

Real Estate developer

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## New Issue

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**Euro Asia Premier Real Estate is a Chinese property developer in Weifang in Shandong province, northern China. The group focuses on developing mid and high-end commercial and residential properties in prime locations. The group plans to list on the German stock market.**

**Growth potential.** The Weifang market has seen rapid growth with property prices doubling between 2000 and 2007, but still 25% below the national average. Located in a fast-growing region with good links to the Yellow Sea, it has a large population and established infrastructure.

**SNI relationship.** Euro Asia was established as a listing vehicle for SNI and acquired part of its portfolio. SNI is the market leader in Weifang with an estimated 15% market share. Euro Asia aims to capitalise on SNI's relationships with local government and targets a market share of 35% to 40%.

**Hidden values.** Property assets were acquired for RMB264m. However, these have significant hidden reserves and could, once construction permits are issued, be valued at over RMB800m. Euro Asia plans to develop and sell all its land plots within three years and could see an average return on investment of over 35%.

**Earnings and cash growth.** Euro Asia has sound finances with only a RMB30m loan. We estimate the group may have no additional cash needs as net cash could rise to over RMB680m by September 2013.

**Valuations.** Comparable valuations are misleading, as many listed real estate companies have suffered from the financial crisis. We believe a broad reference to the total market is more appropriate. With China's faster growth prospects than Germany, a medium-term premium can be justified. On our 2012 forecasts, after the IPO, we believe the group should be worth some €100m.

Year end 30/09 (RMB m)	2009	2010e	2011e	2012e	2013e
Sales	0.0	144.6	418.5	429.6	551.3
EBITDA	(5.5)	(35.0)	103.7	42.3	130.7
EBIT	(5.5)	303.0	206.7	213.3	230.7
Net income	(5.5)	303.0	196.3	209.1	217.6

Source: VB Equity Research Ltd.

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## I. Introduction

**Property developer**

Euro Asia Premier Real Estate is a Chinese property developer focused on Shandong. The province in northern China has a larger population than Germany at some 94 million. The group concentrates especially on the Weifang area, which has had historic links to Germany since the 1890s when Germany acquired concessions nearby. The company plans to be listed on the German stock market.

**Focused on undervalued property market**

The real estate market in Weifang has seen rapid growth with prices doubling between 2000 and 2007. This market though has not grown as fast as some other areas, such as Beijing and Shanghai. Additionally, Shandong's property prices are around 25% below the national average, comparing favourably with Beijing and Shanghai where prices are two or three times the national average. Weifang has a large population and established infrastructure with strong growth potential for construction and real estate development. Additional growth could come from local government plans to initiate new urban redevelopment projects.

**Strong growth through SNI**

Euro Asia was established as a listing vehicle for SNI and Euro Asia has acquired its initial real estate portfolio from SNI and related companies. All properties are located in strategic sites throughout the Weifang area. SNI was established over ten years ago as a property developer and has become the market leader with an estimated 15% market share. Euro Asia aims to capitalise on SNI's relationships with local government and its remaining property portfolio. The two companies have a non-competition agreement, agreeing that SNI will not acquire any new properties and it only assists in acquiring property projects for Euro Asia.

**Commercial and residential properties**

Euro Asia focuses on developing mid and high-end commercial and residential properties in prime locations. Its development projects typically allow construction to be completed within 12 to 18 months.

**Significant hidden value of property portfolio**

The group's current assets were acquired for RMB 264m and include three completed and leased buildings, three floors of an office building, one large hotel and conference centre currently under construction and four large land plots. These assets have significant hidden reserves and could, once construction permits are issued, be valued at over RMB 800m. Euro Asia plans to develop and sell all four plots of land within the next three years. This means Euro Asia could see an average return on investment of over 35%.

**Sound financials**

Euro Asia has sound finances and a non-interest-bearing loan of RMB 30m plus unused borrowing facilities of over RMB 150m. We estimate the group may have no additional cash needs for its current projects. Earnings are expected from property sales, leasing and property management as well as revaluation gains from its existing property portfolio. Net cash we expect could rise from RMB 1m in September of 2009 to over RMB 680m by September 2013.

Valuing property developers has challenges, especially as many listed companies have been suffering from the financial crisis so immediate comparable valuations are misleading. We believe a broad reference to the total market is more appropriate. However, with China's faster growth prospects than Germany, a medium-term premium can be justified. On our 2012 forecasts, after the IPO, we believe the group should be worth some €100m.

## II. Management, Strategy and SWOT

Five member  
board

### a) Management

The management board has five members. Xiyi Sun is chairman and CEO of Euro Asia and responsible for the strategy. He is also the chairman and owner of SNI Shandong New Industry Group, the leading real estate developer in Weifang. He has been in a real estate developer for over ten years and has built a strong reputation, developing over one million m<sup>2</sup>. Xiyi Sun has agreed to not act against the interest of Euro Asia.

Patrick P.L. Chan is the vice chairman and currently main shareholder of Euro Asia. Trained as an accountant, he worked in North America for several international companies in the 1980s and 1990s. He joined Euro Asia in 2009.

Zhu Ming Hao Alan is the CFO. An accountant, he joined SNI in 2000, joining the boards of SNI in 2008 and Euro Asia in 2009. Huang Jing Wen, an electrical engineer, joined SNI and Euro Asia in 2009. Xiao Jun Sun is a board member, joining SNI in 2001 and becoming a board member of SNI in 2008.

30 employees

Euro Asia has 30 employees, all subcontracted from SNI. This gives Euro Asia experienced personnel with strong knowledge of the local property market as well as relationships with local government, designers, architects, suppliers and construction companies. Euro Asia has an agreement with SNI to use additional SNI staff on a temporary basis when required, giving additional flexibility.

### b) Strategy

Euro Asia was established in 2006 as a listing vehicle for SNI. In 2009 the group began trading and assets were acquired with the NIW Real Estate purchase from the SNI group.

Growth through SNI  
relationship

SNI was founded over ten years ago as a property developer and has become the market leader in the Weifang region with a 15% market share. SNI and Xiyi Sun have signed a non-competition agreement, agreeing they will not acquire any properties and will only assist in acquiring property projects for Euro Asia.

In January 2010 Euro Asia also made an acquisition agreement with SNI to have first right of refusal to purchase its land portfolio in the next years. SNI owns some 7 million m<sup>2</sup> of land, equivalent to five times the size of Hyde Park, London or about one-fifth the size of Manhattan, New York. The cooperation agreements cost RMB 5m a year. This could in the medium term allow Euro Asia to absorb SNI's total real estate business. Euro Asia believes the total SNI land portfolio will be sufficient for its development projects for the next five to ten years. Euro Asia also aims to acquire land for which development plans exist, urban renewal and other government-led projects.

Euro Asia aims to become the leading real estate developer in the Weifang area. For 2016 a market share of between 35% and 40% is sought. The aim is to build a strong brand for high quality developments and after-sales services.

Current property  
portfolio

The group has real estate projects in well-located sites throughout the area. This includes completed and let buildings, one property under construction and several plots of land.

Property  
development

Euro Asia focuses on developing mid and high-end commercial and residential properties in prime locations. The group focuses on modern design, ancillary

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facilities and landscaping. Third party architects and designers are used through a tender process for each project. The group also uses tenders to select construction companies.

The group monitors daily all construction stages to allow a continual update of building schedules and costings, with completion to be in 12 and 18 months.

**Property leases**

Euro Asia aims to focus on mainly property development and sales, rather than letting. However, during its start-up phase, the group aims to have a base income. In the medium term and as long as it has no other use for its capital, such as waiting for planning and construction permits, the group plans to hold some properties to reduce its operational risk. It currently lets its properties to businesses of Xiyi Sun, but in the medium term aims to diversity its tenant mix.

