

CHINA MERCHANTS HOLDINGS (PACIFIC) LIMITED

(Incorporated in the Republic of Singapore)
Company Registration No. 198101278D

ANNOUNCEMENT

PROPOSED ACQUISITION OF JIURUI EXPRESSWAY, PEOPLE'S REPUBLIC OF CHINA

1. INTRODUCTION

- 1.1 **Proposed Acquisition.** The Board of Directors (the “**Board**”) of China Merchants Holdings (Pacific) Limited (“**CMHP**” or the “**Company**”) is pleased to announce that the Company has today entered into a conditional share purchase agreement (the “**Agreement**”) with Liu Qiang and Gong Xiaoping (collectively the “**Sellers**”), pursuant to which the Sellers have agreed to sell and CMHP has agreed to purchase (a) all the issued shares of Hong Kong Honest Queen International Investment Limited (the “**Target**”) and (b) a shareholder's loan made by Liu Qiang to the Target (the “**Target Shareholder's Loan**”)¹ (as reflected in the books of the Target as at the Completion Date (as defined below)) (collectively, the “**Acquisition**”). The Target is the holding company of Honest Queen International (Jiangxi) Jiurui Expressway Development Co., Ltd (诚坤国际(江西)九瑞高速公路发展有限公司) (“**Jiurui Expressway Co**”). Jiurui Expressway Co owns the rights to operate the Jiurui Expressway (Jiujiang - Ruichang Section) (江西省九江至瑞昌高速公路) (the “**Jiurui Expressway**”), an expressway located in Jiangxi Province, People's Republic of China (“**PRC**”). The Sellers, and their nominee, Hongda Asia Limited, are not related to any of CMHP's controlling shareholders, directors or their associates.
- 1.2 **Completion.** The completion of the Acquisition (“**Completion**”) is subject to and conditional upon various conditions precedent (“**Conditions**”), including, *inter alia*, the approval of shareholders of the Company (the “**Shareholders**”) for the Acquisition and the Proposed Share Issue (as defined below) at an extraordinary general meeting of the Company to be convened (“**EGM**”). Following Completion, the Target and Jiurui Expressway Co will be wholly-owned subsidiaries of CMHP and members of the CMHP group comprising CMHP and its subsidiaries (the “**CMHP Group**”).

2. INFORMATION ON THE TARGET, JIURUI EXPRESSWAY CO AND THE JIURUI EXPRESSWAY

- 2.1 **The Target.** The Target is a private limited company incorporated in Hong Kong with an issued and paid-up share capital of HK\$10,000 consisting of 10,000 shares (the “**Target Shares**”). As at the date of this Announcement, Liu Qiang and Gong Xiaoping own 7,000 Target Shares and 3,000 Target Shares respectively, collectively representing all the issued shares of the Target. The Target was set up as an investment holding vehicle for Jiurui Expressway Co.

¹ As at 31 March 2014, the Target Shareholder's Loan standing in the books of the Target is HK\$705,595,079.

2.2 **Jiurui Expressway Co.** Jiurui Expressway Co is a company incorporated in the PRC which owns the rights to operate the Jiurui Expressway. As at the date of this Announcement, Jiurui Expressway Co is a direct wholly-owned subsidiary of the Target.

2.3 **The Jiurui Expressway.** The Jiurui Expressway is part of the G56 National Expressway System of China and is a four-lane carriageway (Dual-2) located at the east-western area of Jiujiang Municipality, PRC, connecting with Ruichang Municipality, PRC in the west of Jiangxi Province, PRC, with a total length 48.14 kilometres. The Jiurui Expressway starts at Caojiakan in Jiujiang Municipality, running through the Lushan district Saiyang town, Shanhe economic development zone, Shizi town, Xinhe town, Xintang town, Ruichang city, Hongling town, Gaofen town and Xiafan town. The Jiurui Expressway connects with the Hangzhou – Ruili Expressway (G56) at the boundary of Hubei Province, PRC.

Jiurui Expressway Co's toll operating rights for the Jiurui Expressway was formally granted by the relevant governmental authorities in Jiangxi Province, PRC for the period from 1 January 2011 to 31 December 2040 (the "**Toll Period**").

Additional information on the Jiurui Expressway is set out in **Appendix 1** of this Announcement.

2.4 **Asset Value.** CMHP has appointed THI Asia Consultants Limited ("**THI Asia**") to conduct an independent traffic and revenue forecast study on the Jiurui Expressway and to prepare the results of such study (the "**Traffic Consultant's Report**") as well as Greater China Appraisal Limited ("**GCAL**") to appraise the fair value² of 100 per cent. of the shareholding interest (the "**Target Interest**") in the Target and Jiurui Expressway Co as at 31 March 2014 (the "**Target Valuation Report**"). An executive summary of each of the Traffic Consultant's Report and the Target Valuation Report is set out in **Appendix 2** and **Appendix 3** of this Announcement respectively.

According to GCAL's appraisal based on generally accepted valuation procedures and practices, the fair value of the Target Interest, which comprises 100 per cent. of the equity interest in the Target and Jiurui Expressway Co and the Target Shareholder's Loan, is approximately RMB702 million (approximately HK\$885.2 million)³ as at 31 March 2014.

Based on the audited consolidated financial statements of the Target for the financial year ended 31 December 2013 ("**FY2013**"), the net asset value ("**NAV**") of the Target Interest as at 31 December 2013 is approximately HK\$399,594,413.

Based on the audited consolidated financial statements of the Target for the three-month period ended 31 March 2014 ("**1Q2014**"), the NAV of the Target Interest as at 31 March 2014 is approximately HK\$372,325,493.

2.5 **Net Loss.** Based on the audited consolidated financial statements of the Target for FY2013, the net loss before tax, minority interests and exceptional items of the Target for FY2013 is approximately HK\$27,839,047.

² "Fair value" is defined in the Target Valuation Report as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*".

³ Unless otherwise stated, the approximate HK\$ equivalent of RMB amounts in this Announcement are based on an exchange rate of RMB1 : HK\$1.2609.

Based on the audited consolidated financial statements of the Target for 1Q2014, the net loss before tax, minority interests and exceptional items of the Target for 1Q2014 is approximately HK\$13,020,599.

The Jiurui Expressway was open to traffic from 1 January 2011. Due to high finance costs from bank borrowings taken up to finance its construction, Jiurui Expressway Co has been incurring losses since it started operations. Therefore, to improve Jiurui Expressway Co's financial position and reduce its financing costs, CMHP intends to restructure Jiurui Expressway Co's existing bank borrowings following Completion.

3. PRINCIPAL TERMS OF THE ACQUISITION

3.1 **Agreement.** Pursuant to the terms of the Agreement, the Sellers shall sell and CMHP shall purchase (a) the Target Shares, representing all the issued shares of the Target, and (b) the Target Shareholder's Loan (as reflected in the books of the Target as at the Completion Date (as defined below)), on the date falling 10 business days following the satisfaction or waiver of all Conditions in accordance with the terms of the Agreement (or such other date as may be agreed between CMHP and the Sellers in writing) (the "**Completion Date**"), free from any mortgages, charges, pledges, liens (except liens created under law), equitable charges or detrimental demand of rights over any property, asset, rights (including creditor's right) and interest (whatever its nature), or other encumbrances, pre-emptive rights, security interest, deferred payment, retention of title, lease, sale and purchase, sale and leaseback arrangement, or any agreement in relation to the foregoing.

3.2 **Consideration.** The consideration of RMB697,408,049.93 (approximately HK\$879,361,810.16) for the Acquisition (the "**Consideration**") was arrived at on a willing seller willing buyer basis after taking into account (a) the fair value of the Target Interest as at 31 March 2014, which was independently appraised by GCAL, (b) the Traffic Consultant's Report prepared by THI Asia, and (c) the rationale for the Acquisition.

