A Summary Valuation of Industrial Renovation Project, Namtai Industrial Estate, Xixiang Sub-district, Bao'an District, Shenzhen, Guangdong, PRC

June 2013

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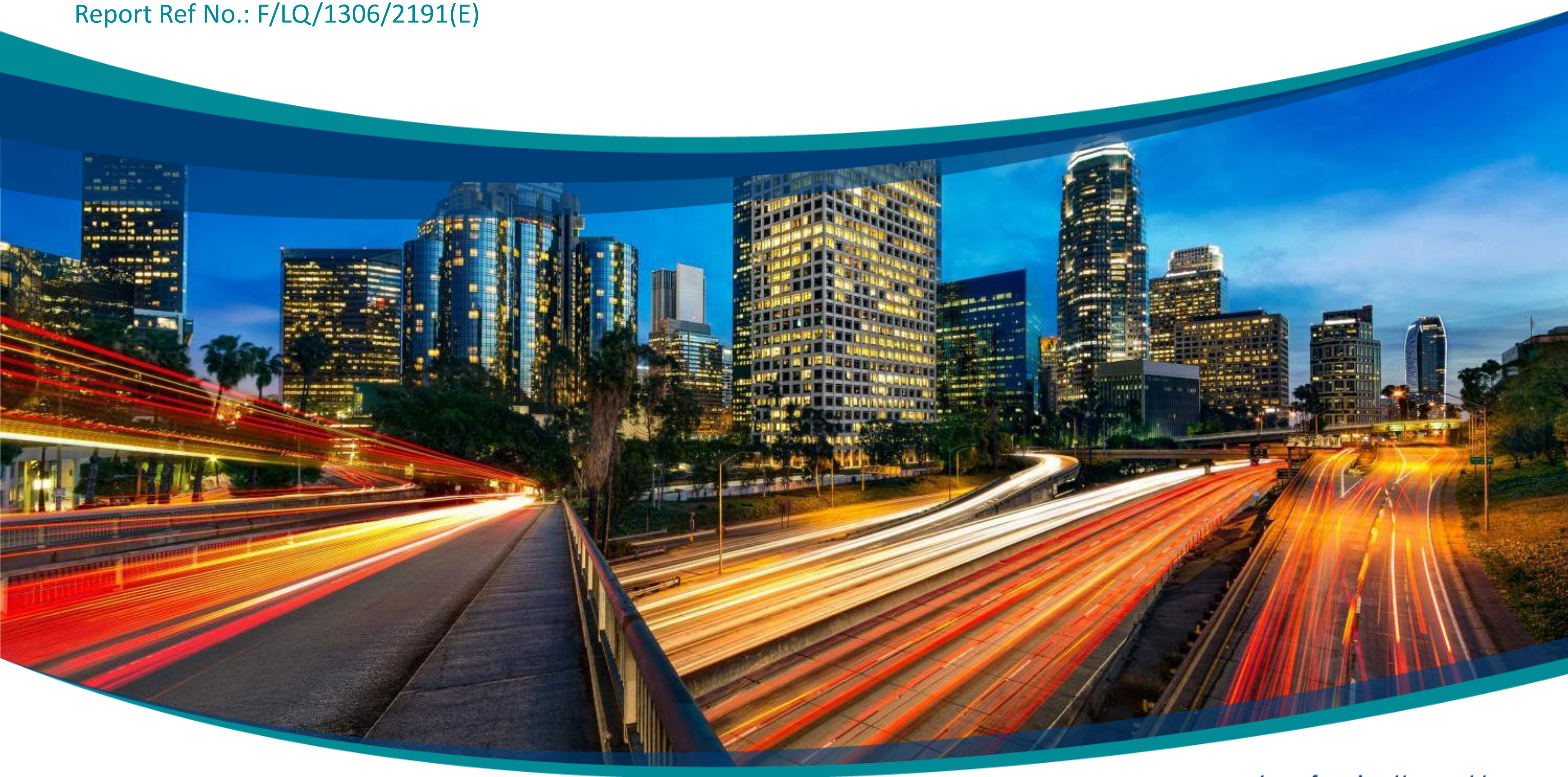

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DTZ Shenzhen

Valuation Assumptions

1. Date of Valuation

Valuation as at 24 May 2013 upon site inspection

2. Property Operation Alternatives

- **Overall Property Right Transfer**
- **Overall Held for Leasing**

3. Original Area Scheme

According to the title documents as provided by client, original area scheme is summarized in the following table:

<table>
<tr><th>Site area
(㎡)</th><th>GFA
(㎡)</th><th colspan="4">Property right/GFA
(㎡)</th></tr>
<tr><td rowspan="4">26,313.30</td><td rowspan="4">58,743.99</td><td rowspan="2">Commodity Housing</td><td>27,340.28</td><td rowspan="2">Two workshops</td><td rowspan="2">27,340.28</td></tr>
<tr><td>(47%)</td></tr>
<tr><td rowspan="2">Non-Commodity Housing</td><td>31,403.71</td><td>One office building</td><td>3708.42</td></tr>
<tr><td>(53%)</td><td>Ancillaries(four dormitories, one canteen and one power house)</td><td>27695.29</td></tr>
<tr><td rowspan="3">26,313.90</td><td rowspan="3">41,927.06</td><td rowspan="3">Non-Commodity Housing</td><td rowspan="3">41,927.06</td><td>One workshop</td><td>24,503.15</td></tr>
<tr><td>Two office buildings</td><td>7,563.79</td></tr>
<tr><td>Ancillaries(one dormitory, one canteen, two warehouses and one equipment room)</td><td>9,860.12</td></tr>
</table>

Valuation Assumptions

4. Planned Area Scheme

According to *Shenzhen Urban Renewal Project Application Form* as provided by client, the planned area scheme for renewal is summarized in the following table:

	Planed area scheme
Total site area (㎡)	52,627
Of which： Prescribed to government (㎡)	7,894.08
Construction site area (㎡)	44,733.12
Plot ratio	5.88
Plot ratio GFA (㎡)	263,136
Of which: office （70%）	184,195
apartment （25%）	65,784
ancillaries （5%）	13,157

Valuation Assumptions

4. Planned Area Scheme

Ancillaries and Car park

	Aboveground (㎡)		Underground (㎡)	Underground Car park (lot)
	Salable or leasable	Non-salable or leasable		
Office	184,195	—	96,702	2,763
Apartment	65,784	—	13,815	395
Ancillaries	9,210	3,947	6,907	197
Total	**259,189**	**3,947**	**117,424**	**3,355**

1. On the basis of DTZ market research that non-salable or leasable GFA normally takes up 1% to 3% of the plot ratio GFA of a project, we have adopted the average level of 1.5% in our valuation;
2. According to *Shenzhen Urban Planning Standards and Norms,* the car park lot ratio to commercial/office GFA (㎡) is 1.5:100, to apartment 0.6:100 and to industrial GFA 0.6:100. We have assumed that a car park lot occupies 35 ㎡ in consideration of the average GFA between 30 ㎡ and 40 ㎡.

Valuation Assumptions

5. Land Cost

5.1 Land cost constitute
Due to the renovation nature of project and its involvement of transfer of renovated industrial premises, the land cost consists of two portions: acquisition cost and land premium.

(1) Acquisition cost
According to Real Estate Certificate, land lot Nos. A116-0006 and A116-00018 were assigned in 1993 (19 years past as at date of valuation) with a land price of RMB13,929,195 and in 1999 (14 years past as at date of valuation) with a land price of RMB5,667,719, respectively.

As the original land fees were paid years before date of valuation, we have considered the time-value of money and calculated it using one year's fixed deposit interest rate of 3%, the results are shown in the table below:

Land Lot No.	Acquisition Cost (RMB)	Years Past	Land cost as at 24 May 2013 (RMB)
A116-0006	13,929,185	19	24,001,377
A116-00018	5,667,719	14	8,344,834
Total	**19,596,904**	**-**	**32,346,210**

Valuation Assumptions

5. Land Cost

（2）Land Premium

In accordance with Shenzhen People's Government Notice No. 211 *Shenzhen Urban Renewal Regulation* Article 38:

"*In the case of implementation of Industrial estate renovation through demolition and reconstruction for* ***industrial use*** *or for the development of government-encouraged industries,* ***the original legal built-up area*** *is not subject to any supplementary payment whereas* ***the added built-up area*** *is subject to payment of land premium on the basis of* ***50%*** *of the public benchmark land price standard.*

In accordance with Shen Fu Ban (literally in English as 'Shenzhen People's Government Work') (2013) Notice No.3 *Shenzhen Industrial Premises Transfer Regulation* Article 8:

"*In the case of* ***overall transfer of renovated non-commodity industrial premises****, it must be submitted to relevant departments for approval in the light of established procedure and is subject to payment of land premium* ***on the basis of public benchmark land price standard*** *; given the case of segmentation transfer of renovated non-commodity industrial premises, it requires to pay a land premium which is calculated by subtracting paid land cost from market value*"

Valuation Assumptions

5. Land Cost

5.2 Incurrence of land premium

Origin

- Including a portion of non-commodity industrial premises.

Urban Renewal

- In the case of implementation of Industrial estate renovation through demolition and reconstruction for industrial use or for the development of government-encouraged industries, the original legal built-up area is not subject to any supplementary payment whereas the added built-up areas is subject to payment of land premium on the basis of 50% of the public benchmark land price standard.

Renovated non-commodity industrial premises

- Overall transfer: it needs to be submitted to relevant departments for approval in the light of established procedure and is subject to payment of land premium on the basis of public benchmark land price standard ; given the case of segmentation transfer, it requires to pay a land premium which is calculated paid land cost from market value;
- Overall leasing: free of land premium.

Valuation Assumptions

5. Land Cost

5.3 Land Premium Valuation

We calculated land premium incurred in urban renewal and overall transfer according to afore-specified articles. The newly announced *Shenzhen Benchmark Land Price Standard 2013* shows the industrial benchmark land price of subject area is RMB349 per sq m.

Urban Renewal

	Original GFA (㎡)	Planned GFA (㎡)	Added GFA (㎡)
Industrial	100,671.05	263,136.00	162,464.95
Land Premium （RMB ）	—	—	28,350,134
Remark	The original legal built-up area is not subject to any supplementary payment	—	The added built-up area is subject to payment of land premium on the basis of 50% of the public benchmark land price standard.

Remark: the result is only for reference; final payment of land premium is reserved to relevant governmental departments.

Valuation Assumptions

5. Land Cost

5.3 Land Premium Valuation

Overall Transfer of Renovated Non-commodity Industrial Premises

Planned GFA (㎡)	263,136.00
Current proportion of housing	
Red Cover (commodity housing)	27%
Green Cover (non-commodity housing)	73%
Applying the same proportion to housing constitute after urban renewal	
Red Cover (㎡)	71,462.57
Green Cover(㎡)	191,673.43
Land Premium (RMB)	66,894,027

Remark: the result is only for reference; final payment of land premium is reserved to relevant governmental departments.

5.4 Land Premium Payment

It is assumed that the land premium incurred for urban renewal is to be paid by lump sum in H1 2015, half year before commencement of construction and the land premium incurred for transfer of renovated industrial premises is to be paid by lump sum in H1 2018 upon project completion.

Valuation Assumptions

6. Land Use Term

Land use term is going to be recounted once the application of urban renewal is approved. It is assumed that the subject renovation is to be approved in early 2015, and thereafter the subject land will have a use term from 1 Jan 2015 to 31 Dec 2044 for industrial use.

7. Construction Period

As advised by client, the construction period is from 2015 to 2017. Based on the scale of subject project, we assumed that the construction is to commence site formation in Q1 2015, foundation works in Q3 2015, basement works in Q4 2015 and superstructure works in Q2 2016, and is scheduled to be completed in Q4 2017.

Leasing and overall transfer activities will start in early 2018.（market cultivation period is not considered in the case of overall transfer）

8. Selling unit rate and rent rate

	Selling unit rate (RMB/㎡)				Rent rate (RMB/㎡ per month)		
Property	As at date of valuation	Annual growth rate	Segmentation transfer in 2018	Overall transfer（10% off）	As at date of valuation	Annual growth rate	2018
Office	10,000	5%	12,155	11,000	50	5%	61
Apartment	8,500	5%	10,332	9,300	40	5%	49
Retail	21,000	5%	25,526	23,000	85	5%	103
Car park (lot)	100,000	—	100,000	90,000	400	5% every three years	400

Valuation Assumptions

8. Selling unit rate and rent rate (Con.)

Valuation principle: highest and best use;

Retail property includes office base retail (1st and 2nd floors), apartment base retail (1st and 2nd floors) and a 3-storey retail building;

A typical office floor normally takes up 1,600 sq m to 2,000 sq m; For this case, 1,800 sq m is adopted;

Typical apartment floor adopted here is 1,500 sq m;

Please see details in the table below:

	Floor	Area (㎡)	Selling unit rate (RMB/㎡)	Rent (RMB/㎡ per month)
Office base retail GFA	1F	1,800	30,000	120
	2F	1,800	15,000	60
Apartment base retail GFA	1F	1,500	30,000	120
	2F	1,500	15,000	60
Other retail	1F	870	30,000	120
	2F	870	15,000	60
	3F	870	8,000	40
Total	——	**9,210**	**21,000**	**85**

Source: DTZ market research

Valuation Assumptions

9. Occupancy rate

Property	2018	Growth rate/occupancy rate	Expiry date (2044)
Office	50%	Increasing by 5% every half a year from 2019	95%
Apartment	60%	Constant in 2018, increasing to 70% in H1 2019, to 80% in H2 2019, to 90% in H1 2020 and to 95% in H2 2020	95%
Retail	50%	Increasing by 5% every half a year from 2019	95%
Car park	60%	Increasing by 5% every half a year from 2019	95%

Remark: the change of occupancy rate is concluded from DTZ market research with consideration of the development of subject property.