**Property management services**

The group plans to offer property management services through NIW Real Estate for its own property developments. Initially the group plans to begin operating the hotel and conference centre at the Training and Exhibition Centre from 2011.

**Renewable energies**

Euro Asia uses renewable energy technologies in its property developments. The group has used geo-thermal heat exchangers and solar panels in some of its properties, making them relatively more attractive as rentals and to investors.

**c) SWOT**

**Strengths**

**Management** – Through Xiyi Sun and other managers, which previously worked for SNI, there is strong expertise in development in Weifang region.

**Portfolio** – assets were bought for RMB264m but current valuations suggest they may be worth RMB 876m with construction permits. This should allow high return on investments in the coming years.

**Property locations** – the group focuses its investments on prime locations and where local government plans urban renewal projects.

**Short time to market** – the target is just 12 to 18 months. This is helped by purchasing properties with existing construction permits.

**Opportunities**

**Limited external debt** – the group has just RMB 30m loans. Leverage could allow additional projects to be acquired.

**Government relationship** – Xiyi Sun and other SNI managers working at Euro Asia have strong relationships with local government authorities.

**Weifang** – the group is focused on a fast growing region of China with good links to the Yellow Sea.

**Weaknesses**

**Small size** – Euro Asia is a start-up with no significant history. Nevertheless, it has a significant partner through SNI which through its cooperation agreement it has the ability to expand sharply and profitably in the coming years.

**Group structure** – changes should be completed following the IPO, allowing 100% control of its assets.

**Dependent on property market performance** – the group may be unable to sell some properties at the price they were valued at if property market prices fall. However, the group has currently significant hidden reserves.

**Threats**

**Subject to government policies** – introduction of policies, regulations and measure to adversely affect the real estate sector – to slow down growth. These measures appear to be targeted mainly at major cities.

**Relationship with SNI** – however the market leading developer could allow Euro Asia to capitalise on SNI's relationships with the government.

**Chinese property market** – overheating may become an issue, Euro Asia is the only investment focused on the property market in Shandong province.

Sources: VB Equity Research Ltd.

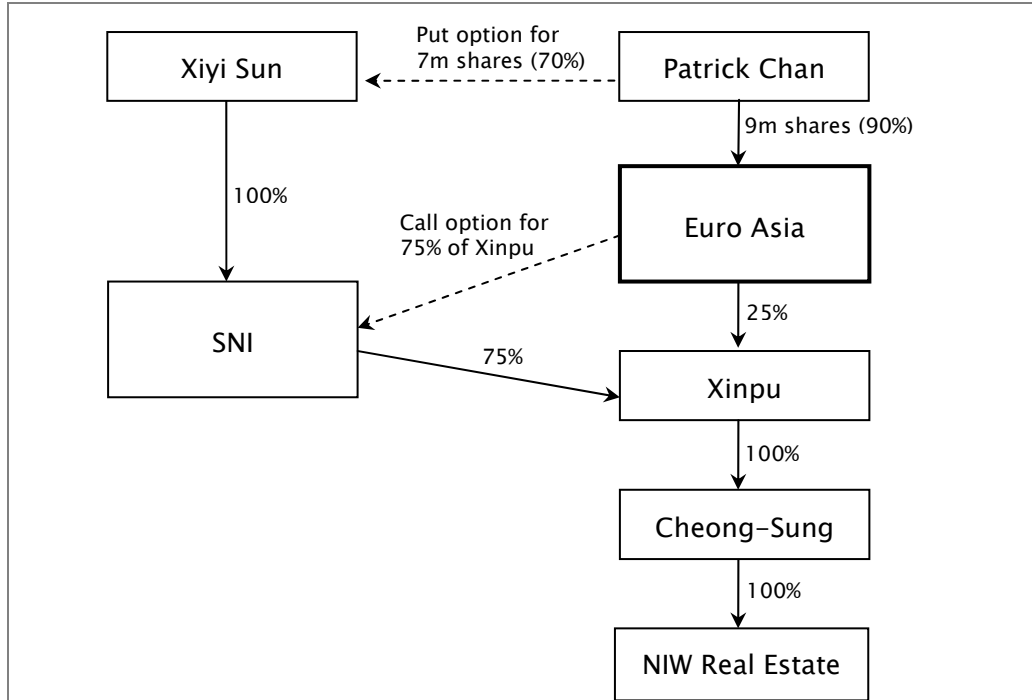
### III. The company

#### a) Company structure

Changing company structure

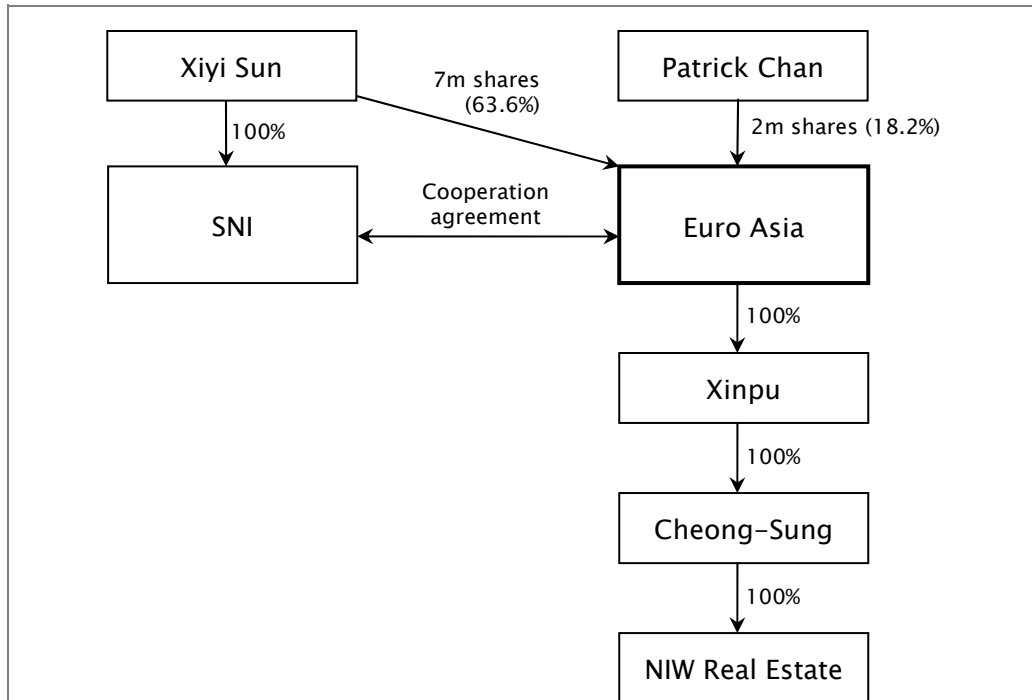
Euro Asia has set up a structure allowing it to list on the German stock market. This structure is to change following the IPO.

##### Company structure before the IPO



Sources: VB Equity Research Ltd

##### Company structure after the IPO\*



Sources: VB Equity Research Ltd; \* excluding greenshoe

<b>Share ownership to change</b>	Euro Asia has 10m shares. The main shareholder is the EU-Asia-America Building Material Company Limited, fully owned by Euro Asia's vice chairman Patrick P.L. Chan. He has a put option to transfer 7m shares to Xiyi Sun. Patrick P.L. Chan personally holds an additional 2m shares. After the IPO we expect the share ownership will change with Xiyi Sun owning 7m shares, 63.6%.
<b>Business ownership changes</b>	Euro Asia owns 25% of Xinpu, which fully owns NIW Real Estate. The remaining 75% of Xinpu is owned by SNI. NIW Real Estate is to become Euro Asia's core property holding business. Euro Asia has an agreement to be the custodian and manager of SNI's holding in Xinpu for one year. SNI has also waived any income from its 75% interest in Xinpu. Euro Asia has a call option to purchase the 75% stake in Xinpu from SNI.
<b>Three subsidiaries</b>	Euro Asia expects to fully own three subsidiaries following the transaction. Xinpu is planned to be responsible for personnel, Cheong Sung is to focus on administration and control of project planning and design. NIW Real Estate is the developer and is also responsible for selling and leasing the properties.