The Consideration shall be satisfied by CMHP on the Completion Date in the following manner:

RMB

Issue of 119,374,987 new ordinary shares (" Shares ") in the capital of the Company (the " Consideration Shares ") to the Sellers (or their nominee, Hongda Asia Limited) at an issue price of S\$0.985 per Consideration Share (based on an exchange rate of S\$1.00 : RMB4.938)	580,631,580.52
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Payment of the Hong Kong dollars equivalent of RMB116,776,469.41 (the " Cash Consideration ") to the Sellers (or their nominee) in cash	116,776,469.41
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Total Consideration

697,408,049.93

The Cash Consideration will be funded by CMHP using internal cash resources.

An application will be made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for its approval in-principle for the listing and quotation of the Consideration Shares, which shall rank *pari passu* in all respects with the Shares as at the date of their issue. Following Completion, the Sellers will collectively own approximately 13.9 per cent. of the enlarged issued ordinary share capital of the Company.

- 3.3 **Lock-up Period.** One third of the total number of Consideration Shares to be issued to the Sellers (or their nominee, Hongda Asia Limited) will be subject to a lock-up period of six months and a further one third of the total number of Consideration Shares to be issued to the Sellers (or their nominee, Hongda Asia Limited) will be subject to a lock-up period of one year, in each case, starting from the issue date of the Consideration Shares, during which the Sellers shall, or shall procure that the holder of such Consideration Shares shall, not sell, transfer or dispose of such Consideration Shares either directly or indirectly.
- 3.4 **Hongda Receivables.** As at 31 March 2014, Jiurui Expressway Co owed RMB589,184,532.93 (the “**Hongda Receivables**”) to the Sellers’ related company, Jiangxi Hongda (Group) Joint Stock Limited Liability Company (江西洪大(集团)股份有限公司) (“**Jiangxi Hongda**”). Pursuant to the terms of the Agreement, the Sellers shall procure Jiangxi Hongda to sign a commitment letter (the “**Commitment Letter**”) acknowledging and agreeing to the conditions to the payment of the relevant Hongda Receivables by Jiurui Expressway Co set out in paragraphs 3.4(a), 3.4(b) and 3.4(c) below and in connection therewith, the Seller shall:
- (a) ensure that Jiangxi Hongda shall not demand for the payment of RMB200 million Hongda Receivables and Jiurui Expressway Co shall have no obligation to make such payment unless the valid documentary evidence evidencing the discharge of the guarantee for a principal of RMB150 million, together with the relevant interest, any expense for realization of the relevant creditor’s right and other costs and expenses provided by Jiurui Expressway Co for the benefit of Nanchang Commodities Co., Ltd (南昌小商品城有限公司) has been provided by the Sellers to CMHP;
 - (b) procure Jiangxi Hongda not to demand for the payment of RMB350 million Hongda Receivables unless:
 - (i) the certification by Jiangxi Provincial Government and commerce authorities affirming the validity of the “Approval for the Extension of Operation Term and Increase of Capital of Jiurui Expressway Co” and the “Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the People’s Republic of China” previously issued have been obtained or new approvals to the same effect have been obtained such that a legally valid “Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the People’s Republic of China” of Jiurui Expressway Co has been obtained;

- (ii) the registration of the extension of Jiurui Expressway Co's business term under its business license has been completed such that the extended business term fully covers the Toll Period; and
- (iii) the modification of registration of Jiurui Expressway Co with relevant foreign exchange department has been completed.

In the event that such registration of extension is not completed and the relevant approval is not obtained within a reasonable period, CMHP and the Sellers will negotiate on the manner in which the payment of RMB350 million Hongda Receivables should be made; and

- (c) procure Jiurui Expressway Co to collect all the accounts receivables, other receivables and other working capital which are reflected in its books as at 31 March 2014 and confirmed by CMHP and the Sellers prior to the Completion Date, otherwise, Jiurui Expressway Co will not be required to make the payment of RMB7.3 million Hongda Receivables after the Completion Date.

Pursuant to the terms of the Agreement, CMHP shall procure Jiurui Expressway Co to pay the relevant Hongda Receivables to Jiangxi Hongda in one month following the receipt of documents or documentary evidence as required in paragraphs 3.4(a) and/or 3.4(b) of this Announcement or in one month following the Completion Date if the condition set out in paragraph 3.4(c) of this Announcement is fulfilled. In the event that Jiurui Expressway Co does not pay the relevant Hongda Receivables on time, CMHP shall procure Jiurui Expressway Co to pay a penalty of 0.05 per cent. on such relevant Hongda Receivables per day of delay to Jiangxi Hongda.

- 3.5 **Hongda Guarantee.** Jiangxi Hongda has today, signed a Letter of Guarantee (the "**Hongda Guarantee**"), guaranteeing the Sellers' responsibilities, obligations and liabilities for any compensation under the Agreement. In the event the Sellers fail to perform or fully perform any of such responsibilities, obligations or liabilities, Jiangxi Hongda will, in place of the Sellers, either perform the same or be liable for any such non-performance. The Hongda Guarantee is valid for a period of three years from the date of its execution. The Sellers are the indirect majority shareholders of Jiangxi Hongda.

- 3.6 **Conditions Precedent.** Pursuant to the terms of the Agreement, Completion is subject to and conditional upon the satisfaction or waiver of the Conditions set out below.

- (a) all authorisations, consents and approvals necessary to complete the transactions under the Agreement being obtained by the Sellers and such authorisations, consents and approvals remaining in full force and effect as at the Completion Date, and there being no authoritative recommendation, promulgation or execution of any law, rule, command, decree, notice or ruling which prohibits, restricts or significantly delays Completion or will result in a material adverse effect on the Target or Jiurui Expressway Co after Completion;
- (b) CMHP having completed a due diligence exercise on the Target and Jiurui Expressway Co and the results of such due diligence exercise being satisfactory to CMHP;

- (c) (i) the approval of the SGX-ST for the circular to be issued by CMHP to Shareholders and (ii) the approval of Shareholders for the Acquisition and the Proposed Share Issue (as defined below), being obtained by CMHP at the EGM;
- (d) the approval in-principal of the SGX-ST for the listing and quotation of the Consideration Shares being obtained by CMHP;
- (e) the Commitment Letter from Jiangxi Hongda, acknowledging and agreeing to the conditions to Jiurui Expressway Co's payment of the Hongda Receivables, being provided to Jiurui Expressway Co, the format of which is to the satisfaction of CMHP;
- (f) the representations and warranties made by the Sellers in the Agreement being true, accurate and not misleading when made and as at the Completion Date; and
- (g) the Sellers not having committed any material breach of the terms of the Agreement prior to Completion.

Pursuant to the terms of the Agreement, only CMHP has the discretion to waive any Conditions. In the event that the Conditions are not satisfied or waived in accordance with the terms of the Agreement by 31 December 2014 (or such later date as may be agreed in writing between CMHP and the Sellers), the Agreement will automatically terminate (excluding those obligations expressly reserved under the Agreement) and, as long as the party which is responsible for the satisfaction of the Conditions has used reasonable efforts to satisfy the Conditions and not prevented the satisfaction of the Conditions, neither party shall have any claim for expenses or costs against the other party in relation to the Acquisition and other related matters which have been incurred prior to the termination of the Agreement (excluding claims for damages resulting from breaches of the duty of confidentiality).

Prior to or on the Completion Date, in the event that:

- (i) either party commits any material breach of its obligations under any terms of the Agreement;
- (ii) there is any material breach of the Sellers' representations and warranties under the Agreement; or
- (iii) either party does not duly comply with its obligations on Completion,

the non-defaulting party may, by written notice to the defaulting party, terminate the Agreement and not proceed with Completion and release the parties' obligations under the Agreement (excluding those expressly reserved under the Agreement) without any liability on the part of the non-defaulting party for any damages. However, the defaulting party shall be liable to compensate the non-defaulting party for all reasonable expenses and costs in relation to the Acquisition and other related expenses incurred by the non-defaulting party prior to the termination of the Agreement.

3.7 Sharing of Toll Collection Increment. Pursuant to the terms of the Agreement, in relation to the proposed application by Jiurui Expressway Co to the relevant governmental authorities in Jiangxi Province, PRC for the allocation of the increment of toll collection arising from the increase in the toll rate of Jiurui Expressway for goods vehicles ("**Toll Collection Increment**")

to Jiurui Expressway Co, CMHP and the Sellers shall negotiate in good faith on the sharing of the Toll Collection Increment between them and thereafter enter into relevant supplemental agreement based on the outcome of such negotiation. If, through the joint efforts of both parties, approval of such application by the relevant governmental authorities is obtained by Jiurui Expressway Co by 31 December 2015, the Sellers and CMHP agree that the Sellers shall be entitled to share the Toll Collection Increment in accordance with the following principles provided always that all the applicable taxes shall have been duly paid and that such distribution will not breach any applicable laws, accounting principles and articles of association of Jiurui Expressway Co, the Target and CMHP:

- (a) the Toll Collection Increment (less applicable taxes) on or before 31 March 2014 (if any) shall belong to the Sellers;
- (b) the Toll Collection Increment (less applicable taxes) for the period from 1 April 2014 to 31 March 2024 (if any) shall be equally shared between CMHP and the Sellers; and
- (c) the Toll Collection Increment (less applicable taxes) on or after 1 April 2024 (if any) shall belong to CMHP.

4. RATIONALE

Growth Strategy

The Acquisition is in line with CMHP's growth strategy of expanding its business and earnings base through both organic expansion and acquisitions of quality toll road assets in key strategic regions to develop its core business to a sizable scale and generate long-term profit.

Leading Toll Road Operator

The Acquisition will allow CMHP to gain full ownership of a high-quality toll road and strengthen its position as a leading toll road operator in the transportation infrastructure sector in the PRC.

Expand Geographical Coverage

The Acquisition will further diversify and enlarge CMHP's toll road portfolio and expand its geographical coverage into the fast developing Jiangxi Province, PRC. The Jiurui Expressway, which has a remaining concession period of approximately 26 years, will increase the average remaining concession period of CMHP's toll road portfolio by approximately 20.5 per cent., from approximately 12.7 years to approximately 15.3 years.

Promising Growth Potential in Traffic Flow

The Jiurui Expressway is a newly-opened expressway with promising growth potential in traffic flow. It is one of the key routes in Jiangxi Province, PRC and an important inter-provincial boundary crossing, passing through Jiujiang Municipality, PRC and connecting with Ruichang Municipality, PRC. Due to its strategic location, it has experienced significant increase in traffic flow since it was open to traffic in January 2011. This growth trend is expected to continue due to the robust economic growth of Jiangxi Province, PRC. In addition,

a number of expressways and bridges currently under construction in the surrounding areas will be open to traffic from 2014 to 2017. The traffic flow on the Jiurui Expressway is expected to be further boosted once these expressways and bridges are operational. These factors are expected to drive the Jiurui Expressway's future traffic flow and growth in toll revenue.

Increase the Liquidity of the Shares

The issue of the Consideration Shares at the issue price of S\$0.985 per Share is at a premium of approximately 7.7 per cent. to CMHP's closing Share price of S\$0.915 on 18 July 2014. The number of Consideration Shares to be issued to the Sellers represents approximately 16.2 per cent. of the current issued ordinary share capital of CMHP. This will increase the liquidity of the Shares in the market.

5. FINANCIAL EFFECTS

The pro forma financial effects of the Acquisition on the share capital, NAV per Share, net tangible assets ("**NTA**") per Share, earnings per Share ("**EPS**"), gearing and working capital of the CMHP Group are set out below.

5.1 **Bases and Assumptions.** The pro forma financial effects for the Acquisition have been prepared based on the audited consolidated financial statements of the CMHP Group and the audited consolidated financial statements of the Target for FY2013, which have been prepared on a going concern basis, and are purely **for illustration purposes only and do not reflect the future actual financial position of the CMHP Group post-Acquisition**. The pro forma financial effects have also been prepared based on, *inter alia*, the following assumptions:

- (a) that the Acquisition had been effected on 31 December 2013 for illustrating the financial effects on the consolidated NAV, NTA, gearing and working capital of the CMHP Group;
- (b) that the Acquisition had been effected on 1 January 2013 for illustrating the financial effects on the consolidated earnings of the CMHP Group;
- (c) the financial statements of the CMHP Group are reported in HK\$. They have been translated where necessary, in respect of profit and loss items using the average exchange rate of HK\$1.26 per RMB for FY2013. In respect of the balance sheet items, they have been translated using the closing exchange rate of HK\$1.2719 per RMB as at 31 December 2013;
- (d) that the Company will be able to gain control of the Target and account for the Target as a wholly-owned subsidiary, with Jiurui Expressway Co in turn being a wholly-owned subsidiary of the Target;
- (e) that the transaction costs associated with the Acquisition are assumed to be insignificant;
- (f) the fair value of the net identifiable assets was provisionally determined after considering the Target Valuation Report. The fair value of individually identifiable assets and liabilities acquired, including any goodwill arising, pursuant to the

Acquisition may be substantially different from their corresponding values used in the preparation of the unaudited pro forma financial effects; and

- (g) with the financial support provided by the existing and future shareholder, the Target and Jiurui Expressway Co (the “**Target Group**”) are able to meet in full their financial obligations as they fall due in the foreseeable future and the Target Group is able to continue as going concern.

5.2 Share Capital

	Assuming all RCPS ⁽¹⁾ are redeemed ('000)	Assuming all RCPS are converted ('000)
Number of issued Shares		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds ⁽²⁾	718,856	854,637
- Assuming full conversion of the Convertible Bonds	937,404	1,073,185
After the Acquisition:		
- Before any conversion of the Convertible Bonds	838,231	974,012
- Assuming full conversion of the Convertible Bonds	1,056,779	1,192,560

Notes:

- (1) For the purposes of this Announcement, “**RCPS**” means the 135,781,000 redeemable convertible preference shares of the Company held by Easton Overseas Limited (“**Easton**”), the immediate holding company of the Company.
- (2) For the purposes of this Announcement, “**Convertible Bonds**” means the aggregate principal amount of HK\$1,163,000,000 1.25 per cent. convertible bonds due 2017 (credit enhanced until 2015) issued by the Company on 6 November 2012.

5.3 NAV

For illustrative purposes only and assuming the Acquisition had been completed on 31 December 2013, the pro forma financial effects on the consolidated NAV of the CMHP Group for FY2013 are as follows:

	Assuming all RCPS are redeemed	Assuming all RCPS are converted
NAV before the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$'000)	4,475,784	5,108,604
- Assuming full conversion of the Convertible Bonds (HK\$'000)	5,558,895	6,191,715

Issue of new Shares (HK\$'000)	732,119	732,119
Negative goodwill arising from the Acquisition (HK\$'000)	13,511	13,511
Adjusted NAV after the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$'000)	5,221,414	5,854,234
- Assuming full conversion of the Convertible Bonds (HK\$'000)	6,304,525	6,937,345
NAV per Share⁽¹⁾		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$)	6.23	5.98
- Assuming full conversion of the Convertible Bonds (HK\$)	5.93	5.77
After the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$)	6.23	6.01
- Assuming full conversion of the Convertible Bonds (HK\$)	5.97	5.82

Note:

- (1) The NAV per Share for FY2013 (adjusted for redemption of all RCPS) is calculated based on the NAV of the CMHP Group as at 31 December 2013 less the redemption value of the RCPS of HK\$632,820,000 as at 31 December 2013.

