

**BEA securities**

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HONG KONG RESEARCH**11th June 2007**

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Main Board Listing – Research**RREEF China Commercial Trust [Stock Code: 0625] 睿富中國商業房地產投資信托基金****Joint Global Coordinators, Joint Bookrunners, Joint
Lead Underwriters and Joint Listing Agents**

Deutsche Bank AG

HSBC

Sector : Financials**Business** : Real estate investment trust (REIT)

<p>Total unit offer: <u>435,960,000</u> units (90% of the enlarged share capital)</p> <p>Public Offer: 43,596,000 shares (10%) Placing: 392,364,000 shares (90%)</p> <p>Greenshoe: 48,440,000 shares (11.1%)</p>	<p><u>Business of RREEF China Commercial Trust</u></p> <p>RREEF China Commercial Trust ("RREEF CCT") is a real estate investment trust established to invest on a long-term basis in a diversified portfolio of institutional quality office and mixed-use properties (where a significant portion of the property has been designated for office use) located in major cities in China, Hong Kong and Macau. RREEF CCT will initially invest in a Premium Grade A office building situated in Chaoyang District, Beijing.</p>
<p>Price: HK\$5.00 – HK\$5.40 per unit</p> <p>Market Cap.: HK\$2,422 million – HK\$2,616 million</p> <p>FY2007E annualized Distribution Yield: 5.90% - 6.37%</p> <p>NAV per unit: HK\$ 4.90 - HK\$5.23</p> <p>Manager: RREEF China REIT Management Limited</p>	<p>The Property, "Beijing Gateway Plaza 佳程大廈", is a Premium Grade A office building with Total Lettable Area of 106,393.8 sq.m. situated in Chaoyang District, Beijing within the Lufthansa area. Completed on 26 August 2005, the Property comprises two 25-storey towers connected by a three-storey atrium as well as 3 underground floors with a 675 car park spaces, plant rooms and ancillary facilities. The Property comprises 94,714.7 sq.m. of office space and 11,679.1 sq.m. of retail space. As at 31 March 2007, the appraised value of the Property was HK\$3,978 million.</p>
<p>HK Public Offer period: 11th June 2007 – 14th June 2007 noon</p> <p>Receiving bank: HSBC</p> <p>Unit registrar: Tricor Investor Services Limited</p> <p>Listing date: 22nd June 2007</p>	<p>The investment strategy of RREEF CCT will focus on, but not limit to high-growth cities in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta regions. Hong Kong and Macau will also be considered in order to provide investors with diversified exposure to all of China's major economic centers over the long term.</p> <p>The Manager's distribution policy is to distribute to Unitholders an amount equal to 100% of RREEF CCT's Annual Distributable Income for the period from the Listing Date to 31 December 2007, and thereafter at least 90.0% of RREEF CCT's Annual Distributable Income for each financial year. RREEF CCT is in any event required to distribute at least 90.0% of its Annual Distributable Income for each financial year.</p>

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**Major unitholders after Listing** (Assuming the over-allotment option is not exercised)

Mr. Tin Lik, the Vendor of the Property	10.0%
Public / institutional unitholders*	90.0%
	<u>100.0%</u>

*The Government of Singapore Investment Corporation Pte. Ltd. ("GIC") has agreed to subscribe for 50 million units at the offer price. GIC's holding will be 11.5% of the total units available under the Global Offering.

Use of Proceeds

Total proceeds from the offer are estimated to be HK\$2,422 million – HK\$2,616 million. (Assuming the over-allotment option is not exercised.)

In addition to the funds raised from the offer, a term loan facility of up to HK\$1,400 million is granted by a syndicate of banks and financial institutions to refinance the existing borrowings. This brings the total funds available to be HK\$3,822 million – HK\$4,016 million.

