

Valuation Report

100% Equity Interest in Guangxi Huatong Expressway Co., Ltd.

Ref: 2015BJV6011E

Valuation Date: December 31st 2014

Prepared for

CHINA MERCHANTS HOLDINGS (PACIFIC) LIMITED

Prepared by

 **中和資產評估有限公司**
ZhongHe Appraisal Co., Ltd.

Ref: 2015BJV6011E

May 20th 2015

The Board of Directors

CHINA MERCHANTS HOLDINGS (PACIFIC) LIMITED

6 Temasek Boulevard

Suntec Tower Four #3304

Singapore 038986

Dear Sirs/Madams:

100% Equity Interest in Guangxi Huatong Expressway Co., Ltd.

In accordance with the instructions from China Merchants Holdings (Pacific) Limited (the “Company”), we were engaged to perform a valuation analysis in relation to the 100% equity interest (the “Equity Interest”) in Guangxi Huatong Expressway Co., Ltd. (the “Target Company”) as of December 31st 2014 (the “Valuation Date”).

It is our understanding that our analysis will be used for acquisition reference purpose by the management of the Company only. Our analysis was conducted for the above purpose and this report should be used for no other purpose without our express written consent. Our work was done subject to the limiting conditions and general & specific assumptions described in our valuation report. Please also pay attention to the specific issues highlighted in this Report. The standard of value is market value; while we assume the Target Company is as going concern.

We express no opinion and do not assume responsibility for the accuracy and completeness of the financial information or other data provided to us by relevant parties. Moreover, we hereby certify that we have neither personal interests in the Target Company, nor to the parties involved.

SECTION 1 PURPOSE OF ENGAGEMENT

The Company is considering a proposed acquisition of the 100% equity of the Target Company and hereby requires a valuation on the Equity Interest as of December 31st 2014. It is our understanding that our analysis will be used for acquisition reference purpose only.

SECTION 2 BASIS OF VALUATION

Market value has been adopted as the type of value pursuant to the purpose of valuation and the characteristics of the entrusted assets. It is defined as the estimated amount for which a property should exchange as of the effective date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

This valuation shall be in compliance with the laws and regulations of People's Republic of China and pursuant to the valuation standards.

SECTION 3 COMPANY OVERVIEW

The company is responsible for the investment, construction and tolling management of the Yangshuo – Pingle Expressway, a Build-Operate-Transfer (“BOT”) project.

The Yangshuo – Pingle Expressway was open to traffic in November 2008, with an approved operation period expired on June 17th 2037. The Yangshuo – Pingle Expressway, or the Yang – Ping Expressway was designated to be a double four-lane expressway with a speed limit of 120 kilometer per hour.

SECTION 4 APPROACHES OF VALUATION

In accordance with the laws and regulations of China, valuation standards as well as international practice, cost approach, market approach and income approach are considered as the three basic approaches of business valuation. In developing an appropriate valuation opinion, we have analyzed and selected the Income Approach based on the type of value, information available and other necessities.

4.1 Cost Approach

This is generally used in determining a market value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Value is established based on the cost of either reproducing or replacing the asset, less depreciation from physical deterioration and functional and economic obsolescence, and all the factors that may lead to the depreciation.

We have evaluated the cost approach for this valuation but decided not to adopt it due to the value of the equity of an up-and-running company is determined by the ability to generate cash flows in future, rather than the cost of replacement.

4.2 Market Approach

This is commonly used in determining a fair market value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the Target Company to similar businesses, business ownership interests, securities, or intangible assets that have been transacted.

Value is established based on the principle of fair competition. Identifying the existence of similarity and comparability between the reference asset and the appraisal of the Target Company is the basis of adopting the market approach.

We have considered and conducted the market approach for this valuation however did not apply the result generated due to the following reasons:

- The characteristics of each expressway are quite different;
- Additionally, acquisition frequently involves specific buyers who pay a premium/discount under its unique circumstances. This makes it difficult to know if the price paid for the agreement truly represents the market estimate of the transactions.

4.3 Income Approach

This is often used to determine a market value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that discount anticipated future net cash flows into a present value.

The choice of the economic benefits of the assets is usually based on historical and/or projected cash flows. Focus is to determine the revenue stream, reasonably reflect the assets of the most likely future earnings stream. This valuation selects the benefit stream for the discounted value and a proper risk adjusted discount rate. The discount rate of the factor typically includes the return of the average market interest rate in the assessment of the benchmark day, the business risks associated with the business of the Target Company, and other risks specific to the asset value.

We have applied the income approach for this valuation due to the following reasons:

- The value of the Equity Interest is determined by the ability to generate cash flows in future; and
- With the supports from the Independent Technical Expert, the traffic volume, the revenue, the corresponding costs and capital expenditure can be fairly identified, which could derive the value based on reasonable assumptions.

SECTION 5 ASSUMPTIONS AND LIMITING CONDITIONS

5.1 General Assumptions

- 1) There would be no significant changes in the prevailing domestic and local laws, regulations, political and economic policies where the Target Company is operated.
- 2) The Target Company is as a going concern, and all associated assets is to serve in the present location and in the prevailing way.
- 3) There would be no significant changes in the prevailing interest rates, exchange rates, tax bases and rates, policy-related charges in the near future.

- 4) There would be no force majeure or unforeseeable factors that may have a material adverse impact on the valuation conclusions.