5.4 NTA

For illustrative purposes only and assuming the Acquisition had been completed on 31 December 2013, the pro forma financial effects on the consolidated NTA of the CMHP Group for FY2013 are set out below. The NTA is determined by the consolidated NAV of the CMHP Group less the CMHP Group's share of intangible assets, which comprises mainly the toll operating rights of the Yongtaiwen Expressway acquired in 2011, the toll operating rights of the Beilun Port Expressway acquired in 2012, and the toll operating rights of the Jiurui Expressway to be acquired pursuant to the Acquisition.

	Assuming all RCPS are redeemed	Assuming all RCPS are converted
NTA before the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$'000)	(1,521,094)	(888,274)
- Assuming full conversion of the Convertible Bonds (HK\$'000)	(437,983)	194,837
Share of toll road operating rights of Jiurui Expressway Co (HK\$'000)	(3,650,404)	(3,650,404)
Issue of new Shares (HK\$'000)	732,119	732,119

Negative goodwill arising from the Acquisition (HK\$'000)	13,511	13,511
Adjusted NTA after the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$'000)	(4,425,868)	(3,793,048)
- Assuming full conversion of the Convertible Bonds (HK\$'000)	(3,342,757)	(2,709,937)
NTA per Share⁽¹⁾		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$)	(2.12)	(1.04)
- Assuming full conversion of the Convertible Bonds (HK\$)	(0.47)	0.18
After the Acquisition:		
- Before any conversion of the Convertible Bonds (HK\$)	(5.28)	(3.89)
- Assuming full conversion of the Convertible Bonds (HK\$)	(3.16)	(2.27)

Notes:

- (1) The NTA per Share for FY2013 (adjusted for redemption of all RCPS) is calculated based on the NTA of the CMHP Group as at 31 December 2013 less the redemption value of the RCPS of HK\$632,820,000 as at 31 December 2013.
- (2) The increased negative NTA per Share post-Acquisition arose primarily as a result of the exclusion of the CMHP Group's share of intangible assets amounting to HK\$9,646,511,000 (including the share of toll operating rights of Yongtaiwen Expressway of HK\$3,422,210,000, the share of toll road operating rights of Beilun Port Expressway of HK\$2,573,897,000 and the share of toll road operating rights of Jiurui Expressway Co of HK\$3,650,404,000).

5.5 EPS

For illustrative purposes only and assuming the Acquisition had been completed on 1 January 2013, the pro forma financial effects on the consolidated earnings of the CMHP Group for FY2013 are as follows:

	Before the Acquisition	After the Acquisition
Basic EPS		
Profit before tax (HK\$'000)	1,101,496	1,082,584
Profit after tax and minority interests (HK\$'000)	613,702	576,583
Non-cumulative preference dividend (HK\$'000)	(6,237)	(6,237)
Net profit attributable to ordinary shareholders (HK\$'000)	607,465	570,346

	Before the Acquisition	After the Acquisition
No. of issued Shares ('000)	718,825	838,200
Basic EPS (HK cents)	84.51	68.04
Fully diluted EPS		
Profit before tax (HK\$'000)	1,101,496	1,082,584
Profit after tax and minority interests (HK\$'000)	613,702	576,583
Non-cumulative preference dividend (HK\$'000)	(6,237)	(6,237)
Net profit attributable to ordinary shareholders (HK\$'000)	607,465	570,346
Adjustment on profit arising from full conversion of RCPS (HK\$'000)	6,237	6,237
Adjustment on profit arising from full conversion of Convertible Bonds (HK\$'000)	45,170	45,170
Adjusted profit attributable to ordinary shareholders (HK\$'000)	658,872	621,753
No. of issued Shares('000)	1,074,170	1,193,545
Fully diluted EPS (HK cents)	61.34	52.09

Notes:

- (1) The calculation of basic and diluted EPS is based on the profit/adjusted profit attributable to ordinary shareholders of the Company.
- (2) For the purpose of calculating the diluted EPS, the weighted average number of Shares in issue is adjusted to take into account the dilutive effect arising from the dilutive share options and full conversion of all RCPS and Convertible Bonds.
- (3) Expenses in connection with the Acquisition and any synergistic benefits arising from the Acquisition are assumed to be immaterial.

5.6 Gearing

For illustrative purposes only and assuming that the Acquisition had been completed on 31 December 2013, the pro forma financial effects on the net gearing of the Company and the CMHP Group for FY2013 are as follows:

	Assuming all RCPS are redeemed HK\$'000	Assuming all RCPS are converted HK\$'000
Debts (interest bearing liabilities)⁽²⁾		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds	3,668,205	3,668,205
- Assuming full conversion of the Convertible Bonds	2,585,094	2,585,094
After the Acquisition:		
- Before any conversion of the Convertible Bonds	5,260,525	5,260,525
- Assuming full conversion of the Convertible Bonds	4,177,414	4,177,414
Shareholders' equity⁽³⁾		
Before the Acquisition as previously reported:		
- Before any conversion of the Convertible Bonds	7,127,977	7,760,797
- Assuming full conversion of the Convertible Bonds	8,211,088	8,843,908
Issue of new Shares	732,119	732,119
Negative goodwill arising from the Acquisition	13,511	13,511
After the Acquisition:		
- Before any conversion of the Convertible Bonds	7,873,607	8,506,427
- Assuming full conversion of the Convertible Bonds	8,956,718	9,589,538
Gearing⁽⁴⁾		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds	34%	32%
- Assuming full conversion of the Convertible Bonds	24%	23%
After the Acquisition:		
- Before any conversion of the Convertible Bonds	40%	38%
- Assuming full conversion of the Convertible Bonds	32%	30%

Notes:

- (1) The Shareholders' equity and the gearing (adjusted for redemption of all RCPS) are calculated based on the redemption value of the RCPS of HK\$632,820,000.
- (2) "Debts" means the aggregate of interest bearing liabilities.
- (3) "Shareholders' equity" refers to the aggregate of the issued and paid-up share capital, capital and other reserves of the CMHP Group and minority interests.

(4) Gearing is computed based on the ratio of Debts to the sum of Debts and Shareholders' equity.

5.7 Working Capital

For illustrative purposes only and assuming that the Acquisition had been completed on 31 December 2013, the pro forma financial effects of the Acquisition on the working capital of the CMHP Group as at 31 December 2013 are as follows:

	Assuming all RCPS are redeemed HK\$'000	Assuming all RCPS are converted HK\$'000
Current assets		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds	1,399,356	2,032,176
- Assuming full conversion of the Convertible Bonds	1,399,356	2,032,176
After the Acquisition:		
- Before any conversion of the Convertible Bonds	1,275,200	1,908,020
- Assuming full conversion of the Convertible Bonds	1,275,200	1,908,020
Current liabilities		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds	(1,538,354)	(1,538,354)
- Assuming full conversion of the Convertible Bonds	(1,538,354)	(1,538,354)
After the Acquisition:		
- Before any conversion of the Convertible Bonds	(2,643,398)	(2,643,398)
- Assuming full conversion of the Convertible Bonds	(2,643,398)	(2,643,398)
Working capital		
Before the Acquisition:		
- Before any conversion of the Convertible Bonds	(138,998)	493,822
- Assuming full conversion of the Convertible Bonds	(138,998)	493,822
After the Acquisition:		
- Before any conversion of the Convertible Bonds	(1,368,198)	(735,378)
- Assuming full conversion of the Convertible Bonds	(1,368,198)	(735,378)

Note:

- (1) The current assets and the working capital (adjusted for redemption of all the RCPS) are calculated based on the redemption value of the RCPS of HK\$632,820,000.

