further dampening sentiment in the housing market. These risks could impede the stock from reaching our target price.

Appendix A-1

Analyst Certification

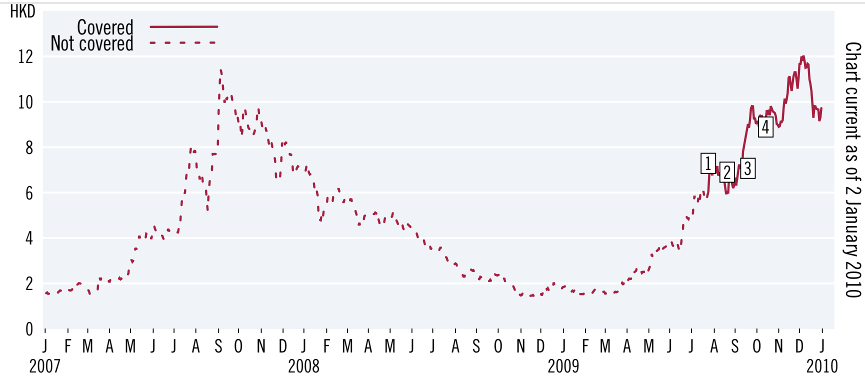
Each research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Poly (Hong Kong) Investments (0119.HK)

Ratings and Target Price History
Fundamental Research

Analyst: Oscar Choi
Covered since July 24 2009



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	*1M	*8.10	6.03
2	20-Aug-09	1M	*8.19	6.05
3	18-Sep-09	1M	*12.33	9.02
4	14-Oct-09	1M	*11.69	8.89

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Poly (Hong Kong) Investments.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Poly (Hong Kong) Investments.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Poly (Hong Kong) Investments.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Poly (Hong Kong) Investments in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Poly (Hong Kong) Investments.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Poly (Hong Kong) Investments.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Poly (Hong Kong) Investments.

Rohini Malkani has in the past worked with the India government or its divisions in her personal capacity.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

Data current as of 31 Dec 2009	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	48%	36%	16%
% of companies in each rating category that are investment banking clients	48%	45%	37%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:
CIRA's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).
Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Citi Investment Research & Analysis (CIRA) Corporate Bond Research Credit Opinions and Investment Ratings: CIRA's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIRA analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by CIRA will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of CIRA's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at https://fidirect.citigroup.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

Non-US research analysts who have prepared this report are not registered/qualified as research analysts with the NYSE and/or NASD. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Asia	Oscar Choi

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 05 January 2010 04:10 PM on the issuer's primary market.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. Incorporated (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

The required disclosures provided by Morgan Stanley and Citigroup Global Markets, Inc. on Morgan Stanley and CIRA research relate in part to the separate businesses of Citigroup Global Markets, Inc. and Morgan Stanley that now form Morgan Stanley Smith Barney LLC, rather than to Morgan Stanley Smith Barney LLC in its entirety. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and

https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by Nikko Cordial Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul. Chalubinskiego 8, 00-630 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Taiwan Securities Company Ltd., which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA" to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST