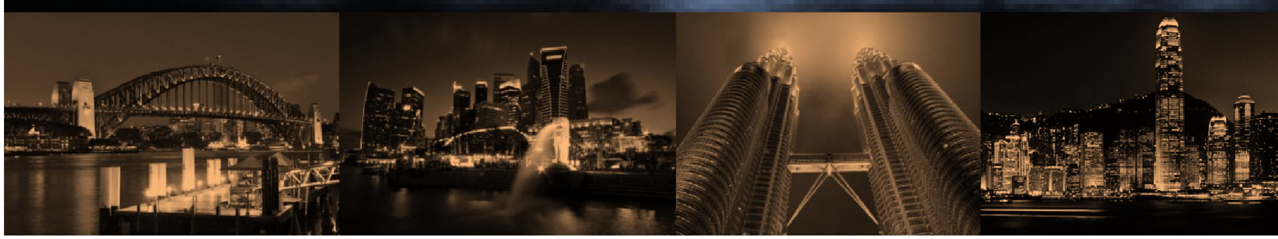
Presentation for CVCFO Shanghai
January 2013



Censere

Introduction to Censere

A regional advisory firm with expertise in Cross border M&A

Censere Group

Censere Group is a leading strategic value advisory and transaction support firm which operates throughout Asia Pacific. We provide below a brief introduction of ourselves and some of the more pertinent aspects of our business:

Censere Group is head quartered in Singapore and currently has 12 offices throughout Asia Pacific – Auckland, Bangkok,Beijing, Hong Kong, Kuala Lumpur, Maldives, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Censere was established in 2002 in response to a perceived gap in the market for pan Asian strategic advisory and transaction support services for M&A, pre-IPO, financial reporting and restructuring purposes. Censere's services include valuation (private equity, derivatives, illiquid debt, intangibles and tangible assets), due diligence (intangibles, commercial and technical) and research (industry, market snapshots, and market entry studies).

Overview

Age	Offices	Values
10	12	**Appraise** **Assist** **Advise**
Founded in 2002	Expanding rapidly in Asia	DNA of the firm

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Our Portfolio

China Resources
Better Life Together

THE PENINSULA
HOTELS

The Hongkong and Shanghai Hotels, Limited

Valuation of fixed assets and development of fixed asset register at seven hotels throughout Asia & USA

中国银行(香港)
BANK OF CHINA (HONG KONG)

Bank of China (Hong Kong)

Valuation of potential Private Equity investments for

citi

Citi Venture Capital

中国建设银行
China Construction Bank Corporation
Singapore Branch

China Construction Bank (Singapore)

Valuation of Real Estate Debt/Equity positions (various

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Volkswagen Group Singapore Pte Ltd

Valuation of fixed assets and intangible assets of a dealership for investment evaluation purposes

Heineken

Heineken Asia Pacific Breweries (China) Pte. Ltd.

Purchase price allocation exercise relating to acquisition of Jiangsu Dafuhao Breweries Co, Ltd

J.P.Morgan

JP Morgan Chase Bank

Valuation of several private equity investments for acquisition purposes/due diligence

Brett Shadbolt – CEO Censere Group

More than 25 years of experience in Asia in transactional and strategic advisory

Brief Description	Curriculum Vitae
Brett Shadbolt– CEO As the founder and CEO of Censere Group, Brett has over 25 years of experience in corporate advisory and valuation of financial interests, intangible assets and technical plant and machinery. He has undertaken projects in more than 30 countries and has worked extensively throughout Asia and the South Pacific. Brett has completed numerous assignments for initial public offerings, joint venture establishment, acquisition, financial reporting, restructuring, insurance and finance. He has acted as Project Manager and Lead Valuer on many major transactions throughout the Asia Pacific Region for clients such as China Construction Bank, Bank of China, Oriental Fortune Capital, Macquarie Capital, Quam Capital, Maanshan Iron & Steel, Dongfeng Motors, Mitsubishi, NEC, and Proton, etc. Brett graduated with a MSc in Global Finance from HKUST-NYU Stern. He is a Chartered Valuation Surveyor, Registered Business Valuer and is a professional member of the HK Securities Institute and the Australasian Institute of Mining and Metallurgy. Brett is a regular speaker at conferences and has contributed to several books concerning the valuation of assets in emerging markets. He has also written numerous articles about valuation and financial due diligence in emerging markets. Brett is a member of the Financial Reporting Valuation Working Group of the HKICPA and a member of the Intellectual Property Sub-Committee for the Ministry of Law, Singapore.	• More than 25 years of experience in valuation and advisory • Member of the Financial Reporting Valuation Working Group of the HKICPA • Member of the Intellectual Property Sub-Committee for the Ministry of Law, Singapore. • MSc Global Finance HKUST/NYU