The increased pro forma negative working capital position of the CMHP Group post-Acquisition is due to the reduction in cash balances to partly finance the Acquisition and the

consolidation of the financial results of the Target Group, including the Target Group's negative working capital position as at 31 December 2013 of HK\$1,081 million.

CMHP intends to borrow long term bank loans to replace certain current liabilities of the Target Group. Coupled with the existing and expected cash flows from CMHP Group operations, the CMHP Group will be able to meet its short term financial obligations post-Acquisition.

6. MAJOR TRANSACTION

6.1 **Major Transaction.** The relative figures in relation to the Acquisition computed on the applicable bases set out in Rule 1006 of the SGX-ST Listing Manual ("**Rule 1006**") are as follows:

Rule 1006	Bases	Acquisition	CMHP Group	Relative Figures (%)
(b)	Net losses based on 100% of the Target's net loss compared with the CMHP Group's net profits ⁽²⁾ (HK\$ million)	(13)	289	n.m. ⁽¹⁾
(c)	Consideration ⁽³⁾ payable compared with CMHP's market capitalisation ⁽⁴⁾ (HK\$ million)	906	4,141	21.9
(d)	Number of Shares issued by CMHP ⁽⁵⁾ as consideration for the Acquisition compared with the number of Shares previously in issue ⁽⁶⁾	119,374,987	736,764,532	16.2

Notes:

- (1) "n.m." means not meaningful.
- (2) The net losses before tax, minority interests and exceptional items attributable to the Target for 1Q2014 have been compared with the CMHP Group's net profits before tax, minority interests and exceptional items for 1Q2014.
- (3) For the purposes of determining the relative figure under Rule 1006(c) only, the Consideration is deemed to be HK\$906 million which represents the sum of:
 - (i) the value of the Consideration Shares of HK\$759 million, calculated based on the number of Consideration Shares multiplied by the NAV per Share of HK\$6.36 assuming all RCPS are redeemed (based on the unaudited consolidated financial statements of the CMHP Group for 1Q2014); and
 - (ii) the Cash Consideration of HK\$147 million.
- (4) CMHP's market capitalisation is based upon 736,764,532 Shares in issue as at 18 July 2014 at a volume weighted average price of S\$0.911 for each Share, and expressed in HK\$ based on an exchange rate of S\$1.00 : HK\$6.169.
- (5) The number of Shares to be issued as consideration for the Acquisition comprises 119,374,987 Consideration Shares.

(6) The number of Shares previously in issue is 736,764,532 Shares as at 18 July 2014.

As the relative figure under Rule 1006c exceeds 20 per cent., the Acquisition constitutes a major transaction for CMHP as defined in Chapter 10 of the SGX-ST Listing Manual. Accordingly, the Acquisition is subject to the approval of Shareholders.

- 6.2 **Issue of the Consideration Shares.** The Company also intends to seek the specific approval of the Shareholders for the issue of the Consideration Shares (the “**Proposed Share Issue**”).
- 6.3 **EGM.** A circular to Shareholders (the “**Circular**”) setting out information on the Acquisition (including the Proposed Share Issue), together with a notice of EGM to be convened, will be despatched to Shareholders in due course. In the meantime, Shareholders are advised to refrain from taking any action in relation to their Shares which may be prejudicial to their interests until they or their advisers have considered the information and the recommendations to be set out in the Circular.

7. FURTHER INFORMATION

- 7.1 **Directors’ Service Contracts.** No person is proposed to be appointed as a Director of the Company in connection with the Acquisition. Accordingly, no service contract is proposed to be entered into between the Company and any such person.
- 7.2 **Interests of Directors and Controlling Shareholders of the Company.** Save as disclosed in this Announcement, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Acquisition.
- 7.3 **Documents for Inspection.** Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, for a period of three months commencing from the date of this Announcement:
- (a) the Agreement;
 - (b) the Traffic Consultant’s Report; and
 - (c) the Target Valuation Report.

BY ORDER OF THE BOARD

Lim Lay Hoon
Company Secretary
Singapore, 21 July 2014

APPENDIX 1

ADDITIONAL INFORMATION ON THE JIURUI EXPRESSWAY

Jiurui Expressway

Location	Jiujiang Municipality, Jiangxi Province, PRC
No. of road sections	1
Length (kilometres)	Total 48.14 kilometres
Classification	Expressway
Access control	Restricted users (motorised goods and passengers only)
Direction / lanes	Two directions, 2 lanes each direction
Design speed (km/h)	100
Design capacity (vehicles per day)	62,000
Concession period (years)	30 years
Date of commencement	1 January 2011
Date of expiry	31 December 2040

APPENDIX 2

EXECUTIVE SUMMARY OF THE TRAFFIC CONSULTANT'S REPORT

THI Asia
鼎漢亞洲

THI Asia
Consultants
Limited

303, 3/F Sam Cheong Building
216-220 Des Voeux Road Central, Hong Kong
Tel : (852) 24123938
Fax : (852) 2899 2176

18 June 2014

The Directors
China Merchants Holdings (Pacific) Limited

Dear Sirs,

**Traffic and Revenue Forecast Study for
Jiurui Expressway**

In accordance with your instructions and for China Merchants Holdings (Pacific) Limited (the “Company”), THI Asia Consultants Limited (the “Consultant” or “THI”) has conducted an independent traffic and revenue study (the “Study”) of Jiurui Expressway (hereafter referred as the “Expressway”). The Expressway is a four-lane carriageway (Dual-2) located at the east-western area of Jiujiang Municipality connecting with Ruichang Municipality in the west of Jiangxi Province. This report summarizes the results and findings based on the technical analyses conducted. We confirm that the future traffic and revenue for the remainder of the concession period (2014 to 2040) for the Expressway are projected in an independent and professional manner.

The results of our analysis are presented in the report of “Jiurui Expressway Traffic and Revenue Forecast Study Final Report”. A brief summary of our study approaches and findings is presented below:

E1. INTRODUCTION

This report summarizes the results and findings based on the technical analyses conducted. In conducting the Study, we have based our analyses on site investigation, interviews with local authorities/toll road operator, and reviews of available traffic data, feasibility reports, Origin-Destination (“O-D”) surveys and other relevant information. In utilizing the given information from the Company, we have sought confirmation from the management of the toll roads that no material factors have been omitted. We concluded that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

The Expressway with a total length of 48.14 Km is part of the G56 China’s National Expressway System connecting Hangzhou of Zhejiang Province and Ruili of Yunnan Province serving the east-west traffic demand. This expressway at present is the key link serving both local and external traffic demand.

E2. OBJECTIVES AND SCOPE OF SERVICES

The technical objective of the Study is to provide the Company with an independent study on future traffic and revenue projections. The scope of work includes data inventory and collection, traffic analysis and future traffic and revenue projections. Major activities include:

- Review available planning and feasibility reports related to the traffic corridors of the study expressway ;
- Collect and review socio-economic data of the study region;
- Collect and analyze traffic and revenue data;
- Conduct additional traffic surveys and counts where applicable;
- Interview toll road operators and local planning department officials;
- Formulate travel demand forecast methodology;
- Analyze possible impact of competing roads in the traffic corridors under study; and
- Prepare traffic and revenue forecasts.