(HK\$ million)	Based on the Minimum Offer Price of HK\$5.00	Based on the Maximum Offer Price of HK\$5.40
Acquisition of the Property	1,888	2,077
Repayment of the existing borrowings	1,833	1,833
Issue costs	79	84
Upfront fees for bank loan	22	22
Total	3,822	4,016

Financial Highlights

HK\$ million	For the period from 1 Sep 2005 to 31 Dec 2005	For the year ended 31 Dec 2006
Turnover	26.5	173.8
Operating profit	19.0	134.3
Profit before increase in fair value of investment property	7.8	81.4
Increase in fair value of investment property	2,099.1	142.8
Profit before tax	2,106.9	224.2
Profit for the year	1,411.5	718.3

Breakdown of turnover

HK\$ million	For the period from 1 Sep 2005 to 31 Dec 2005	%	For the year ended 31 Dec 2006	%
Rental income	27.8	105.0%	181.5	104.4%
Car park income	0.1	0.3%	1.5	0.9%
Business tax	(1.4)	-5.3%	(9.0)	-5.3%
Turnover	26.5	100.0%	173.8	100.0%

Strengths/Opportunities

- ✓ **Strong real estate investment manager** RREEF CCT's Manager is part of RREEF, the real estate and infrastructure investment management arm of the Deutsche Bank Group, and one of the world's leading real estate investment managers. RREEF was ranked by the Watson Wyatt's Alternatives Survey in September 2006 as the largest alternative investments manager globally. RREEF is an experienced investor in a wide range of property types including residential, industrial, retail and office.
- ✓ **Prime Location** The Property is located in one of the prime business locations in Beijing. The Lufthansa area of Chaoyang District is close to the Beijing International Airport, the Olympic Village and Haidian District.
- ✓ **Ample supply but not in the Lufthansa area** From the figures provided by Jones Lang LaSalle, about half a million sq. m. of office space delivered to the market in 1Q07 and another 1 million sq. m. are pending completion during the remaining of 2007 with the supply concentrated in the Central



Business District (CBD) area and the Financial Street. Despite the robust demand for office space in the Greater Beijing area, the ample supply is expected to pose downward pressure on rental rates in 2007 and 2008, mainly in the CBD area and the Financial Street. Within the Lufthansa area, there is a total of 337,000 sq. m GFA of office space to be completed by the end of 2007. The Property will remain the only Premium Grade A office in the Lufthansa area at least until the end of 2009. Also, since the Lufthansa area is relatively distant from the CBD and Financial Street, downward pressure on rentals may be less than in other areas.

Weaknesses/Threats

- × The Manager will exclusively engage the acquisition resources within RREEF to identify and assist in executing suitable acquisition opportunities for RREEF CCT. RREEF currently engages in the real estate investment and fund management business in the PRC and other countries. RREEF will allocate property acquisition opportunities to its clients in accordance with the investment strategies on a transparent rotational basis. Simply put, there is no secured acquisition in the pipeline. The Manager needs to refer any acquisition opportunities which it becomes aware of to RREEF. Such opportunities may or may not be allocated to RREEF CCT.
- × The IPO listing raises enough funds for the acquisition of only the office property concerned. Going forward, more funding through the equity and/or debt markets is expected as acquisition of more properties is underway. This may exert volatility to the unit price and raise the debt level.
- × As at 31 March 2007, leases representing 26.4% and 36.4% of the total lettable area of the Property are due to expire in the years ending 31 Dec 2008 and 2009 respectively. Those expiring leases also represent about 27.7% and 35.0% of the monthly total rental income of the Property in those 2 years respectively.
- × There is no financial engineering measure used in enhancing the yield of RREEF CCT. The FY07E annualized distribution yield of 5.90% - 6.37% is slightly lower comparing with the closest peer, GZI REIT (0405.HK), which has a yield of 6.8% for FY07E. FY07E yields of other HK-listed REIT's are listed below for reference.