Jean-Baptiste Roy - Associate Director, Censere Group

Brief Description	Curriculum Vitae
Jean-Baptiste Roy - Associate Director Jean-Baptiste has worked in the valuation industry since 2007. Fluent in French, English, and German, Jean-Baptiste is based in Censere's Hong Kong office and has worked on numerous projects and company development related matters in PRC and around Asia-Pacific. Since his early days, Jean-Baptiste has worked closely with the PE/VC industry. One of his focus is on European and foreign investments into China and outbound investments for Asian companies to Europe. Jean-Baptiste also established the Research department at Censere that prepares studies to support valuation fundamentals as well as conduct independent industry sector reports and feasibility study projects. He has also contributed to numerous other publications all relating to valuation practices and in addition frequently speaks at seminars/presentations at business groups and organizations in Hong Kong and China Jean-Baptiste graduated with a MSc in Business Management – Corporate Finance from Skema Business School (Ceram.ESC Lille, France). He came to Hong Kong and studied at the Hong Kong University of Science & Technology (HKUST) for his Master degree. Jean-Baptiste is also the Chairman of the Young Professional Committee and Director – Member of the Executive Committee at the Canadian Chamber of Commerce in Hong Kong.	• More than 5 years of experience in valuation and advisory • Work closely with the PE/ VC industry

Portfolio valuation issues

Portfolio Valuations

Why bother with Portfolio Valuations?

The purpose of portfolio valuations
1. For routine operation and statutory requirements
2. For investment management
3. For fund-raising/ validation of credentials

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Best & Common Practice in Valuation

Is your portfolio worth what you think it is?

Major valuation standards and guidelines across the globe

- PE / VC related:
  - IPEV Board, International Private Equity and Venture Capital Valuation Guidelines (IPEV)
  - PEIGG, U.S. Private Equity Valuation Guidelines
  - CFA Institute, Global Investment Performance Standards (GIPS)
    - Guidance Statement on Private Equity
- General:
  - IVSC, International Valuation Standards (IVS)
  - AICPA, Statement on Standards for Valuation Services (SSVS)
  - FASB, Fair Value Measurements and Disclosures (ASC 820)
  - IFRS Board, Consolidated Financial Statements (IFRS10) [Effective on 1 January 2013]
  - IFRS Board, Fair Value Measurement (IFRS13) [Effective on 1 January 2013]

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Information for Portfolio Valuation

To perform valuations, what do we need to know?

The list of information relevant for valuation
• Investment agreement • Share registry record • Company profile • Share transaction / fund-raising history • Financial statements • News and developments • Business & financial projections • Competitive intelligence • Financial market data • Discussions with management / portfolio manager

Tip: The list of information needed depends on the situation!

How to anticipate issues during the portfolio valuation?

Portfolio Valuation from a different viewpoint

Why auditors only focus on the investee companies but not my portfolio?

Our point of view

- Auditors do consider the portfolio
- However, they start with the individual investee valuations
- Most of their emphasis is, therefore, at the investees level
- To enhance the portfolio valuation, ensure you have comprehensive documentation for each investee valuation and support for the portfolio value as a whole

Portfolio Valuation

Today's Agenda

Portfolio
- Classification
- Consistency

Investees
- Discount rate estimation
- Financial Projection

Look at the overall portfolio

How should WE evaluate all investees companies at once?