E3. TRAFFIC FORECASTING METHODOLOGY

The traffic forecasts are based on conventional travel demand forecast methodologies widely adopted for toll road studies and have been applied to similar toll roads in the People's Republic of China ("PRC"). Relevant information collected and accumulated by THI in other projects in Yangtze River Delta area as well as other Jiangxi Province areas in PRC have also been incorporated in this study. The traffic forecasting methodology for the Study consists of the following stages:

- a) Data Inventory and Review - The key objective for this technical stage is to obtain existing available information and organize them for the next stage of work. Typical information to be inventoried includes historic highway network data, O-D data, toll road traffic and revenue data, existing and future socio-economic forecasts of the relevant region, and previous analyses and reports.
- b) Define Technical Approach - The goal is to develop the most appropriate technical methodology to be used for study purposes. The determination of the types of method depends on the availability and quality of the data as well as the overall project programme.
- c) Travel Demand Forecasting - Based on the information and findings from previous stages, this stage defines and analyzes the existing traffic patterns and forecasts the future travel demand based on the appropriate key traffic variables that include:
 - Economic indicators and growth in travel demand;
 - Physical conditions of the road and its carrying capacity;
 - Vehicle classifications and percentage distribution; and

- O-D patterns by class of vehicle.

To consider the uncertainty of various external factors in the future, the traffic forecasts are presented under two scenarios: the Conservative Scenario and the Optimistic Scenario.

E4. PRINCIPAL MODEL / ANALYTICAL ASSUMPTIONS

The general assumptions defined in the Study are as follows:

- The use of “Gross Domestic Product” (“GDP”) statistics as the prime indicator to determine future traffic growth of the highway under study. Past studies conducted in the study region and in other areas of PRC have indicated that growth in GDP is more compatible and correlated with the passenger and goods vehicles travels than any other factors or available parameters. Because the majority of the anticipated future travel will be associated with the movement of passenger and goods in the region, GDP growth will be used as the key parameter for future forecasts.
- O-D patterns identified from the available database are applicable to the subject analysis;
- The most current traffic composition of existing traffic flow is assumed to be applicable to the forecasts;
- Variations between existing and future travel behaviors, system patterns and trip making decisions are insignificant;
- Future economic growth trends in the study region should be consistent with existing regional economic policies, the provincial development master plan and local governmental policies. The adopted conservative economic growths are given in the table below;

Annual GDP Growth (%) Assumptions (Conservative)

Year	Jiangxi Province	Hubei Province	Hunan Province
2010-2015	13.1%	13.1%	13.1%
2015-2020	10.5%	10.5%	10.5%
2020-2025	8.4%	8.4%	8.4%
2025-2030	6.7%	6.7%	6.7%
2030-2035	5.7%	5.7%	5.7%
2035-2040	5.4%	5.4%	5.4%

- Technical parameters associated with the determination of facility capacity are within the practical range;
- Technical data obtained and used for the analysis is accurate and reliable, and therefore is a good representation of the typical average condition;
- Based on the Highway Capacity Manual and professional judgment, the estimated facility-based sectional capacity for the highways under study is 62,000 vehicles per day. This Sectional Capacities are defined as the maximum number of vehicles that can be accommodated by Expressway road section of facilities per day;

- i) Major new highway links are planned or under construction in the vicinity of the study corridors. The major new links included in the study area are:

- 2014 Jiugiang Round City Expressway;
- 2017 Hangrui Expressway Linyue Section (Linxiang-Yueyang);
- 2017 Doujiu Expressway Cailing to Mahuiling Section Expressway;
- 2017 Changjiu Expressway Tongyuan Section Expansion ; and
- 2019 Wurui Expressway

- j) Future year traffic demand of Conservative and Optimistic Scenarios are formed by applying the assumed GDP growths to the traffic demand elasticity indices and adjusted by area. The resultant growths for Conservative and Optimistic Scenarios are given in table below.

Study Area Passenger and Goods Vehicles Traffic Growth (%)

Year	Conservative			Optimistic		
	Passenger Vehicle	Goods Vehicle	Average	Passenger Vehicle	Goods Vehicle	Average
2010-2015	5.6%	11.8%	8.7%	6.2%	13.0%	9.5%
2015-2020	4.5%	9.5%	6.9%	5.0%	10.4%	7.6%
2020-2025	4.1%	8.5%	6.2%	4.5%	9.4%	6.9%
2025-2030	3.7%	7.7%	5.6%	4.0%	8.4%	6.2%
2030-2035	3.3%	6.9%	5.0%	3.6%	7.6%	5.6%
2035-2040	3.1%	6.5%	4.8%	3.6%	7.5%	5.5%

- k) Non-toll vehicles are also considered in this study. Non-toll vehicles include officially toll exempted vehicles such as government vehicles and toll road company cars. The proportion of non-toll vehicles is derived from the actual traffic flows.

E5. SUMMARY OF TRAFFIC PROJECTIONS

Traffic forecasts are performed for the following 7 vehicles classes and Non-toll vehicles. The definition of vehicle class is given in Table below:

Vehicle Class	Passenger Vehicle	Goods Vehicle
Class 1	Passenger vehicles ≤ 7 seats	Goods vehicles ≤ 10 tons
Class 2	Passenger vehicles 8 -19 seats	Goods vehicles 10 tons $< \& \leq 40$ tons
Class 3	Passenger vehicles 20-39 seats	Goods vehicles > 40 tones
Class 4	Passenger vehicles > 40 seats	
Non-toll	Official Toll Exemption	

Average Daily Vehicle Forecasts – Conservative

Year	Passenger Vehicle				Goods Vehicle			Non-Toll	Total
	1	2	3	4	1	2	3		
2014	3830	1731	83	67	940	185	469	79	7384
2015	4123	1863	89	72	1076	212	536	85	8056
2016	4515	2041	98	79	1232	243	614	93	8913
2017	6074	2745	131	106	1717	338	856	125	12092
2020	11998	5422	259	209	4373	861	2179	247	25550
2025	14643	6617	316	255	6578	1296	3278	302	33285
2030	17499	7908	378	304	9499	1871	4734	360	42553
2035	20545	9285	444	357	13236	2607	6596	423	53494
2040	23965	10830	518	417	18174	3580	9057	494	67034

Average Daily Vehicle Forecasts – Optimistic

Year	Passenger Vehicle				Goods Vehicle			Non-Toll	Total
	1	2	3	4	1	2	3		
2014	3941	1781	85	69	972	191	484	81	7606
2015	4289	1938	93	75	1124	221	560	88	8387
2016	4780	2160	103	83	1314	259	655	98	9453
2017	6882	3110	149	120	1962	387	978	142	13730
2020	13744	6211	297	239	5102	1005	2543	283	29424
2025	17103	7729	369	298	7980	1572	3977	352	39380
2030	20402	9220	441	355	11483	2262	5723	420	50306
2035	24338	10999	526	423	16523	3254	8234	501	64800
2040	29041	13124	627	505	23752	4678	11837	598	84164

E6. TOLL RATE STRUCTURE

Future revenues are estimated based on the projected traffic and the anticipated toll rates. The current toll rates are given in Table below. These toll rates apply to all toll stations. Toll levied at the Expressway are derived from the toll rates below:

Jiurui Expressway Toll Rates

Vehicle Class	Passenger Vehicle (RMB/Km)	Goods Vehicle RMB/Km
Class 1	0.40	0.34
Class 2	0.80	0.67
Class 3	1.15	1.23
Class 4	1.5	1.40
Class 5	N/A	1.83

The toll for each vehicle class derived from the above will be rounded to the nearest RMB 5.

The Central Government will implement the Class 1 Passenger Vehicle (≤ 7 seats) toll-free policy for the four major festival periods including Spring Festival, Qingming Festival, Labor Day Festival and National Day Festival. The approved total number of days for the four festivals is 20 days in year 2014.

For this study, the above toll levels are assumed to be increased by 15% for every seven years starting from year 2020. This increment represents an increase of about 2.0% per annum and is reasonable when compared to the average economic growth of more than 10% in the regions.

E7. ESTIMATION OF REVENUE

A summary of the revenue estimations for the Expressway under study is presented under two scenarios in the following tables.