### b) Properties and land held

Euro Asia's properties are owned through NIW Real Estate (New Industry Weifang Real Estate Development), which is fully owned by Xinpu. NIW Real Estate owns three properties and three floors in an office building, all of which are fully completed and let. NIW Real Estate also owns several large land plots where the group is currently constructing or has plans to build.

The company bought the properties for RMB 264m, but the true fair value is significantly higher at RMB 806m. Once the group has begun construction at two land plots, the total value of these could rise from currently nil on its book value to a fair value of RMB 338m. Additionally, once construction of the Training and Exhibition Centre is complete the value of the building of RMB 70m should also be included, as the company purchased the land rights including the completed outer structure of the new buildings. This could increase the value of the properties to RMB 876m.

#### NIW Real Estate property portfolio

	Owner	Previous owner	Use	Value (RMBm)	Land-use rights until
<b>Completed buildings</b>					
New Jianye Building (3 floors)	NIW	NIW Real Estate	Office	34	September 2052
Xinyuanju Hotel (German hotel)	NIW	SNI	Hotel	76	December 2047
Estate of Shengpaihua	NIW	Mr Xiyi Sun	Commercial	32	August 2037
Yunhu Holiday Hotel	NIW	Anqui Qingyu Shuyuan <sup>1</sup>	Hotel	59	December 2043
<b>Properties under construction</b>					
Training and Exhibition Centre	NIW	Anqui Qingyu Shuyuan <sup>1</sup>	Hotel/ Other	96 <sup>2</sup>	December 2043
<b>Land for future development</b>					
China Agricultural Machinery	NIW	Xinpu	-	138 <sup>3</sup>	December 2049
Luxury Townhouses at Jiulongjian	NIW	Weifang government	-	200 <sup>3</sup>	-
Xinyuanju Hotel	NIW	Anqui Qingyu Shuyuan <sup>1</sup>	-	21 <sup>3</sup>	December 2047
Training and Exhibition Centre	NIW	Anqui Qingyu Shuyuan <sup>1</sup>	-	150 <sup>3</sup>	December 2043

Sources: VB Equity Research Ltd; <sup>1</sup> Xiyi Sun owns 90% of the group; <sup>2</sup> value does not include the building costs of an estimated RMB70m; <sup>3</sup> current value nil as valued as bare land



### i) Completed buildings

Although Euro Asia is a property developer, the group retains some of its properties following construction before new construction permits are issued by the local government agencies. The total value of the completed buildings is RMB 201m. Rental income per year on its current completed properties totals RMB 19m. The rental prices are fixed and are not linked to inflation or other indices. All rental agreements expire September 2014.

#### Completed buildings

	Gross floor area (m <sup>2</sup> )	Land area (m <sup>2</sup> )	Annual rent (RMB m)	Appraised value (RMBm)	Rental yield (%)	Let to	Let until
New Jianye Building (3 floors)	5,540	5,222	3	34	8.8	SNI	30/09/2014
Xinyuanju Hotel (German hotel)	9,359	27,740	7	76	9.2	SNI	30/09/2014
Estate of Shengpaihua	4,240	2,907	3	32	9.4	SNI	30/09/2014
Yunhu Holiday Hotel	6,291	20,000	6	59	10.2	AQS*	30/09/2014

Sources: VB Equity Research Ltd; \* AQS is Anqui Qingyun Shuyun Entertainment is owned 90% by Xiyi Sun

#### New Jianye Building

The New Jianye Building is a 16-storey office building located in the new economic zone which started development over 15 years ago and has become the central district of Kuiwen in Weifang city. NIW Real Estate only owns three floors with a value of RMB 34m. The floors are let out to SNI for RMB 3m a year.

#### Xinyuanju Hotel (German hotel)

Xinyuanju Hotel (German hotel) is a 3-star hotel located north of Xiwang Village in the Fangzi District of Weifang. Construction was completed in 2008. The hotel building covers an area of 6,667m<sup>2</sup> with a total floor space of 9,359m<sup>2</sup>. The total land area is 27,740m<sup>2</sup>. The property is let to SNI for RMB 7m a year.

#### Estate of Shengpaihua

Estate of Shengpaihua is a 4-storey commercial building located in the central district of Kuiwen in Weifang city. Completed in 1999, the building is situated on a total land area of 2,907m<sup>2</sup> with the building's total floor area of 4,240m<sup>2</sup>. The property is valued at RMB 32m. SNI rents the building for RMB 3m a year.

#### Yunhu Holiday Hotel

Yunhu Holiday Hotel is a two-star hotel located south of Weifang on a total area of 20,000m<sup>2</sup> with a total floor space of 6,291m<sup>2</sup>. Construction was completed in 2005. The three-storey hotel is located in Anqui and valued at RMB 59m. The hotel is let to Anqui Qingyun Shuyun Entertainment, which is majority owned by Xiyi Sun, for RMB 6m.

### ii) Property under construction

#### Training and Exhibition Centre

NIW Real Estate also owns the Training and Exhibition Centre and surrounding land. The buildings have the land-use permit to be used as a 5-star hotel, venue for entertainment and conferences as well as a learning centre until the end of 2043. It includes a main 15-storey building with an exhibition hall on the ground floor and a second 5-storey building. The buildings have a gross floor plan area of 27,361m<sup>2</sup>.

Purchased from SNI, the purchase agreement includes the completed structure excluding interior fittings. Construction began in July 2009 and is scheduled to be completed in December 2010. The land was valued at RMB 96m. The building work on the outer structure was included in the purchase price and estimated at RMB 70m. The value of the land and the buildings could be an estimated RMB 166m.

NIW Real Estate plans to operate the venue itself opening in early 2011. The total plot of land is 135,459m<sup>2</sup> and NIW Real Estate plans to split the remaining 103,436m<sup>2</sup> into separate land parcels for subsequent development.

### iii) Land plots for future development

NIW Real Estate owns four plots of land. These include the land around Xinyuanju Hotel, the Training and Exhibition Centre and the China Agricultural Machinery Market. The fourth plot of land is part of SNI's land already granted for development for which the group continues to be in negotiations as part of a 7km m<sup>2</sup> plot of land for development. All land plots are currently valued at nil.

#### Land plot portfolio

	Gross floor area (m <sup>2</sup> )	Land area (m <sup>2</sup> )	Value (RMB m)
China Agricultural Machinery Market	122,141	159,999	138 <sup>1</sup>
Xinyuanju Hotel	–	13,000	21 <sup>1,2</sup>
Training and Exhibition Centre	–	103,437	150 <sup>1</sup>
Luxury Townhouses at Jiulongjian	–	200,000	200 <sup>1</sup>

Sources: VB Equity Research Ltd.; <sup>1</sup> current value nil as valued as bare land; <sup>2</sup> planned to be as split into the two land plots

#### China Agricultural Machinery Market land

The 159,999m<sup>2</sup> plot is some 13km from the Fangzi District in Weifang. Around 131,576m<sup>2</sup> is planned for construction with a total floor space of 122,141m<sup>2</sup>. The land is currently not included in the balance sheet, but could be valued at RMB138m at the end of the year.

Construction is planned to start in May 2010 and the group plans to begin pre-selling in June 2010. Construction could be completed by September 2011. Several companies have already expressed interest in purchasing or renting parts of the property once completed, including major companies such as Finning, Mercedes-Benz and LOVOL.

#### Xinyuanju Hotel land

The land plot, adjacent to the Xinyuanju Hotel (German hotel), is an area of 13,000m<sup>2</sup>. The land is currently still covered by the same land-use rights as the hotel. NIW Real Estate has stated its intentions to apply to partition the land into two further parcels for development for commercial or residential purposes. The land is valued at RMB 21m.

#### Training and Exhibition Centre

NIW Real Estate owns land located next to the Training and Exhibition Centre. The area covers 130,437m<sup>2</sup>. The total plot of 135,459m<sup>2</sup> is valued at RMB150m.

#### Luxury Townhouses at Jiulongjian land

The land is located within the Jiulongjian grounds around 30km from Weifang City. NIW Real Estate has purchased 200,000m<sup>2</sup> of land from SNI, which have been granted development rights. SNI is in continued negotiations for a total of 7km m<sup>2</sup> of land. NIW Real Estate aims to begin pre-selling for the project in later 2010 with construction beginning in early 2011.

## IV. Financials

The group reports in Renminbi. The currency is expected to rise in the medium term with international pressure to raise the value of the Renminbi against the US\$ and by implication against the Euro.

### a) Consolidated profit and loss account

Consolidated profit and loss account (RMB m)					
Year to 30 September	2009	2010e	2011e	2012e	2013e
Property sales	0.0	127.4	390.1	364.7	484.1
Rental income	0.0	17.2	22.6	28.5	28.5
Property management revenue	0.0	0.0	5.8	36.4	38.7
<b>Net sales</b>	<b>0.0</b>	<b>144.6</b>	<b>418.5</b>	<b>429.6</b>	<b>551.3</b>
<i>% change</i>	<i>nm</i>	<i>nm</i>	<i>189.4</i>	<i>2.6</i>	<i>28.3</i>
Construction costs	0.0	(50.8)	(105.9)	(134.7)	(153.0)
Other building related costs	0.0	(84.0)	(36.0)	(0.0)	(0.0)
Property management costs	0.0	0.0	(11.4)	(21.1)	(21.1)
Director remuneration	0.0	(5.8)	(6.1)	(6.1)	(6.1)
Other operating costs	(5.5)	(8.6)	0.0	(5.0)	0.0
Book value of property sold	0.0	(30.4)	(155.5)	(220.5)	(240.5)
Depreciation/revaluation	0.0	338.0	103.0	171.0	100.0
<b>Operating profit</b>	<b>(5.5)</b>	<b>303.0</b>	<b>206.7</b>	<b>213.3</b>	<b>230.7</b>
<i>% of sales</i>	<i>nm</i>	<i>209.5</i>	<i>49.4</i>	<i>49.6</i>	<i>41.8</i>
<i>% change</i>	<i>nm</i>	<i>nm</i>	<i>-31.8</i>	<i>3.2</i>	<i>8.1</i>
Financial	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>(5.5)</b>	<b>303.0</b>	<b>206.7</b>	<b>213.3</b>	<b>230.7</b>
<i>% of sales</i>	<i>nm</i>	<i>209.5</i>	<i>49.4</i>	<i>49.6</i>	<i>41.8</i>
<i>% change</i>	<i>nm</i>	<i>nm</i>	<i>-31.8</i>	<i>3.2</i>	<i>8.1</i>
Income tax	0.0	0.0	(10.4)	(4.2)	(13.1)
<i>% rate</i>	<i>0.0</i>	<i>0.0</i>	<i>5.0</i>	<i>2.0</i>	<i>5.7</i>
<b>Net profit</b>	<b>(5.5)</b>	<b>303.0</b>	<b>196.3</b>	<b>209.1</b>	<b>217.6</b>
<i>% change</i>	<i>nm</i>	<i>nm</i>	<i>-35.2</i>	<i>6.5</i>	<i>4.1</i>
Minorities/adjustments	0.0	0.0	0.0	0.0	0.0
<b>Net attributable profit</b>	<b>(5.5)</b>	<b>303.0</b>	<b>196.3</b>	<b>209.1</b>	<b>217.6</b>
<i>% change</i>	<i>nm</i>	<i>nm</i>	<i>-35.2</i>	<i>6.5</i>	<i>4.1</i>
<i>% of sales</i>	<i>nm</i>	<i>nm</i>	<i>46.9</i>	<i>48.7</i>	<i>39.5</i>
Adj. shares issued (m)	10.0	11.0	11.0	11.0	11.0
<b>EPS (RMB)</b>	<b>(0.6)</b>	<b>27.5</b>	<b>17.8</b>	<b>19.0</b>	<b>19.8</b>
<i>% change</i>	<i>nm</i>	<i>nm</i>	<i>-35.2</i>	<i>6.5</i>	<i>4.1</i>
<b>Dividend per share (RMB)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Sources: VB Equity Research Ltd.

**Three income streams** Euro Asia plans to have a base income from leasing properties and property management. Additionally the group plans to sell properties or property units and houses as part of its core property development business.

**Property sales** We assume that for the China Agricultural Machinery market the space for sale is 55% of the available space at 51,561m<sup>2</sup>, sold in 2010 and 2011 for over RMB 300m. For the land next to the Training and Exhibition Centre we assume the group to build offices with an area of around 52,000m<sup>2</sup> and an assumed sales price RMB 4,500 per m<sup>2</sup>, total sales in 2012 and 2013 could reach RMB 233m.

Euro Asia could begin pre-selling luxury townhouses at Jiulongjian in 2011, building the houses to individual customers' specifications. With a density ratio of 0.3, it could sell around 60,000m<sup>2</sup> of houses. Total sales could reach

RMB360m in 2011 and 2012. For the land next to the German hotel, Xinyuanju Hotel, we assume the construction of an office building with a land area of 7,800m<sup>2</sup>. At a selling price of RMB 4,500 per square metre, Euro Asia could sell the building and land for around RMB 35m. We also assume the group purchases additional land from SNI to build additional luxury townhouses at Jiulongjian, with additional property sales of RMB 420m in 2013.

<b>Property sales (RMB m)</b>				
<b>Year to 30 September</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
China Agricultural Machinery Market	127.4	191.1	0.0	0.0
Training and Exhibition Centre	0.0	0.0	186.2	46.5
Luxury Townhouses at Jiulongjian	0.0	199.0	161.0	0.0
Xinyuanju Hotel (German hotel)	0.0	0.0	17.6	17.6
Newly acquired land	0.0	0.0	0.0	420.0
<b>Total property sales</b>	<b>127.4</b>	<b>390.1</b>	<b>364.7</b>	<b>484.1</b>

Sources: VB Equity Research Ltd

**Rental income**

Euro Asia has a leasing agreement with SNI and a related company for the lease of the currently completed buildings and floors. The total rental income is RMB19m a year and RMB 17.2m excluding VAT. Additionally we assume the group leases around 35% of its China Agricultural Machinery market once construction is completed. Assuming a slow increase in lease agreements, the group could see an additional rental income of RMB 10.8m a year from 2012.

<b>Rental income (RMB m)</b>				
<b>Year to 30 September</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
New Jianye Building (3 floors)	3.0	3.0	3.0	3.0
Xinyuanju Hotel (German hotel)	7.0	7.0	7.0	7.0
Estate of Shengpaihua	3.0	3.0	3.0	3.0
Yunhu Holiday Hotel	6.0	6.0	6.0	6.0
<b>Rental income incl. VAT</b>	<b>19.0</b>	<b>19.0</b>	<b>19.0</b>	<b>19.0</b>
<b>Rental income net of tax (7%)</b>	<b>17.2</b>	<b>17.7</b>	<b>17.7</b>	<b>17.7</b>
China Agricultural Machinery Market	0.0	5.0	10.8	10.8
<b>Net total rental income</b>	<b>17.2</b>	<b>22.6</b>	<b>28.5</b>	<b>28.5</b>

Sources: VB Equity Research Ltd

**Property management**

Property management operates the Training and Exhibition Centre, including the hotel and conference centre. We assume income from the hotel, restaurants and conference centre to reach RMB 38.7m by 2013.

<b>Property management income (RMB m)</b>				
<b>Year to 30 September</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
Training and Exhibition Centre	0.0	5.8	36.4	38.7

Sources: VB Equity Research Ltd

**Construction costs**

We assume the China Agricultural Machinery Market has two building phases with the first starting in April 2010. Construction costs for this are relatively more spread than for other construction projects. For the land at the Training and Exhibition Centre we estimate an area of nearly 52,000m<sup>2</sup> with construction costs of RMB 1,200 per m<sup>2</sup> starting in February in 2012 and concluding in 2013. Total production costs could be RMB 62m.

We assume the construction costs in 2011 and 2012 for the luxury townhouses at Jiulongjian to be RMB 120m. For the construction of a building on the Xinyuanju hotel land we assume less than RMB 9m of costs. Construction of a building on land purchased in 2012 could be around RMB 123m in 2013.

**Construction costs (RMB m)**

<b>Year to 30 September</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
China Agricultural Machinery Market	(50.8)	(57.9)	(15.5)	(6.2)
Training and Exhibition Centre	0.0	0.0	(43.4)	(18.6)
Luxury Townhouses at Jiulongjian	0.0	(48.0)	(72.0)	0.0
Xinyuanju Hotel (German hotel)	0.0	0.0	(3.7)	(5.6)
New Land	0.0	0.0	0.0	(122.5)
<b>Total construction costs</b>	<b>(50.8)</b>	<b>(105.9)</b>	<b>(134.7)</b>	<b>(153.0)</b>

Sources: VB Equity Research Ltd

**Property  
management costs**

For completion of the hotel, we estimate furnishing costs, including internal decoration and fitting and fixtures to total RMB 120m in 2010 and 2011. The operating costs of the facilities could be graduated, reaching RMB 21m in 2012.

**Property management costs (RMB m)**

<b>Year to 30 September</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
Operating costs	0.0	(11.4)	(21.1)	(21.1)
Furnishing costs (interior decoration)	(84.0)	(36.0)	0.0	0.0
<b>Total property management costs</b>	<b>(84.0)</b>	<b>(47.4)</b>	<b>(21.1)</b>	<b>(21.1)</b>

Sources: VB Equity Research Ltd

**Revaluation and  
book value of  
properties sold**

The methods of revaluation and book value costs for the properties are detailed under c) Balance Sheet.

**10% tax rate**

We assume Euro Asia to pay negligible taxes with a tax rate of 10% on income, excluding any property revaluation profits.

**b) Consolidated cash flow**
**Consolidated cash flow (RMB m)**

<b>Year to 30 September</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
<b>Net profit</b>	<b>(5.5)</b>	<b>303.0</b>	<b>196.3</b>	<b>209.1</b>	<b>217.6</b>
Depreciation/revaluation	0.0	(338.0)	(103.0)	(171.0)	(100.0)
Change in working capital	(8.5)	12.4	4.4	2.3	1.5
Other	(0.0)	30.4	155.5	220.5	240.5
<b>Cash flow</b>	<b>(14.0)</b>	<b>7.8</b>	<b>253.2</b>	<b>260.9</b>	<b>359.6</b>
<b>CFPS (RMB)</b>	<b>(1.4)</b>	<b>0.7</b>	<b>23.0</b>	<b>23.7</b>	<b>32.7</b>
Non-operating cash flow	15.0	270.0	0.0	0.0	0.0
<b>Total cash flow</b>	<b>1.0</b>	<b>277.8</b>	<b>253.2</b>	<b>260.9</b>	<b>359.6</b>
<b>Net cash at start of year</b>	<b>0.0</b>	<b>1.0</b>	<b>14.8</b>	<b>268.0</b>	<b>378.9</b>
Capital expenditure	0.0	264.0	0.0	150.0	50.0
Dividends (for previous year)	0.0	0.0	0.0	0.0	0.0
<b>Net cash at end of year</b>	<b>1.0</b>	<b>14.8</b>	<b>268.0</b>	<b>378.9</b>	<b>688.5</b>
<b>Surplus cash flow from operations</b>	<b>1.0</b>	<b>13.8</b>	<b>253.2</b>	<b>110.9</b>	<b>309.6</b>

Sources: VB Equity Research Ltd

Pre-IPO financing included the raising of RMB200m to purchase the group's assets. The group plans to raise around RMB 70m, which would be used to pay for construction costs as well as to purchase new properties. In early 2010 the group paid RMB 264m for all its properties.

For future capital expenditure we assume the group purchases land for RMB150m in 2012 and RMB 50m in 2013.

**c) Consolidated balance sheet**

We assume around 10% of construction costs are current assets. Trade payables are assumed around 18% of construction costs.

**No external debt  
required after 2011**

Euro Asia could have debt of RMB 30m with an additional unused borrowing capacity of over RMB 150m in September 2010. However, with rising profits, net cash could reach RMB 268m at the end of September 2011 and the group may not require any external debt.

We assume for the IPO Euro Asia issues 1m new shares. This could raise RMB70m.

**Book value and  
revaluation  
assumptions**

Euro Asia's property assets are currently valued at book value under long-term investments. The group acquired the properties from SNI and related companies for RMB 264m. However, as the group receives planning and construction permissions for the properties, these are reclassified as inventory and revalued at fair value. Excluding the sale of units, the company could see an increase in the value of its current portfolio to RMB 876m. Following the sale of all units for sale, a property is reclassified again as a long-term investment.

**Completed and  
leased buildings**

The group's current completed buildings are held as long-term investments. We assume the properties are all held at fair value.

**Consolidated balance sheet (RMB m)**

<b>As at 30 September</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
<b>Current Assets</b>					
Land & Inventories	0.0	307.6	90.0	40.5	50.0
Trade & other debtors	8.5	5.1	10.6	13.5	15.3
Liquid funds	1.0	44.8	268.0	378.9	688.5
Other	200.1	0.1	0.1	0.1	0.1
	<b>209.6</b>	<b>357.7</b>	<b>368.8</b>	<b>433.0</b>	<b>753.9</b>
<b>Current Liabilities</b>					
Short term debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	(0.1)	(9.2)	(19.1)	(24.2)	(27.5)
Other	0.0	0.0	0.0	0.0	0.0
	<b>(0.1)</b>	<b>(9.2)</b>	<b>(19.1)</b>	<b>(24.2)</b>	<b>(27.5)</b>
<b>Net Current Assets</b>	<b>209.5</b>	<b>348.5</b>	<b>349.7</b>	<b>408.8</b>	<b>726.4</b>
<b>Long-term Assets</b>					
Investment assets	0.0	264.0	429.1	579.1	479.1
Other	0.0	0.0	0.0	0.0	0.0
	<b>0.0</b>	<b>264.0</b>	<b>429.1</b>	<b>579.1</b>	<b>479.1</b>
<b>Long-term Liabilities</b>					
Debt	0.0	(30.0)	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
	<b>0.0</b>	<b>(30.0)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total net worth</b>	<b>209.5</b>	<b>582.5</b>	<b>778.8</b>	<b>987.9</b>	<b>1,205.5</b>
<b>Represented by</b>					
Share capital	215.0	236.5	236.5	236.5	236.5
Capital reserves	0.0	48.5	48.5	48.5	48.5
Distributable reserves	(5.5)	297.5	493.8	702.9	920.5
<b>Shareholders' Equity</b>	<b>209.5</b>	<b>582.5</b>	<b>778.8</b>	<b>987.9</b>	<b>1,205.5</b>
Minority interests	0.0	0.0	0.0	0.0	0.0
<b>Total net worth</b>	<b>209.5</b>	<b>582.5</b>	<b>778.8</b>	<b>987.9</b>	<b>1,205.5</b>

Sources: VB Equity Research Ltd.

## V. Valuations

Property companies can be valued on a range of methods, generally based around asset values and asset growth. Property developers require more earnings based valuations, although asset values can offer additional support.

Dividend yields can be used to value established property companies, but not Euro Asia which has no immediate plans to pay dividends. We have also excluded takeover multiple valuations.

### a) Earnings based valuation

Euro Asia can be valued on its earnings abilities, but property development can be erratic and is heavily dependent on the timing of sales. These require valuations on a medium-term basis and not on a single year. We believe valuations for Euro Asia should more appropriately be mainly based on the average PE and PEG ratios for the overall German market.

#### i) German market valuations

German market PE ratios suggest Euro Asia is worth €263m on 2011 and €255m on 2012 forecasts. Price-earnings/earnings growth ratios support much higher valuations.

Worth some  
€260m on  
general market  
valuations

#### German market

	2010e	2011e	2012e	2013e
Euro Asia group net profit (€m)	303.0	196.3	209.1	217.6
German market PE (x)	16.6	12.1	11.0	10.2
<b>Euro Asia group implied value (RMB m)</b>	<b>5,038</b>	<b>2,374</b>	<b>2,299</b>	<b>2,215</b>
<b>Euro Asia group implied value (€m)</b>	<b>558.6</b>	<b>263.2</b>	<b>254.9</b>	<b>245.6</b>
German market PEG ratio	0.44	1.21	1.37	1.27
Euro Asia EPS growth (%)	nm	nm	6.5	4.1
Implied PE for Euro Asia (x)	nm	nm	9.0	5.2
<b>Euro Asia group implied value (RMB m)</b>	<b>nm</b>	<b>nm</b>	<b>1,873</b>	<b>1,127</b>
<b>Euro Asia group implied value (€m)</b>	<b>nm</b>	<b>nm</b>	<b>207.6</b>	<b>125.0</b>

Sources: VB Equity Research Ltd

#### ii) Comparable construction-related company valuations

Construction companies could also be used for comparable valuations, but company sizes and activities limit comparisons.

PE valuations suggest a fair value for Euro Asia of €314m on 2011 and €316m on 2012 forecasts with PCF suggesting a fair value of around €134m on 2011 and 2012 forecasts. Average EV/EBIT multiples imply a value of some €259m on 2011 and 2012 forecasts.

#### PE and PCF valuations

	Share Price (€)	Market Cap (€m)	PE (x)			PCF (x)		
			2010e	2011e	2012e	2010e	2011e	2012e
Hochtief	61.7	4,317	20.0	17.1	15.3	4.3	3.7	3.3
Bilfinger Berger	50.9	2,341	10.4	10.1	9.8	6.6	6.4	6.2
Strabag	20.5	2,332	nm	16.1	15.7	4.5	4.3	4.2
<b>Average*</b>			<b>15.2</b>	<b>14.4</b>	<b>13.6</b>	<b>5.1</b>	<b>4.8</b>	<b>4.6</b>
<b>Implied value (RMBm)*</b>			<b>4,593</b>	<b>2,835</b>	<b>2,848</b>	<b>40</b>	<b>1,218</b>	<b>1,195</b>
<b>Implied value (€m)*</b>			<b>509.3</b>	<b>314.4</b>	<b>315.8</b>	<b>4.4</b>	<b>135.0</b>	<b>132.5</b>

Sources: VB Equity Research Limited; \* excluding extremes

**EV/EBIT, EV/EBITDA and EV/sales valuations**

	EV/EBIT (x)			EV/EBITDA (x)			EV/sales (x)		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Hochtief	9.6	8.1	7.2	4.9	4.2	3.7	0.3	0.3	0.3
Bilfinger Berger	19.7	19.2	18.6	12.3	11.9	11.6	0.7	0.6	0.6
Strabag	10.7	11.3	11.7	4.2	4.2	4.0	0.2	0.2	0.2
<b>Average*</b>	<b>13.4</b>	<b>12.9</b>	<b>12.5</b>	<b>7.1</b>	<b>6.8</b>	<b>6.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
<b>Implied value (RMBm)</b>	<b>4,032</b>	<b>2,388</b>	<b>2,283</b>	<b>nm</b>	<b>434</b>	<b>nm</b>	<b>41</b>	<b>nm</b>	<b>nm</b>
<b>Implied value (€m)</b>	<b>447.1</b>	<b>264.8</b>	<b>253.1</b>	<b>nm</b>	<b>48.1</b>	<b>nm</b>	<b>4.5</b>	<b>nm</b>	<b>nm</b>

Sources: VB Equity Research Limited; \* excluding extremes

**iii) Comparable real estate company valuations**

Chinese companies  
not comparable

German listed real estate developers offer limited comparisons. Most though are not significantly involved in property development as a prime earnings activity. Euro Asia is also unique being focused on real estate in the Shandong region of China. Euro Asia could be compared to Chinese property developers, but these are focused on other areas in China, which have different prospects being focused mainly on the largest cities such as Beijing, Shanghai, Guangzhou and Shenzhen.

We believe growth prospects for the property market in Shandong are significantly better than for the German property market. Additionally, Euro Asia has a build and sell strategy, which is different from most German property developers, which retain many developments to build up a property portfolio.

We have excluded property REIT companies and developers with build and hold strategies from comparisons. The remaining German listed real estate companies are mainly focused on German properties which have seen values decline in recent years. Many are very small and illiquid. We have excluded the property developer Vivacon due to its substantial financial difficulties, and Classic Dream Properties with a market capitalisation of less than €10m.

2011e PE suggest  
a value of  
€238m

On our forecasts the average comparable PE for 2011 is 10.9 times and 9.6 times for 2012. This implies a fair value for Euro Asia of €238m and €222m respectively. PCF valuations suggest a fair value of €240m on 2011 and €222m on 2012 forecasts. Average EV/EBIT multiples suggest a price of €165m and €194m respectively.

**PE and PCF valuations**

	Share Price (€)	Market Cap (€m)	PE (x)			PCF (x)		
			2010e	2011e	2012e	2010e	2011e	2012e
AVW Immobilien	2.1	26.6	8.6	6.3	5.5	6.9	5.0	4.4
Design Bau	2.6	13.7	6.8	23.6	14.4	0.6	nm	nm
Estavis	2.1	16.7	29.4	10.8	9.0	3.7	nm	nm
Helma Eigenbauheim	8.0	20.7	11.2	6.7	6.1	nm	12.0	11.0
Magnat Real Estate	3.5	48.6	nm	9.0	8.2	nm	87.5	64.8
TMM Real Estate Development	4.0	207.7	na	na	na	na	na	na
<b>Average*</b>			<b>8.9</b>	<b>10.9</b>	<b>9.6</b>	<b>3.7</b>	<b>8.5</b>	<b>7.7</b>
<b>Implied value (RMBm)</b>			<b>2,693</b>	<b>2,148</b>	<b>2,000</b>	<b>29</b>	<b>2,160</b>	<b>1,998</b>
<b>Implied value (€m)</b>			<b>298.6</b>	<b>238.2</b>	<b>221.7</b>	<b>3.2</b>	<b>239.6</b>	<b>221.5</b>