1. Classification

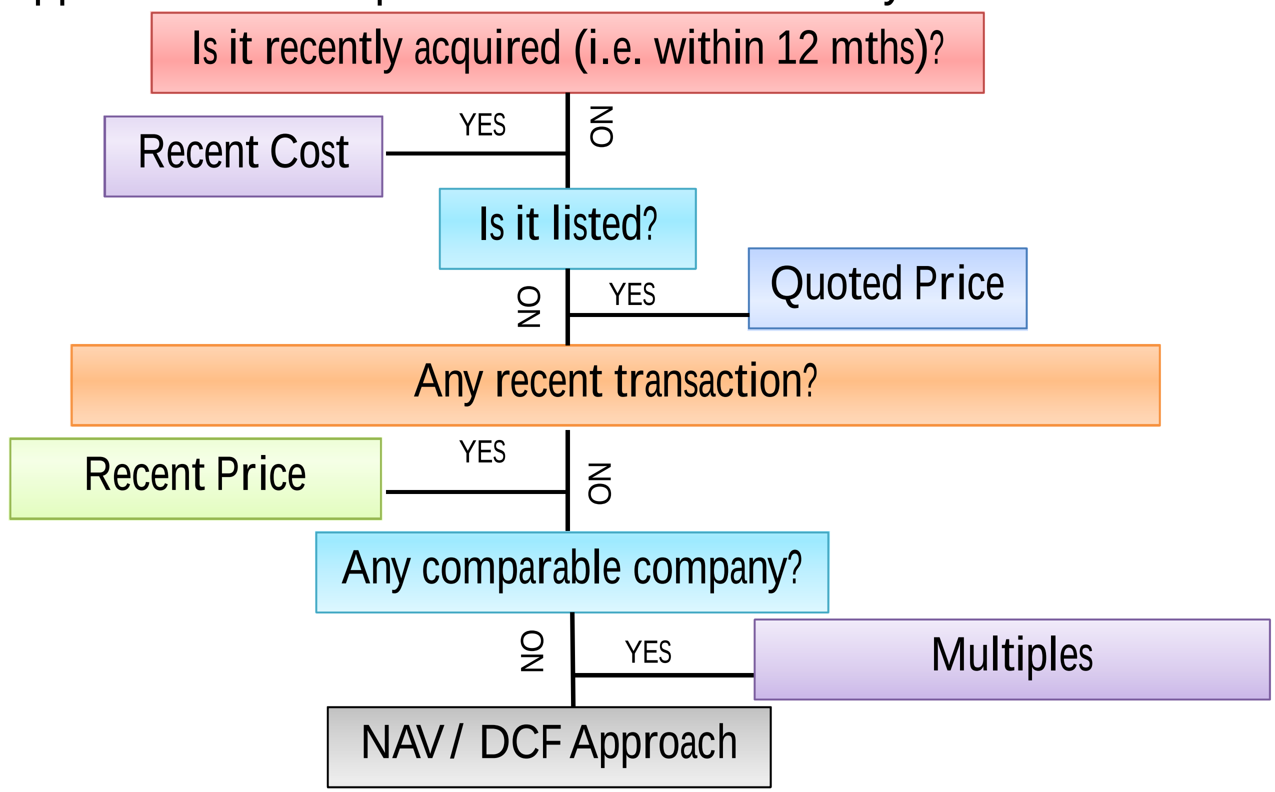
- How did you do the classification?

Look at the overall portfolio

How should WE evaluate all investees companies at once?

1. A case study on classification

- Suggested approach which depends on situation in reality.



Selecting Valuation Methods

How to determine equity value in practice?

Selecting Valuation Methods

1. Listed company? If yes:
   - Use market price. Some adjustments may be needed, e.g. Liquidity/ Control Premium.
2. Any recent equity transaction in the company (by third party)? If yes:
   - Use recent transactions as a reference

Company financials

- Are the financial statements close to valuation date? available?
- Is the financial report audited?
- Are the financial statements consolidated?

Qualitative Considerations

- Is the company going well?
- Is the company, the market and industry expanding, stable, or contracting?

Selecting Valuation Methods

How to determine equity value in practice?

Selecting Valuation Methods

3. Any comparable listed companies? If yes:
   - Are the companies similar enough to be comparable, in terms of industry, business operation, locality, principal market, accounting standard, size, growth potential, risk profile, etc.
   - Which multiples serve as the best value indicator?
     EV/EBIT, EV/EBITDA, P/E, P/S, P/B, etc.

4. May apply Net Asset Value (NAV) method if:
   - Primarily acts as asset holding vehicle
   - Distressed or with significant risk of liquidation in the near future
   - Loss-making companies or companies with asset value higher than PV of future income
   - New start-up without income stream from operations.

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Selecting Valuation Methods

How to determine equity value in practice?

Selecting Valuation Methods

5. May apply Discounted Cash Flow (DCF) :
   - Very flexible and customizable to value almost any business or any equity interest
   - Frequently used to value companies
   - Requires detailed earnings and cashflow projections for at least 3-5 years
   - Involves subjective judgement on risk level
   - Very time-consuming

Tip: We suggest to use more than one method to cross check!