Annual Revenue Forecast (RMB Million) – Conservative

Year	Passenger Vehicle				Goods Vehicle			Total
	1	2	3	4	1	2	3	
2014	25.2	10.6	1.6	1.6	13.7	6.6	22	81.2
2015	27.1	11.4	1.7	1.7	15.7	7.5	25	90.2
2016	29.7	12.5	1.9	1.8	18.0	8.6	29	101.2
2017	39.9	16.8	2.5	2.5	25.1	12.0	40	138.9
2020	90.7	38.2	5.7	5.6	73.4	35.1	118	366.2
2025	110.6	46.6	7.0	6.8	110.4	52.7	177	511.1
2030	152.1	64.0	9.6	9.4	183.3	87.6	294	799.8
2035	205.3	86.4	12.9	12.7	293.7	140.3	471	1222.4
2040	239.5	100.8	15.0	14.8	403.3	192.7	647	1612.9

Annual Revenue Forecast (RMB Million) – Optimistic

Year	Passenger Vehicle				Goods Vehicle			Total
	1	2	3	4	1	2	3	
2014	24.5	10.9	1.6	1.6	14.2	6.8	22.7	82.3
2015	26.6	11.9	1.8	1.7	16.4	7.8	26.3	92.5
2016	29.7	13.2	2.0	1.9	19.2	9.2	30.7	105.9
2017	42.7	19.0	2.8	2.8	28.6	13.7	45.9	155.6
2020	98.2	43.7	6.5	6.4	85.6	40.9	137.3	418.6
2025	122.2	54.4	8.1	8.0	133.9	64.0	214.8	605.3
2030	167.6	74.6	11.1	10.9	221.6	105.9	355.4	947.1
2035	229.9	102.4	15.3	15.0	366.7	175.2	588.1	1492.5
2040	274.3	122.2	18.2	17.9	527.1	251.8	845.3	2056.9

E8. CONCLUSION

The Consultant concluded that the traffic forecasts developed by the above methodology and on the above assumptions are consistent with common professional practice and meet the objectives of the agreed scope of work with the Company. Full details of the Study and data are presented in the report of “Jiurui Expressway Traffic and Revenue Forecast Study Final Report”.

Yours sincerely,
For and on behalf of
THI Asia Consultants Limited



Richard Yau
Project Director



Jessica Liang
Project Manager

THI Asia
鼎漢亞洲

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18 June 2014

The Directors
China Merchants Holdings (Pacific) Limited

Dear Sirs,

**Operation & Maintenance Cost Estimation Study for
Jiurui Expressway**

In accordance with your instructions and for China Merchants Holdings (Pacific) Limited (the “Company”), THI Asia Consultants Limited (also referred to as “Consultant” or “THI”) has conducted an independent assessment on the Operation and Maintenance (O&M) study (the “Study”) of the Jiurui Expressway (hereafter referred as the “Expressway”). The Expressway is a four-lane carriageway (Dual-2) located at the east-western area of Jiujiang Municipality connecting with Ruichang Municipality in the west of Jiangxi Province. This report summarizes the results and findings based on the technical analyses conducted. We confirm that the future operation and maintenance for the Expressway are estimated in an independent and professional manner.

In conducting the Study, we have based our analyses on brief visual assessment on selected portions and elements of the Expressway; meetings with management of the Expressway operator and site staff available at the time of the site visits; reviews of available feasibility reports and other relevant information. In utilizing the given information provided by the Company, we have sought confirmation from the management of the Expressway that no material factors have been omitted. We concluded that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

The results of our analysis are presented in the “Jiurui Expressway Maintenance Cost Estimation Study Final Report”. A brief summary of our study approaches and findings is presented below:

E1. INTRODUCTION

This operation and maintenance assessment consists of:

- Evaluation of the road conditions;
- Review and comment on the existing O&M Program, with respect to their adequacy and efficiency (cost); and
- Estimation of the future operation and maintenance costs for the remainder of the concession period (2014 to 2040) of the subject facility.

In accordance with the study objectives, scope and schedule, THI conducted a site visit on 13th June 2012 to perform: (a) brief visual assessment on selected portions and elements of the Expressway; and (b) meetings with Jiurui Expressway Company Limited (hereafter referred as “Operator”) and site staff available at the time of the site visits.

Please note that the scope of this study, however, is not to conduct a detailed inspection or a rigorous engineering analysis of the expressway, but rather, to provide a general overview of the project. The report is intended to give a review on the existing conditions of the expressway and the maintenance aspects in order that the risk, attributable cost and financial viability of the project can be assessed.

E2. TECHNICAL FINDINGS AND RECOMMENDATIONS

The Expressway with a total length of 48.14 Km was designed for the classification of “Expressway” for Truck 20 – Trailer 120 loading with maximum design speed of 100kph respectively. All of the facilities were designed for “Flat/Light Rolling” topography.

During our investigation, we have retrieved some construction documents and O&M records for the facilities. According to the information we have reviewed, all of the facilities under study were designed in accordance with the “Highway Engineering Standard for “Flat/Light rolling” topography.

E3. OPERATION AND MAINTENANCE (O&M) COSTS

The total annual O&M cost includes costs for minor repair/maintenance as well as medium and major repairs. Minor repairs and maintenance refers to the upkeep/preventative actions and minor repairing for normal operation of the highway to be maintained. Medium to

major repairs are defined as the required periodical repairs in order to reinstate the original conditions of the highway after long term wear and tear.

The purpose of this study is to review the existing O&M program and to form the basis in determining future maintenance needs in terms of cost and effort. Emphasis has been placed on major engineering elements and facility structures with the goal of matching the facility needs with the O&M program.

The maintenance of the Expressway is covered by the warranty contract until December 2012. Considering the Expressway had completed in 2010, the major maintenance should be carried out for every 7 years from year 2017.

THI has reviewed and evaluated the estimated maintenance costs and the maintenance schedule of the study roads. We concluded that the cost per km for the minor and maintenance fee is reasonable based on the conditions of the expressway and the anticipated level of traffic.

Operation and Maintenance costs for the concession period (RMB million)

Year	2014	2015	2016	2017	2020	2025	2030	2035	2040
Cost	6.1	10.3	10.7	96.3	12.1	14.0	16.2	18.8	21.8

Management Costs

The management costs include the salaries, staff costs and office administration costs. In view of the Operator has been operated from year 2003, the whole operation setup is well established and there will be no new toll plaza to be built in the foreseeable future, the management costs are therefore estimated on the basis of past and existing costs involved.

The future year's costs estimations are given in Table below:

Management costs for the concession period (RMB million)

Year	2014	2015	2016	2017	2020	2025	2030	2035	2040
Cost	13.2	13.8	14.3	14.8	16.1	18.7	21.7	25.1	29.1

E4. CONCLUSION

The Consultant concluded that the assessment on the operation and maintenance are consistent with common professional practice and meets the objectives of the agreed scope of work with the Company. Full details of the Study and data are presented in the “Jiurui Expressway Operation & Maintenance Cost Estimation Study Final Report”.

Yours sincerely,

For and on behalf of

THI Asia Consultants Limited



Richard Yau
Executive Director



Jessica Liang
Project Manager

APPENDIX 3

EXECUTIVE SUMMARY OF THE TARGET VALUATION REPORT

VALUATION SUMMARY

100% EQUITY INTEREST IN HONG KONG HONEST QUEEN INTERNATIONAL INVESTMENT LIMITED AND ITS SUBSIDIARY

FIN1405122

VALUATION DATE: 31 MARCH 2014

Prepared for
China Merchants Holdings (Pacific) Limited

Prepared by
Greater China Appraisal Limited

Our Ref: GC137/112988/FSFC

FIN1405122

18 June 2014

The Board of Directors
China Merchants Holdings (Pacific) Limited
8 Temasek Boulevard #38-01
Suntec Tower Three
Singapore 0389881

Dear Sirs/Madams,

Valuation of 100% Equity Interest in Hong Kong Honest Queen International Investment Limited and its Subsidiary

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 fair value of the 100% equity interest and amount due to a shareholder of HKD706 million (the "Equity Interest") in Hong Kong Honest Queen International Investment Limited ("HKHQ") and its subsidiary, Honest Queen (Jiangxi) Jiurui Expressway Development Company Limited ("HQJX") (collectively referred to as the "Target Group") as at 31 March 2014 (the "Valuation Date"). It is our understanding that our valuation report may form part of the public circular of this transaction.

