Interim Results Briefing

NAV at £10.62 per share, supported by transactions in the public market. Short-term we see little catalyst for the NAV to appreciate and it may weaken slightly as 2009's leasing activity plays out. However, we believe that at c.300p the share price reflects an overly negative outlook and believe it has the capacity to re-rate to NAV over the next 24 months – offering total upside of c.2.5x.

Valuations decline 6% in local currency terms. The RMB value of the portfolio declined as rising vacancy rates and reduced rental values affected the outlook. The brunt of the decline occurred in the development portfolio and the investment portfolio broadly maintained its value, down 1.2%. The decline in the development portfolio was driven by a combination of extended development timelines and market specifics.

Investment portfolio valuation (5% gross running yield and c.RMB31,000 per sqm of GFA) is supported by public transactions such as SoHo's (410 HK) acquisition of a recently refurbished 71,000 sqm building (c.30% let) from Morgan Stanley at c.RMB34,500 per sqm and other Shanghai deals by Franshion (817 HK).

Mixed outlook for the next 18 months. In a tough leasing environment (Shanghai office vacancy rate rose to 20% in Pudong and 9.4% in Puxi, source JLL), CREO has increased the average office rent per let sqm by 16%, on average, over the last 12 months. The realised increases have offset the impact of a rising vacancy rate, resulting in a flat RMB rental stream over the half. Discussing the rent roll, Treasury China highlighted that the short dated nature of the leases made the headline rate less important to tenants than the total cost of occupation.

Treasury China highlight that the market currently expects the overhang in office space to clear over the next 24 months.

In the retail sector, the continued strength in consumer demand, combined with low vacancy rates is supportive of both rental income and valuation.

City Centre Extension (CCE) offers significant long term potential. CCE is currently undergoing another round of planning; with construction currently scheduled for Q2 2010. The entire project including the integration with City Centre, and the reorganisation of the combined retail space is expected to complete in mid 2013.

Working capital is tight but not unmanageable. CREO has a natural cash outflow of c.£20m per annum against cash balances of £40m and a further £16m of restricted cash. Treasury China note that with their phased receipt of the 2008 performance fee (£20m outstanding) that CREO has sufficient cash to operate for two years and, if necessary, they will look to sell non-core assets to maintain the appropriate levels of working capital. They signalled that the refinancing of CREO's debt over the next two years could release much of the restricted cash – further strengthening the available working capital.

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Company	Disclosure
China Real Estate Opportunities	1, 2, 3

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