Look at the overall portfolio

There is always some concern from auditors

Sample questions from Auditor - The classification

1. What is the basis for your selection of comparables?

- Our response:
  1. Similar industry
  2. Size factor
  3. Operating leverage
  4. Capital structure
  5. Level of earnings growth
  6. Cyclical variability
  7. Product mix and diversification
  8. Level of competition
  9. Gross profit margins, operating profit margins and net profit margins
  10. Experience, corporate governance system and quality of management
  11. Barriers to entry

Look at the overall portfolio

There is always some concern from auditors

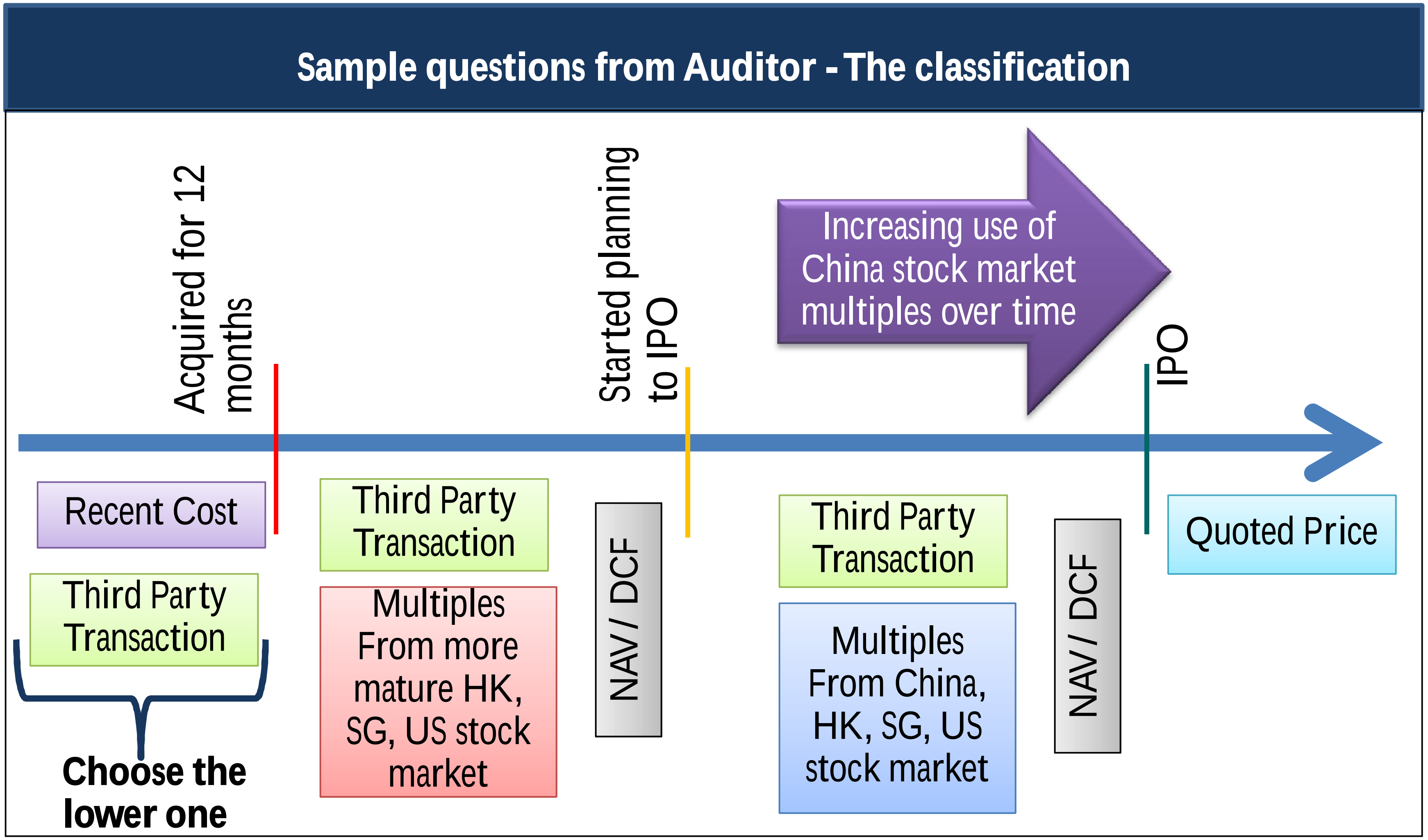
Sample questions from Auditor - The classification

2. Do you use China companies as comparables?

- Our response:
  - Generally, we do not use Chinese comparables, except when IPO is on the horizon
  - Because of some limitations on Chinese markets
    1. No short selling
    2. A share and B share division
    3. Unsophisticated investors

Look at the overall portfolio

There is always some concern from auditors



Look at the overall portfolio

There is always some concern from auditors

Sample questions from Auditor - The classification

3. It is already 12 months after you invested in the investee company, should you use another valuation method?
   - Our response: For Funds, you can use Multiples / Recent Transaction / Listed / Others
   - For Censere, we will also use different methods to cross check

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Case Study: Portfolio Valuation

How to value dozens of portfolio companies in practice?

Background
• **Objective** - Review of year-end valuation of a private equity investment portfolio • **Fund Description** - A private equity investment portfolio with equity stakes in more than 90 companies covering a variety of industries. Total investment about RMB 3.6 Billion. First investment in 2004 since inception. • **Portfolio Companies** - Portfolio companies vary from across industries, including TMT, industrial, consumption, alternate energy, medical and pharmacy, financial services. All companies are principally operating in China. More than 85% portfolio companies are unlisted. According to fund manager, listing in PRC stock exchanges is the major target exit.

Case Study: Portfolio Valuation

How to value dozens of portfolio companies in practice?

Background

- **Our Added Value**
  - We reviewed and verified inputs used, methodology applied and calculations performed according to internationally accepted valuation standards.
  - We conducted basic company analyses and financial statement review for most portfolio companies
  - We discussed with the fund staff on how various factors may be handled in the valuation process and made suggestions accordingly.
  - We liaised with auditors to ensure acceptance of valuation results and provide detailed report.

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Look at the overall portfolio

How should WE evaluate all investees companies at once?

2. Consistency

- How did you deal with the different accounting standards ?
  (e.g. New/Old PRC GAAP/ US GAAP/ IFRS)

Look at the overall portfolio

How should WE evaluate all investees companies at once?

2. Consistency

- Before IPO, the fund should make sure the following components are assessed consistently at different valuation dates:

1. Business value
2. Discount rate
3. Per-share value

Look at the overall portfolio

There is always some concern from auditors if they are not consistent

Ideal case

No.	Valuation Date	Enterprise value (US$)	Equity Value (US$)	Share Class	Epilson %	Discount rate %	Per-share Value Common (US$)	PS A (US$)	PS B (US$)	PS C (US$)
1	22-Feb-09	3,000,000	2,100,000	A, Common	15.00%	25.00%	0.1565	0.1835	NA	NA
2	14-Aug-09	2,000,000	2,400,000	A, Common	15.00%	25.00%	0.1559	0.1829	NA	NA
3	25-Mar-10	11,000,000	22,500,000	A, B, Common	14.00%	22.00%	0.2006	0.2345	0.3234	NA
4	25-Aug-10	13,000,000	23,700,000	A, B, Common	12.00%	22.00%	0.1872	0.2233	0.3172	NA
5	17-Mar-11	22,000,000	24,200,000	A, B, Common	11.00%	20.00%	0.1787	0.2182	0.3328	NA
6	01-Jan-12	26,000,000	24,400,000	A, B, Common	9.00%	19.00%	0.1712	0.2141	0.3382	NA
7	01-Jul-12	30,000,000	24,600,000	A, B, Common	8.00%	18.00%	0.1659	0.2100	0.3458	NA
8	03-Aug-12	41,000,000	24,800,000	A, B, Common	7.00%	16.00%	0.1680	0.2123	0.3456	NA
9	22-Aug-12	46,000,000	56,100,000	A, B, C, Common	7.00%	16.00%	0.1791	0.2250	0.3541	0.3414

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Brief Update on IFRS / US GAAP

How will the new accounting standards impact funds?

IFRS 13 / US GAAP ASC 820

IFRS 13 / US GAAP ASC 820
The standard defines fair value as **<u>the price that would be received</u>** to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Fair value is a **<u>market-based measurement</u>**, not an entity-specific measurement. The entity should determine the principal or most advantageous market for the asset or liability.
The valuation techniques used should **<u>maximize the use of relevant observable inputs</u>** and minimize unobservable inputs. An entity shall use different valuation techniques to cross check.
The standard establishes **<u>a fair value hierarchy</u>** that categorizes the inputs into three levels. Level 1 inputs - Quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs - Quotes prices for similar assets or liabilities / inputs other than quoted prices. Level 3 inputs - Unobservable inputs, e.g. using the entity's own data.

Tip: If the entity uses Level 3 inputs, the drawbacks will be extensive disclosures on those inputs.

Brief Update on IFRS / US GAAP

How will the new accounting standards impact funds?

IFRS 10 (2012 Amendment) / US GAAP ASC 946

- In the United States, FASB ASC Topic 946, Investment Companies requires assets of Investment Companies to be reported at Fair Value.

- On October 31, 2012, the IASB amended IFRS 10, 12 and 27 such that IFRS now requires "control" investments held by investment entities to be reported at Fair Value rather than being consolidated at cost.

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Look at the investee companies

What do I need to pay attention to when I use income approach?