Name	Ticker	FY07E yield
Sunlight REIT	0435.HK	10.8%
Link REIT	0823.HK	4.3% (for the year ended 31 Mar 2008)
Prosperity REIT	0808.HK	7.5%
Champion REIT	2778.HK	7.7%
Regal REIT	1881.HK	7.5%

Recommendation: Neutral

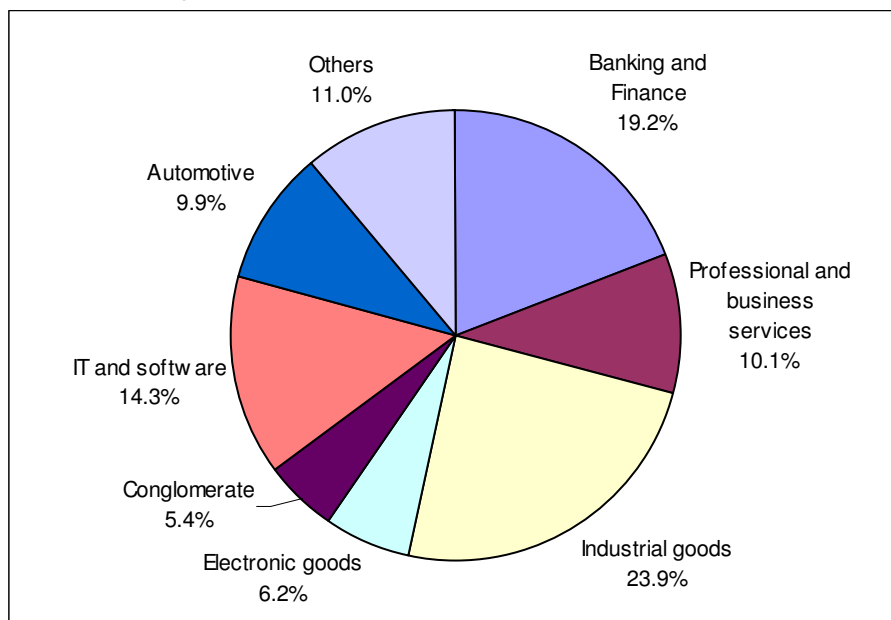


Appendix: Key information about the Property

Lease Expiry Profile

Year	No. of tenancies expiring	Total no. of tenancies as at 31 Mar 2007 (%)	Total lettable area of tenancies expiring (sq. m)	Total lettable area of tenancies expiring (%)	Monthly rental income of tenancies expiring (HK\$ m)	Monthly rental income of tenancies expiring (%)
2007	6	7.0	4,425	4.4	1.19	4.4
2008	27	31.8	26,427	26.4	7.58	27.7
2009	36	42.4	36,487	36.4	9.57	35.0
2010	6	7.0	9,716	9.7	2.20	8.0
2011	9	10.6	17,312	17.3	4.03	14.7
2015	1	1.2	5,876	5.8	2.78	10.2
Total	85	100.0	100,243	100.0	27.34	100.0

Tenant Mix (by total rental income)



Ten largest tenants

Name	Business sector	Lease expiry date	Lettable area (sq. m)	% of total lettable area	% of total rental income
Bank of China, Beijing Chaoyang Sub-branch	Banking & finance	7 Sep 2015	5,875.7	5.5%	10.2%
BMW Group	Automotive	31 Oct 2011	12,739.6	12.0%	9.9%
Sony Group	Electronic goods	31 Oct 2008	6,414.6	6.0%	6.2%
SK Group	Conglomerate	31 May 2009	5,704.7	5.3%	5.6%
Cummins Group	Industrial goods	31 Nov 2008	4,586.1	4.3%	5.2%
Huarry Holdings Co. Ltd.	IT and software	31 Oct 2009	4,803.6	4.5%	4.7%
Fuji-Xerox Co. Ltd.	Industrial goods	31 May / 31 July 2008	4,485.3	4.2%	4.3%
Zurich Financial Services	Banking & finance	31 Jan 2011	2,286.3	2.2%	2.4%
Heng An Standard Life Insurance Co. Ltd.	Banking & finance	31 Jan 2011	2,286.3	2.2%	2.4%
NTT Group	IT and software	31 Mar 2009	2,286.3	2.2%	2.2%
Other tenants			48,774.3	45.8%	46.9%
Vacant space			6,151.2	5.8%	NA
Total			106,393.8	100.0%	100.0%



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