5.2 Specific Assumptions and Limiting Conditions

- 1) The Target Company will retain competent management, key personnel, and technical staff to support the ongoing operation of its business.
- 2) The present and future management is responsible and shall act smoothly to achieve their business plan.
- 3) The management of the Target Company shall comply with relevant domestic laws and regulations and shall not conduct significant infractions that may influence their business or realization of the expected returns.
- 4) The associated assets were purchased, obtained, constructed or developed in compliance with relevant domestic laws and regulations.
- 5) There were no significant technical faults in the tangible assets of the Target Company that may affect their future service or hazardous substances or adverse environmental conditions that may affect their market values.
- 6) We have conducted the visual inspection on the physical appearance of the subject assets during the valuation, instead of any specific inspections on their technical data, physical condition, structure or concealed work.

In the event of any discrepancy arisen out of the physical truth and the above assumptions in the future, the conclusions hereinafter shall be influenced accordingly. The intended user(s) of this Report shall take fully account of the potential impact of these assumptions on the Conclusions.

SECTION 6 CONCLUSIONS

Both the income approach and the market approach were conducted in this analysis, and the result derived from the former was adopted as follows:

As of the effective date of valuation on December 31st 2014, under the purpose of valuation, assumptions, limiting conditions and special issues stated hereby, the market value of the Equity Interest of the Target Company is RMB853.00 million.

The sensitivity analysis of discount rate is indicated as follows:

Discount Rate	9.0%	10.0%	10.9%	11.5%	12.0%
Market Value (in million)	1,218.00	1,001.00	853.00	729.00	651.00

SECTION 7 SPECIFIC ISSUES

The special issues stated hereby shall refer to the issues, upon the determination of the valuation results that we found that may affect the Conclusions but were beyond the practice and expertise of us as follows:

1. The book value and the market value were rounded and the mantissa was unadjusted.
2. The market value arrived was based on the projections provided by the client and may vary in the event of the possible differences between the projections and the physical truth.
3. The traffic, revenue and cost forecasts associated in this valuation were subject to “*Yangping Expressway in Guangxi Province Operation and Maintenance Cost Estimation Study Report*” and “*Yangping Expressway in Guangxi Province Traffic and Revenue Forecast Study Report*” issued by THI Asia Consultants Limited on April 16th 2015 and submitted by the client.
4. The market value of the subject assets were based on the assumption of their legal title perfection.

5. Any potential charges regarding the registration of legal title change were not considered in this valuation.
6. The conclusions hereby indicate the practical market value of the subject assets particularly under the purpose of valuation, assumptions and limiting conditions stated in this Report. The conclusions shall retire in the event of changing the aforementioned assumptions and limiting conditions.
7. Neither the valuers nor Zhonghe Appraisal Co., Ltd. shall take responsibility for any defective issue that may exist and have impacts on valuation conclusions inasmuch as the valuers have enquired in vain for any such information that should be explained prior to the engagement but failed to obtain after their performance of due procedures.
8. No sales by auction or forced sale of pledged securities or collaterals in the future has been considered in this valuation, nor has any additional price by special terms or circumstances under potential changes of ownership, force majeure, other unforeseeable factors or significant changes in domestic macroeconomic policies that may have material impacts to this valuation.
9. Following the valuation procedures, the valuers have conducted due and independent legal title inspection on the subject assets, which, however, does not imply that the valuers are providing warrant or authentication on the legal title herein. The purpose of conducting this valuation is to estimate and provide professional opinion on the market value of the Equity Interest.
10. The business license, legal title documents, declaration and projection forms submitted by the Target Company were adopted as the basis in preparation of this Report. The client, the appraised company and other concerning parties shall take responsibility for the truth, legality and completeness of the originals of the aforementioned.
11. Except for this engagement, the valuers have no existing or expected interest relationship with the concerning parties, or any bias towards them.
12. The conclusions were issued by Zhonghe Appraisal Co., Ltd. and subject to

the competency and professional skills of the valuers.

The intended user(s) shall take into account of the influence derived from the above special issues on the conclusions.

SECTION 8 LIMITATIONS OF USE

1. The conclusions shall be subject to the precondition of going concern.
2. This Report shall serve for the exclusive purpose of valuation and use stated herein.
3. This Report shall serve for the exclusive user(s) stated herein.
4. This Report shall validate exclusively when signed and sealed by the valuers and Zhonghe Appraisal Co., Ltd.
5. Any excerption, citation or disclosure of this Report to the public shall be firstly reviewed or consented by Zhonghe Appraisal Co., Ltd., except as may be required by laws, regulations or agreed between the concerning parties.
6. The expiry date of conclusions shall be one (1) year after the effective date of valuation, or, the conclusions shall retire after December 30th 2015.
7. This Report shall validate exclusively when using as a whole. Zhonghe Appraisal Co., Ltd. shall not take responsibility for any possible loss that results from the partial use of this Report.

----- CONTINUED ON NEXT PAGE -----

SIGNATURE AND BIOGRAPHY

Valuer:



Chengjun Wang, PhD., CPV, FCPV, FRICS, ASA, FCPA

Vice Chairman, Partner

Valuer:



Jianguo Qian, CPV

Partner

Valuer:



Qili Zhang, CPV

Manager

Zhonghe Appraisal Co., Ltd.

May 20th 2015