1. Discount rate estimation

- CAPM or other similar model is typically used to derive our systematic risk portion.
- Moreover, Epsilon is applied to represent the company specific risk or non-systematic risk portion of a discount rate. Here is a list of factors to be captured by epsilon.
  1. Ability to meet earnings forecasts
  2. Ability to launch new products successfully
  3. Quality of earnings
  4. Geographic dispersion or risk
  5. Start-up risk
  6. Small cap premium
  7. Liquidity ratios
  8. Reliance on key suppliers
  9. Economies of scale

Look at the investee companies

There is always some concerns from auditors

Sample questions from Auditor – Discount rate

1. Rf and Rm- Given that the Company is mainly operating in China. Please advise the rationale for adopting risk free rate and market return forHK.
2. D:E - Please advise the reason for using the subject company's capital structure instead of the average capital structure of the industry.
3. Kd - Please advise the reason for using the Company's average cost of debt instead of the market rate.
4. Tax -Why the effective tax rate of XX% adopted in calculating the WACC is different from the statutory tax rate in China?

Look at the investee companies

What do I need to pay attention to when I use income approach?

2. Financial Projections

- Items to pay attention to in doing financial projections:
  1. EBIT
  2. Depreciation & amortization
  3. Capital spending
  4. Working capital

- The formula of FCFF

FCFF = EBIT (1 – Tax rate) + Depreciation & Amortization – Capital Spending – Change in Working Capital

Look at the investee companies

There is always some concern from auditors

Sample questions from Auditor – Financial projections

1. Generally, there should only be a 5-year forecast. Should the company be normalised in 5 years even if it is a 1 year-old startup.
   – Our reponses : It should be different for different companies, especially a new startup.
   – Our action:
   1. Find if there are comparables to understand the industry lifecycle.
   2. Find if there are comparables where we can derive the multiple.

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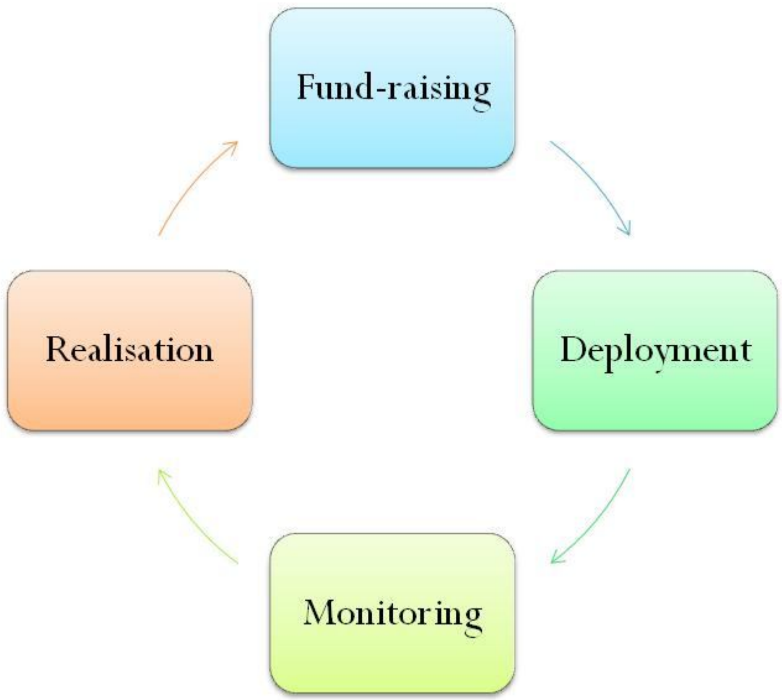
Our Fund Services

How do we assist funds in different activities?