Valuation Assumptions

10. Selling cost and taxation expense

✓**Selling cost:** including promotion and agency fee, 3% of sales revenue in reference to our consulting experience of similar kind of development projects in Shenzhen.
✓**Sales taxes and fees:** in Shenzhen's secondary real estate market, taxes and fees involved in sales transaction include business tax (5.0% of sales revenue), education surcharge (3% of business tax), local education surcharge (2% of business tax), urban construction and maintenance tax (7% of business tax), and stamp tax (0.05% of sales revenue).
✓**State-owned Land Income Fund:**
In accordance with Shen Fu Ban (2013) Notice No.3 *Shenzhen Industrial Premises Transfer Regulation* Article 14:

"In the case of transfer of renovated industrial premises, transferor is obliged to hand in value-added income at a certain ratio to the government as State-owned Land Income Fund. The fund collecting method is regulated separately by Shenzhen Municipal Committee of Urban Planning and Land Resources.

The value-added income pointed out in preceding paragraph refers to the balance after deduction of the sum of registered price and relevant taxes & fees involved in transfer of renovated industrial premises from transaction price; land premium should be deducted if it is paid when transferring the renovated industrial premises.

Hand-in ratio measurements:

1. ***If the value-added income is less than 50% of the sum of deduction, the hand-in ratio is 50 percent;***
2. ***If the value-added income is more than 50% of the sum of deduction, the hand-in ratio is 60 percent;***
3. *After the transfer of renovated industrial premises, they are in principle not transferrable within five years from the date of registration of transfer. If must be transferred in five years, the hand-in ratio is 100 percent.*

Valuation Assumptions

11. Leasing cost and taxation expense

✓**Leasing cost:**

Items of Cost	Base number	Ratio	Reference
Promotion and agency fee	Rental revenue	1%	Industry average
Maintenance	Rental revenue	3%	Industry average
Office, apartment and retail management fee	Rental revenue	3%	Industry average
Car park management fee	Car park Rental revenue	20%	Industry average

✓**Rental Taxes and fees:** including business tax (5.0% of rental revenue), education surcharge (3% of business tax), local education surcharge (2% of business tax), urban construction and maintenance tax (7% of business tax), urban land use tax (RMB5/sq m), stamp tax (0.1% of rental revenue) and property tax (1.2% of 70% of acquisition cost).

✓**Tenancy Administration Fee:** pursuant to *Shenzhen Municipal Committee of Urban Planning and Land Resources Notice of Issuing New Real Estate Certificate* Article 4:

*"Property with green-covered Real Estate Certificate is not allowed for transaction and must request for approval of mortgage and leasing (if needed) from the Committee in compliance with related procedures. In the case of mortgage, mortgager must covenant to pay off land premium before disposal of mortgaged property. In the case of leasing, **6% of rental is obliged to be handed in to the House Tenancy Administration** to offset land premium"*

Valuation Assumptions

12. Benchmark Yield

Having considered the nature of urban renewal, we adopted a benchmark yield in accordance with industry average, which is at 8%, lower than that of a normal real estate development project.

Economic Benefit Indicators- Overall Property Right Transfer

1. Statement of Project Gross Investment

No.	Items of Cost	Sum (RMB)	Unit Cost (RMB/m2)	Proportion
1	Land cost (including acquisition cost and land premium incurred in urban renewal)	60,696,344	231	3.8%
2	Professional fee	24,997,920	95	1.6%
3	Construction cost	1,206,807,480	4,586	76.4%
4	Administration fee	38,775,052	147	2.5%
5	Unforeseen cost	36,954,162	140	2.3%
6	Other costs	21,050,880	80	1.3%
7	Property Special Maintenance Fund	29,030,216	110	1.8%
8	Land premium incurred in transfer of renovated industrial premises	66,890,027	254	4.2%
9	Selling cost	94,207,320	358	6.0%
	Total	**1,579,413,402**	**6,002**	**100.0%**

Remark: not considering the cost of demolition which offsets property residual value.