Sources: VB Equity Research Limited; \* excluding extremes



**EV/EBIT, EV/EBITDA and EV/sales valuations**

	EV/EBIT (x)			EV/EBITDA (x)			EV/sales (x)		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
AVW Immobilien	nm	nm	nm	nm	nm	nm	1.6	1.3	1.1
Design Bau	4.3	11.7	10.3	4.1	11.1	9.9	0.4	0.7	0.7
Estavis	16.4	12.8	11.8	20.9	12.6	11.7	1.0	0.9	0.9
Helma Eigenbauheim	10.0	5.9	5.1	0.7	4.7	4.0	0.4	0.3	0.3
Magnat Real Estate	nm	3.5	2.7	nm	3.2	2.4	nm	0.9	0.7
TMM Real Estate Dev.	na	na	na	na	na	na	na	na	na
<b>Average*</b>	<b>7.1</b>	<b>8.5</b>	<b>10.0</b>	<b>1.6</b>	<b>7.9</b>	<b>7.0</b>	<b>0.8</b>	<b>0.9</b>	<b>0.7</b>
<b>Implied value (RMBm)</b>	<b>2,140</b>	<b>1,486</b>	<b>1,746</b>	<b>nm</b>	<b>551</b>	<b>nm</b>	<b>107</b>	<b>88</b>	<b>nm</b>
<b>Implied value (€m)</b>	<b>237.3</b>	<b>164.8</b>	<b>193.6</b>	<b>nm</b>	<b>61.1</b>	<b>nm</b>	<b>11.9</b>	<b>9.8</b>	<b>nm</b>

Sources: VB Equity Research Limited; \* excluding extremes

**b) Net asset valuations**

Net asset value is a static valuation and does not allow for management's ability to increase its asset values.

Discounts are generally applied as full values are often immediately unrealisable. Currently a NAV discount can also be applied due to general perceptions that there may still be some unrealistic valuations of its properties.

Euro Asia has acquired properties currently only at book value and not true fair value. This may only be realised over the next few years as the group begins to revalue its assets once permits have been issued and construction can begin.

The German listed property developers are very small and report its financial results on a limited basis. The range of NAV premiums or discount applied is vast, ranging from a discount of 67% for Estavis to a premium of over 111% for Helma Eigenheimbau. The average of the six suggests a fair value of NAV could be applied.

An independent appraisal has valued the group's properties at RMB806m. This implies a value of RMB 776m or €86m.

**Net asset valuations**

	Share price (€)	Market cap (€m)	NAV per share (€)	NAV premium/ (discount) (%)
AVW Immobilien	2.1	26.6	1.7	17.0
Design Bau	2.6	13.7	4.3	-39.2
Estavis	2.1	16.7	6.1	-67.0
Helma Eigenheimbau	8.0	20.7	3.8	111.0
Magnat Real Estate	3.5	48.6	7.8	-54.6
TMM Real Estate Dev.	4.0	207.7	2.6	42.9
<b>Average</b>				<b>3.6</b>

Sources: VB Equity Research Ltd.; <sup>1</sup> as of 30 April 2009; <sup>2</sup> as of 28 February 2009, <sup>3</sup> as of 30 June 2009, <sup>4</sup> as of 31 December 2009

## Appendix I – Land-use rights

<b>Land-use rights</b>	<p>In China freehold land ownership for companies and private individuals is not possible. Land can only be owned by the state or by collectives. The purchase of land and property is for specified land-use only. The system is a relatively transparent leasehold system where the land user has a land-grant contract with the local authority following the payment of a land-grant fee. Additionally, individuals and companies pay a nominal annual payment to the Chinese government.</p> <p>The use of land for different purposes is specified in the land-grant contract as well as the maximum time limit of the grant. Land rights for residential property is a maximum of 70 years, industrial for 50 years, a combined of residential and industrial use or other purpose is 50 years and use for commercial, tourism and entertainment is 40 years. Once the land rights have expired, renewal is possible with an additional payment or the land rights are reverted to the government.</p>
<b>Costs of land rights</b>	<p>Following the land redistribution in China in 1949, the government introduced land rights to offer incentives to invest in land and buildings. These rights have been granted for many decades and there have been numerous examples, including in the Weifang area, of the renewal of land-use rights by existing owners. To renew, individuals and companies do not need to pay the land premium again, valuing both the land value and building, but only a nominal fee.</p>
<b>Plan and construction permits</b>	<p>Property development requires planning and construction permits as well as other permits relating to the project before construction can begin. These permits are granted by the government real estate planning and development authority.</p>
<b>Capital requirements</b>	<p>There are numerous capital restrictions for real estate developers, allowing the government to further control the development of land. The Chinese government requires companies to pay in cash for the acquisition of land rights. Companies therefore are unable to use long-term debt to purchase properties.</p> <p>Property developers are required to have a minimum equity ratio of 35%. For foreign-invested real estate companies with total investments of over \$10m, the registered capital needs to be at least 50% of its total investment.</p> <p>Property developers are also required to have fund reserves, which require a real estate developer to hold in deposit 17.5% of the value of the property project.</p>

## Appendix II – Chinese and Weifang real estate market

### a) Chinese and Shandong property market

As in all countries China has significant regional differences in property prices. Beijing and Shanghai are the most expensive in terms of average selling prices per square metre. For all types of commercialised buildings, average prices in Beijing and Shanghai were exceeding the national average of RMB 2,112/m<sup>2</sup> by 199% and 116% respectively in 2007. By contrast average property prices in the Shandong province were 25% below the national average in 2007. The growth rates of the house prices between 2000 and 2007 also varies significantly with prices in Beijing and Shanghai increasing by 135% compared to the national average increase of 83%.

Prices for office and residential buildings also vary significantly throughout China with prices of office buildings in Beijing and Shanghai significantly higher than other areas.

**Average selling prices of the most expensive 11 Chinese provinces, autonomous regions and municipalities (RMB/m<sup>2</sup>)**

	Average selling prices of									
	commercialised buildings					office buildings				
	2000	2005	2006	2007	% change*	2000	2005	2006	2007	% change*
Beijing	4,919	6,788	8,280	11,553	135	12,563	13,517	13,555	15,152	21
Shanghai	3,565	6,842	7,196	8,361	135	9,223	11,867	12,078	14,223	54
Guangdong	3,228	4,443	4,853	5,914	83	8,108	8,316	9,893	12,529	55
Tianjin	2,328	4,055	4,774	5,811	150	4,389	5,022	6,171	7,412	69
Zhejiang	1,947	4,280	4,774	5,786	197	2,643	5,893	7,148	7,749	193
Fujian	2,084	3,162	3,994	4,684	125	2,617	4,293	5,377	4,734	81
Hainan	1,980	2,924	3,787	4,162	110	3,080	2,720	3,197	5,792	88
Jiangsu	1,643	3,359	3,592	4,024	145	2,988	5,216	5,247	7,190	141
Liaoning	2,076	2,798	3,073	3,490	68	4,007	3,842	5,446	4,726	18
Hubei	1,368	2,263	2,556	3,053	123	2,295	2,665	3,992	4,608	101
<b>Shandong</b>	<b>1,427</b>	<b>2,425</b>	<b>2,541</b>	<b>2,904</b>	<b>104</b>	<b>2,704</b>	<b>5,848</b>	<b>6,817</b>	<b>6,430</b>	<b>138</b>
<b>Average China</b>	<b>2,112</b>	<b>3,168</b>	<b>3,367</b>	<b>3,864</b>	<b>83</b>	<b>4,751</b>	<b>6,923</b>	<b>8,053</b>	<b>8,667</b>	<b>82</b>

Sources: VB Equity Research Limited; National Bureau of Statistics of China; \* between 2000 and 2007

**Average selling prices of the most expensive 11 Chinese provinces, autonomous regions and municipalities (RMB/m<sup>2</sup>)**