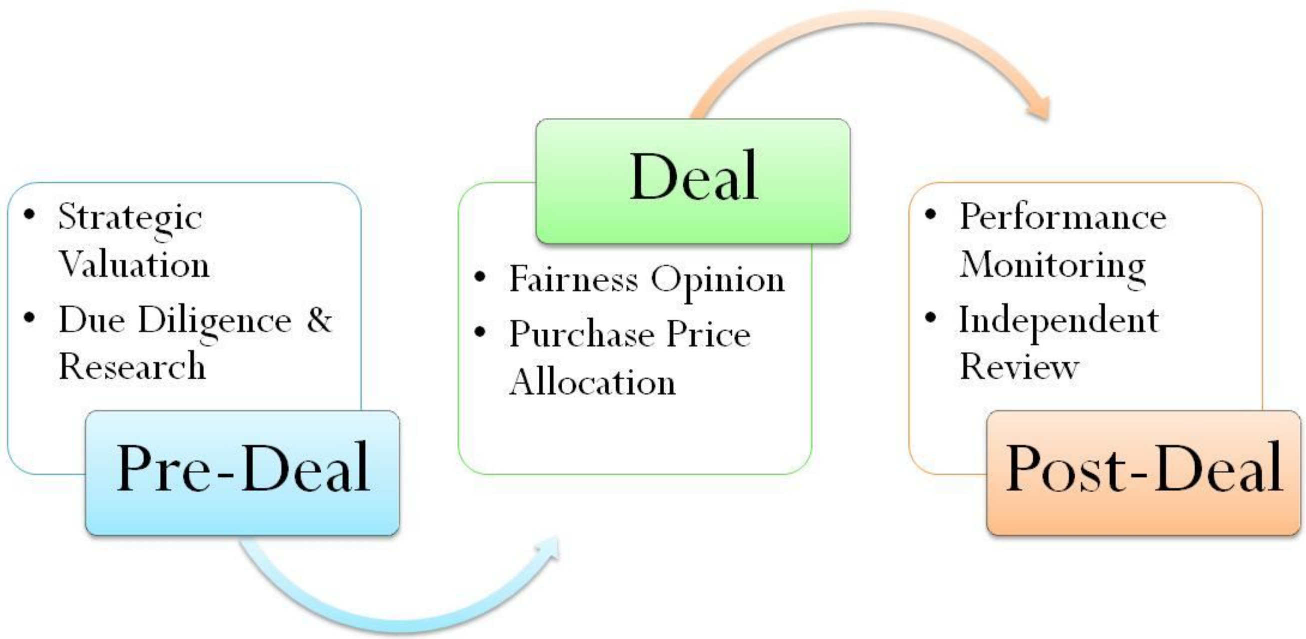
Our range of services for funds



Our Fund Services

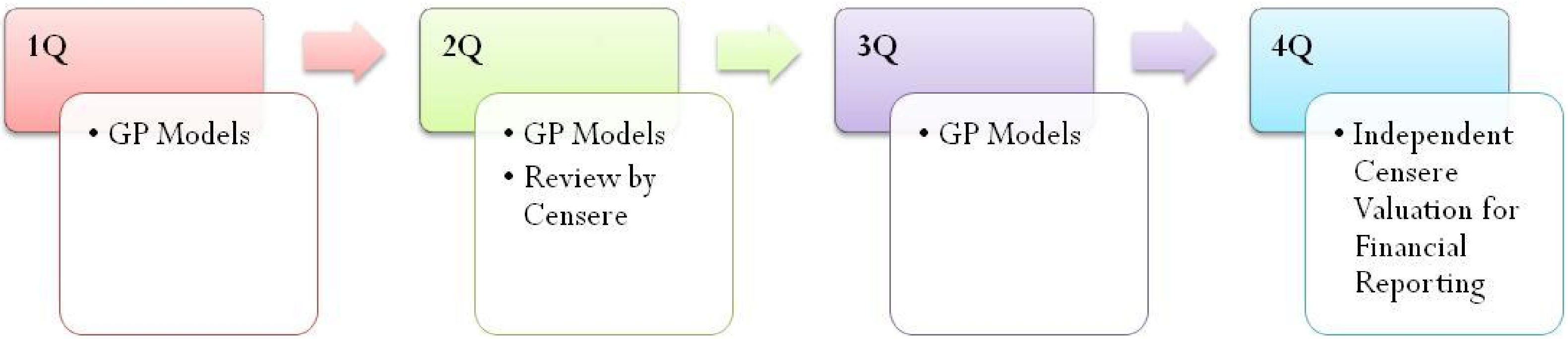
How do we assist funds for different stages?

Our services in different stages



Best Practice for Portfolio Valuation Cycle

Censere proposed model



Introduction to Convertible Bonds valuation

Introduction to Convertible Bonds

What are they and why they need to be valued?

Convertible Bonds

- It is a bond that can be converted into equity.
- It combines features of a bond and of a stock option.
- It confers on an investor the right to exchange the bond for a given number of shares of the issuer during predetermined periods of the lifetime of the bond.

- Features of Convertible Bonds:
  - The issuer may "call" the bond for early redemption after a certain period (the "non-call" protection period), at a specified price (or redemption yield).
  - In some issues, the holder may "put" the bond for early redemption to the issuer at certain future dates, at a specified price (or yield).

Introduction to Convertible Bonds

What are they and why they need to be valued?