Economic Benefit Indicators- Overall Property Right Transfer

2. Statement of Economic Benefit Indicators

No.	Items	Index	
1	Total Site area	**52,627.20**	㎡
2	Construction site area	**44,733.12**	㎡
3	Plot ratio GFA	**263,136**	㎡
4	Gross investment	**1,579,413,402**	RMB
5	Total sales revenue	**3,140,244,000**	RMB
	Office	2,015,010,000	RMB
	Apartment	611,703,000	RMB
	Retail	211,581,000	RMB
	Car park	301,950,000	RMB
6	Gross profit	**461,714,353**	RMB
7	Income tax	**115,428,588**	RMB
8	Net profit	**346,285,765**	RMB
9	Cost-profit ratio	**29.23%**	
10	Net cost-profit ratio	**21.92%**	
11	Annual cost-profit ratio (3.5 years)	**8.35%**	
12	Annual net cost-profit ratio (3.5 years)	**6.26%**	
13	Financial Net Present Value (FNPV)	**100,817,000**	RMB
14	Financial Internal Rate of Return (FIRR)	**13.61%**	
15	Dynamic Payback Period	**4.96**	Years

With FNPV RMB100,817,000 and FIRR 13.61%, the project is financially feasible.

Economic Benefit Indicators- Overall Held for Leasing

1. Statement of Project Development Cost

No.	Items of Cost	Sum (RMB)	Unit Cost (RMB/m2)	Proportion
1	Land cost (including acquisition cost and land premium incurred in urban renewal)	60,696,344	231	4.0%
2	Professional fee	24,997,920	95	1.6%
3	Construction cost	1,206,807,480	4,586	79.6%
4	Administration fee	38,775,052	147	2.6%
5	Unforeseen cost	36,954,162	140	2.4%
6	Other costs	21,050,880	80	1.4%
7	Property Special Maintenance Fund	29,030,216	110	1.9%
8	Leasing cost	98,225,096	373	6.5%
	Total	**1,516,537,150**	**5,763**	**100.0%**

Remark: not considering the costs of demolition and ground leveling which offset property residual value.

Project Economic Benefits | Economic Benefit Indicators

Economic Benefit Indicators- Overall Held for Leasing

2. Statement of Economic Benefit Indicators

No.	Items	Index	
1	Total Site area	**52,627.20**	㎡
2	Construction site area	**44,733.12**	㎡
3	Plot ratio GFA	**263,136**	㎡
4	Gross Investment	**1,516,537,150**	RMB
5	Total rental revenue	**9,822,509,588**	RMB
	Office	6,783,205,981	RMB
	Apartment	1,970,802,723	RMB
	Retail	576,575,013	RMB
	Car park	491,925,871	RMB
6	Gross profit	**6,021,963,426**	RMB
7	Income tax	**1,505,490,857**	RMB
8	Net profit	**4,516,472,570**	RMB
9	Cost-profit ratio	**397.09%**	
10	Net cost-profit ratio	**297.81%**	
11	Annual cost-profit ratio (30 years)	**13.24%**	
12	Annual net cost-profit ratio (30 years)	**9.93%**	
13	Financial Net Present Value (FNPV)	**212,717,617**	RMB
14	Financial Internal Rate of Return (FIRR)	**9.39%**	
15	Dynamic Payback Period	**26.98**	Years

With FNPV RMB212,717,617 and FIRR 9.39%, the project is financially feasible.

Economic Benefit Indicators- Comparison

No.	Item	Overall Held for Leasing (RMB)	Overall Property Right Transfer (RMB)
1	Gross Investment	**1,516,537,150**	**1,579,413,402**
2	Total revenue	**9,822,509,588**	**3,140,244,000**
	Office	6,783,205,981	2,015,010,000
	Apartment	1,970,802,723	611,703,000
	Retail	576,575,013	211,581,000
	Car park	491,925,871	301,950,000
3	Gross profit	**6,021,963,426**	**461,714,353**
4	Income tax	**1,505,490,857**	**115,428,588**
5	Net profit	**4,516,472,570**	**346,285,765**
6	Cost-profit ratio	**397.09%**	**29.23%**
7	Net cost-profit ratio	**297.81%**	**21.92%**
8	Annual cost-profit ratio	**13.24%**	**8.35%**
9	Annual net cost-profit ratio	**9.93%**	**6.26%**
10	Financial Net Present Value (FNPV)	**212,717,617**	**100,817,000**
11	Financial Internal Rate of Return (FIRR)	**9.39%**	**13.61%**
12	Dynamic Payback Period	**26.98 years**	**4.96 years**

Conclusion:
✓**Static Indicators**: Leasing is better than Transfer;
✓**Dynamic Indicators**: Leasing is superior to Transfer in respect of FNPV but inferior in terms of FIRR and dynamic payback period.