

7 November 2008

China Real Estate Opportunities

Six months to	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	NAV/share (p)	Discount to NAV (%)
06/08	14.2	(21.4)	(0.42)	0.0	974	81

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Strong third quarter

The shares have been hard hit by a recent shift in sentiment towards the prospects for South-East Asia's economies, but this was not reflected in Q3 trading. The period saw 10-50% growth in office rents on lease renewals and new lettings, on a portfolio between 92-97% let. CREO's retail properties saw on average a 16% increase in rents, from 21 renewals or new lettings. The group's current valuation, at a steep 81% NAV discount, reflects a pessimistic outlook that appears out of proportion to the strong performance of a high-quality portfolio.

Development portfolio: Gaining momentum

The construction of the Beijing Logistics Park is on track to start in November, with completion due in H109. CREO reports strong enquiries from potential tenants. In Shanghai, the refurbishment of Central Plaza and City Center is on schedule for H109, with other development work due to commence in the current quarter. Shanghai retail sales grew 5.7% y-o-y in Q3, while retail vacancies declined by 0.4% in Q309 due to demand for space from international retailers.

China: GDP growth running at 9% pa

The economic backdrop appears more positive than that facing many mature economies. Although China is vulnerable to recession in its key export markets, domestic growth remains relatively resilient and a central commitment to investment in the country's infrastructure is expected to help compensate for weakness elsewhere.

Financial condition

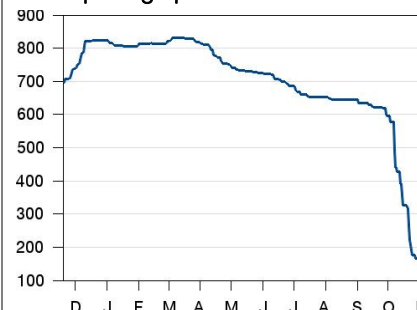
The mid-year average LTV was 44.5%. Borrowing will grow as development gets underway, but all debt secured against the investment portfolio is locked in until Q310 and development facilities are in place for the Beijing Logistics Park.

Valuation: Heavy NAV discount ignores potential

The valuation appears anomalous relative to positive trading, the Q3 rent uplifts and further NAV in the pipeline. This will flow from c 30% ¥/£ appreciation since the mid-year, the upgrade and refurbishment of the investment portfolio, and the c 260p/share further value that we estimate CREO could extract from its existing development programme over the next one-to-four years.

Price 195.0p
Market Cap £100m

Share price graph



Share details

Code CREO
Listing AIM
Sector Real Estate
Shares in issue 51.2m

Price

52 week High 832p Low 165p

Balance Sheet as at 30 June 2008

Debt/Equity (%)	35
NAV per share (p)	974
Net borrowings (£m)	175

Business

China Real Estate Opportunities is an investor and developer of high-quality property in China. It holds a portfolio of rented commercial property in Shanghai, with developments due to get underway in Beijing and Qingdao in Q408.

Valuation

	2008	2009e	2010e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

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