	Average selling prices of									
	residential buildings					Villas and high-grade apartments				
	2000	2005	2006	2007	% change*	2000	2005	2006	2007	% change*
Beijing	4,557	6,162	7,375	10,661	134	8,315	9,827	12,181	15,740	89
Shanghai	3,326	6,698	7,039	8,253	148	6,108	7,720	10,835	12,999	113
Guangdong	2,973	4,149	4,589	5,682	91	4,018	7,331	7,917	7,011	74
Zhejiang	1,758	3,973	4,510	5,623	220	2,337	6,412	7,131	9,603	311
Tianjin	2,274	3,987	4,649	5,576	145	4,540	5,435	6,152	9,207	103
Fujian	1,767	2,801	3,656	4,476	153	3,110	5,558	6,290	8,695	180
Hainan	1,956	2,855	3,735	4,095	109	4,299	4,436	5,429	6,776	58
Jiangsu	1,527	3,146	3,375	3,834	151	2,282	5,002	5,599	7,043	209
Liaoning	1,882	2,652	2,884	3,355	78	3,651	5,286	5,512	7,697	111
Hubei	1,280	2,164	2,422	2,937	129	2,755	4,297	4,282	6,880	150
<b>Shandong</b>	<b>1,343</b>	<b>2,295</b>	<b>2,400</b>	<b>2,799</b>	<b>108</b>	<b>3,533</b>	<b>4,679</b>	<b>5,984</b>	<b>5,059</b>	<b>43</b>
<b>Average total</b>	<b>1,948</b>	<b>2,937</b>	<b>3,119</b>	<b>3,645</b>	<b>87</b>	<b>4,288</b>	<b>5,834</b>	<b>6,585</b>	<b>7,471</b>	<b>74</b>

Sources: VB Equity Research Limited; National Bureau of Statistics of China; \* between 2000 and 2007

Weifang is in a favourable location

**b) Weifang real estate market**

Weifang is a prefecture in the middle of the Shandong province. Weifang regional government’s jurisdiction includes six cities, including Weifang city and its surrounding area. Weifang is favourably located in the fast-growing central coastal region of China, some 150 km from the main harbour of Qingdao and nearly half-way between Beijing and Shanghai, 535km and 813km respectively. It has substantial infrastructure.

Weifang region’s nominal gross domestic product was RMB 249bn in 2008, accounting for around 8% of Shandong’s total GDP. Weifang has seen an increase in GDP in line with Shandong of 69% between 2005 and 2008.

Euro Asia considers Weifang city a third-tier city, as a prefecture-level city capital. Unlike other third tier cities Weifang has a well established infrastructure and 1.6m inhabitants, comparable to some second-tier cities. Following a focus and strong growth in the overall property market, some second-tier and third-tier cities could see the fastest growth in construction and real estate development over the coming years.

In Weifang between 2005 and 2008 total real estate sales more than doubled to RMB 12.8bn. Over the same period the residential gross floor area under development increased by over 130% to 19 km m<sup>2</sup> and residential gross floor area sold increased by 37% to 5km m<sup>2</sup>.

**Weifang region real estate market**

	2005	2006	2007	2008
Residential gross floor area under development (‘000 m <sup>2</sup> )	8,270	11,000	15,100	19,090
Residential gross floor area sold (‘000 m <sup>2</sup> )	3,700	3,750	5,020	5,073
Total real estate sales (RMB bn)	6.12	7.35	10.48	12.78

Sources: VB Equity Research Ltd, Shandong Statistic Bureau

**Competitors**

Competitors in the Weifang area

There are no large foreign-invested real estate development companies in the Weifang region. The main competitors in the Weifang area are ten privately-owned and five-state owned developers.

Privately-owned real estate developers

SNI has been the largest property developer with an estimated 15% market share. The largest other privately-held companies are significantly smaller. Han Zeng Group has an estimated 5% market share and focuses mainly on residential and office buildings. Weifang Hai Tai Investment Co has a market share of around 3% and specialises in residential property.

Government-owned real estate developers

The five government-owned property developers are generally not from the Weifang region and overlap with Euro Asia to a limited degree. Pu Li Real Estate is the largest government-owned company with an estimated 8% market share. It mainly specialises in luxury real estate development, especially villas for executives of large businesses. Tian Tong Hongji Group has a market share of around 5%, focusing on residential projects for companies.

## Appendix III – Shandong province

**Second most populous province**

Shandong is the second most populous Chinese province with 93.7m inhabitants, but is only the 16<sup>th</sup> largest province by land area size, excluding autonomous regions.

### Population in China's provinces (2007)\*

	Population (m)	Area (km <sup>2</sup> )	Population per km <sup>2</sup>		Population (m)	Area (km <sup>2</sup> )	Population per km <sup>2</sup>
Guangdong	94.49	186,000	508.0	Jiangxi	43.68	166,600	262.2
<b>Shandong</b>	<b>93.67</b>	<b>153,000</b>	<b>612.2</b>	Liaoning	42.98	145,700	295.0
Henan	93.60	167,000	560.5	Heilongjiang	38.24	469,000	81.5
Sichuan	81.27	488,000	166.5	Guizhou	37.62	176,100	213.6
Jiangsu	76.25	102,600	743.2	Shaanxi	37.48	205,000	182.8
Hebei	69.43	190,000	365.4	Fujian	35.81	120,000	298.4
Hunan	63.55	210,000	302.6	Shanxi	33.93	156,000	217.5
Anhui	61.18	139,000	440.1	Jilin	27.30	187,000	146.0
Hubei	56.99	187,400	304.1	Gansu	26.17	450,000	58.2
Zhejiang	50.60	101,800	497.1	Hainan	8.45	34,000	248.5
Yunnan	45.14	394,000	114.6	Qinghai	5.52	720,000	7.7

Sources: National Bureau of Statistics of China, ChinaToday.com; \* excluding autonomous regions, municipalities and special administrative regions

**Population increase lower than China's average**

Between 1997 and 2007 Shandong's population increased by 6.6% to 93.7m, a rise similar to that in the Chinese total population. Urbanisation has also sharply increased in China and Shandong. In 2000 38% of Shandong's inhabitants, 34.5m people, lived in urban areas, increasing to 46.8% of 43.8m by 2007.

### Gross regional product of the five largest provinces and municipals (RMB bn)

	2000	2005	2006	2007	%*		2000	2005	2006	2007	%*
Guangdong	966	2,237	2,616	3,108	221.7	Hebei	509	1,010	1,152	1,371	169.4
<b>Shandong</b>	<b>854</b>	<b>1,852</b>	<b>2,208</b>	<b>2,597</b>	<b>204.0</b>	Shanghai	455	916	1,037	1,219	167.8
Jiangsu	858	1,831	2,165	2,574	199.9	Liaoning	467	786	921	1,102	136.1
Zhejiang	604	1,344	1,574	1,878	211.1	Sichuan	401	739	864	1,051	162
Henan	514	1,059	1,236	1,501	192.2	Beijing	248	689	786	935	277.3

Source: National Bureau of Statistics of China; \* % change between 2000 and 2007

Shandong is one of the biggest industrial production bases in China. It has the second largest gross regional product of China's provinces, municipalities and autonomous regions. Between 2000 and 2007 the gross regional product increased by 204% to RMB 2,597bn, mainly due to the secondary or manufacturing industry. In 2000 the secondary industry was worth RMB424bn and accounted for 50% of the total gross regional product. In 2007 it had increased to 57% and RMB 1,477bn. The tertiary industry is the second largest industry grouping and accounted for around a third of the province's gross regional product in 2007.

### Shandong gross regional product (RMBbn)

	2000	2005	2006	2007	% change*
Gross regional product	854.2	1851.7	2207.7	2596.6	204.0
Primary industry	126.9	196.4	213.9	250.9	97.8
Secondary industry	424.4	1062.9	1275.1	1477.7	248.1
Tertiary industry	303.0	592.5	718.7	868.0	186.5
Gross regional product per capita (RMB)	9,555	20,097	23,794	27,807	191.0

Source: National Bureau of Statistics of China; \* % change between 2000 and 2007



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