BASIS OF VALUATION

We have performed valuation of the Equity Interest on the basis of fair value which defines as *"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"*.

Our valuation has been prepared in accordance with the International Valuation Standards (2013 Edition) on business valuation published by International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

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COMPANY OVERVIEW

Hong Kong Honest Queen International Investment Limited (“HKHQ”)

HKHQ was incorporated in Hong Kong on 20 August 2003. It is a private company and principally engaged in investment holding. As at the Valuation Date, 100% shares of HQJX is the sole investment held by HKHQ.

Honest Queen (Jiangxi) Jiurui Expressway Development Company Limited (“HQJX”)

HQJX was incorporated in China on 13 March 2007. It is principally engaged in the operation of an expressway (the “Expressway”) in Jiangxi. The Expressway is a four-lane carriageway (Dual-2) located at the east-western area of Jiujiang Municipality connecting with Ruichang Municipality in the west of Jiangxi Province.

The Expressway is part of the G56 National Expressway System of China connecting Hangzhou of Zhejiang Province and Ruili of Yunnan Province serving the east-west traffic demand. The Expressway is an important inter-provincial boundary crossing, passing through the famous Lushan scenic in Jiujiang city, via Jiujiang County and Ruichang city, and the total length is 48.14km. This section was opened to traffic on 1 January 2011 and the concession right will be ended on 31 December 2040.

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VALUATION METHODOLOGY

The valuation of any asset or business can be broadly classified into one of the three approaches, namely the cost approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

We have considered but rejected the cost approach for this valuation due to the value of the equity of an up-and-running company is determined by the ability to generate a stream of benefits in future, rather than the cost of replacement.

We have considered but rejected the market approach for this valuation due to the following reasons:

- The characteristics of each expressway is very different. It might not easy to use the market approach with adjustment to reflect the characteristics of the expressway;
- 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 estimate of the transactions; and
- Comparatively, with the supports from the Independent Technical Export, the traffic volume, the revenue, the corresponding costs and capital expenditure ("Capex") can fairly reflect the unique characteristics of the Expressway and it forms a better basis for evaluation.

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 a stream of benefits in future; and
- Economic benefit streams can be identified based on projected cash flows which are estimated based on reasonable assumptions.

The income approach is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then

discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the Target Group operates, and other risks specific to the asset being valued.

GENERAL ASSUMPTIONS OF VALUATION

A number of general valuation assumptions have to be established in order to sufficiently support our conclusion. The general assumptions adopted in this valuation are:

1. There will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in countries where the Target Group is operated;
2. There will be no significant deviation in the industry trends and market conditions from the current market expectation;
3. There will be no major changes in the current taxation law in China and countries of origin of our comparable companies;
4. There will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
5. All relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application;
6. Future revenue growth will conform to those forecasted by the Independent Technical Expert;
7. The amount of Capex is forecasted by the Independent Technical Expert; and
8. The Target Group will retain competent management, key personnel, and technical staff to support the ongoing operation of its business.

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MAJOR ASSUMPTIONS OF VALUATION

Equity value is an economic measure reflecting the value to the equity holder. We develop the equity value by using a discounted cash flow ("DCF") method, which requires a number of assumptions, including revenue and expense forecasts, working capital requirement and Capex.

The essential elements of DCF are: (1) the expected earnings stream to be discounted, and (2) the discount rate.

The net cash flows from the Target Group were estimated, and we discounted the sum to a present value at the appropriate discount rate. The present value of the DCF represents the business enterprise value ("BEV") of the Equity Interest. We computed the equity value from the BEV. The financial projection is prepared by the Independent Technical Expert. We have reviewed the calculation and discussed with the Independent Technical Expert about the validity of the projection. Our valuation is developed based on this financial projection.

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DETERMINATION OF DISCOUNT RATE

We developed the cost of equity (" R_e ") and the cost of debt (" R_d ") for the valuation of the Interest based on data and factors relevant to the economy, the industry, and the Target Group as at the Valuation Date. These costs were then weighted in terms of a typical or market participant industry capital structure to arrive at the estimated weighted average cost of capital ("WACC").

Development of Weighted Average Cost of Capital

WACC (being the discount rate for this valuation) is determined by the weighted average, at market value, of the cost of all financing sources in the capital structure. We considered market and industry data to develop WACC for the Target Group. We have "levered" the Target Group as if it mirrored the median percentage of debt as the comparable companies on the assumption that over time, the Target Group would need to approach the median amount of debt of the guideline public companies, which is the less expensive form of capital than equity, to remain competitive.

Development of Cost of Equity

We considered the Modified Capital Asset Pricing Model ("MCAPM") to calculate R_e for this valuation.

Weighted Average Cost of Capital

WACC is determined by the weighted average, at market value, of the cost of all financing sources in the capital structure. We have "levered" the Beta at 35% debt-to-equity ratio. This debt-to-equity ratio is within the range of the Guideline Public Companies. Subsequent to the calculations of the R_e and the R_d , the calculations of WACC, or the discount rate, therefore become 11.50%.

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DISCOUNT FOR LACK OF MARKETABILITY (“DLOM”)

DLOM is the valuation adjustment with the largest single monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by the management in order to sell the interest. This typically would take at least three to nine months if a transaction could be consummated at all. We considered the expenses that are typically incurred to sell a business which are substantial such as legal fees, accounting fees and intermediary fees. In view of the above, DLOM is applied through additional 0.5% premium on the discount rate for the purpose of this valuation.

SENSITIVITY ANALYSIS

Discount rate plays pivotal role in the valuation as it is very sensitive to the fair value of the Equity Interest. The fair values of the Equity Interest under different combinations of the discount rate are presented below:

Sensitivity Analysis of the Discount Rate for the Target Group

Discount Rate	Fair value of 100% Equity Interest in the Target Group (RMB)
10.50%	1,043,000,000
11.00%	865,000,000
11.50%	702,000,000
12.00%	551,000,000
12.50%	412,000,000

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LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Target Group.

The opinions expressed in this report have been based on the information supplied to us by the Company and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

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CONCLUSION OF VALUE

In conclusion, based on the analysis stated above and the valuation methods employed, it is our opinion that the fair value of the 100% equity interest and amount due to a shareholder of HKD706 million in Hong Kong Honest Queen International Investment Limited and its subsidiary is as follows:

Fair Value as at 31 March 2014

100% Equity Interest and amount due to a shareholder of HKD706 million in Hong

Kong Honest Queen International Investment Limited and its subsidiary (rounded)

RMB702,000,000.

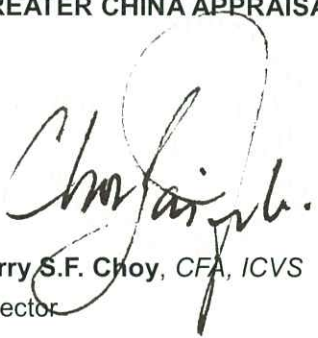
The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

Yours faithfully,

For and on behalf of

GREATER CHINA APPRAISAL LIMITED



Ferry S.F. Choy, CFA, ICVS
Director

Analysed and Reported by:

Marvin K.C. Wong

Senior Analyst, Business Advisory