Convertible Bonds

- Convertible Bonds specifications:

Bond terms	Currency, issue date, size and price; par amount; maturity date; coupon rate, frequency and day-count convention; redemption yield (yield to maturity/put/call) or redemption price, etc.
Conversion terms	Start and end dates; conversion ratio or number of shares per bond; conversion price, which is inferred from the conversion ratio.
Call terms	Start and end dates of the period when the issuer may redeem the bond; call price-the issuer's early redemption price; trigger or "hurdle" levels.
Put terms	Specific put dates; put prices-the holder's early redemption price.
Make-whole payment	Bondholder receives an additional payment equal to unpaid coupons for some initial period if the issuer calls the bonds for redemption during this period.

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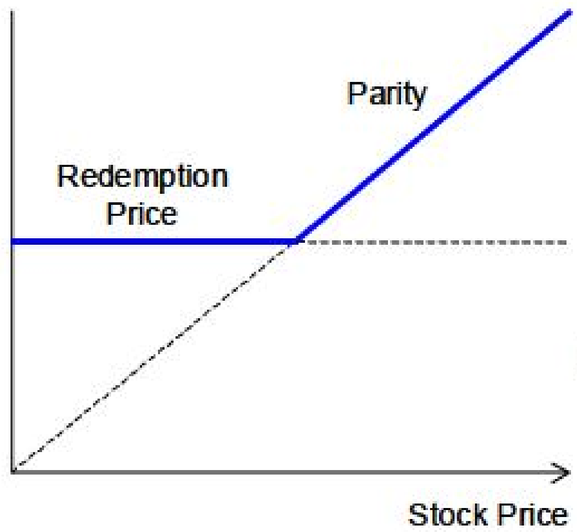
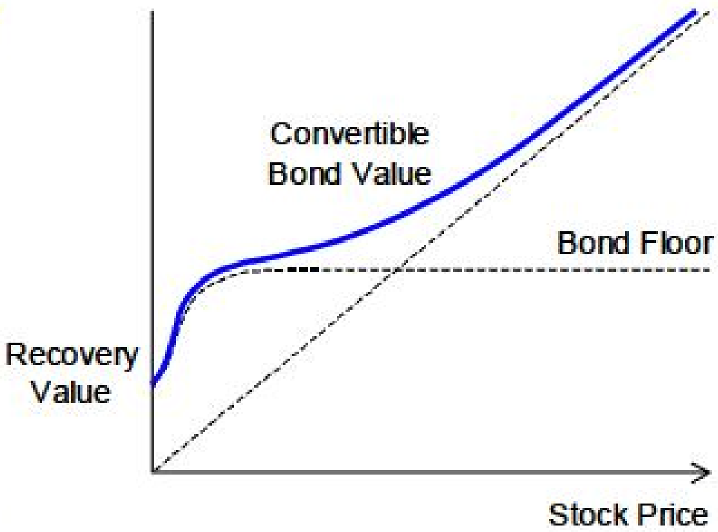
Introduction to Convertible Bonds

What are they and why they need to be valued?

Convertible Bonds payoff profile

- Convertible value converges to parity at high stock prices and to the bond floor at low stock prices.





Convertible Bonds Valuation Model (Old) – Bond + Option

May option pricing model be applied for convertible bonds valuation?

Bond plus option model

- A convertible bond (CB) can be divided into a bond plus an option, the option having a strike equal to principal of the convertible bond
  - CB value = straight bond value + option value for conversion
  - This model values the convertible bond by physically splitting into a straight bond and an option
- Advantage of this valuation model includes:
  - Easy to apply and understand.
- Drawbacks of this valuation model include:
  1. Callable and putable features of the CB may not be handled well.
  2. Can not reflect the impact of using shares to settle bond principal upon conversion.

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Convertible Bonds Valuation Model (Today) – Binomial Trees

How to apply binomial model for convertible bonds valuation?

Binomial model

- Building the binomial tree for the underlying future stock prices by assuming stock price moves up or down over a time step with probabilities given by risk-free rate and stock volatility.
- At each node, the future convertible values are assessed backwards by meeting the below conditions:

Convertible bond value =

max{ min{ hold the bond, issuer calls }, holder converts, holder puts }

Investor	Convert	If value of convertible shares (share price) > principal
Issuer	Call	If call value > expected CB value
Investor	Put	If put value > expected CB value

- The convertible bond value then is the present value of its expected future cash flows, using up and down probabilities as in the binomial tree.

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Input Parameters and Their Impacts on CB Value

The higher or lower the better?

Table of input parameters

Parameter	Date Source	CB Value	Remark
Share Price	Market	+	Higher share price, higher CB value
Principal	Terms	+	
Maturity	Terms	+ / ?	Longer maturity period increase time value, may increase or decrease straight bond value, depends on whether coupon rate is higher or lower than discount rate
Callable feature	Terms	-	Callable feature virtually imposes a cap on convertible share value
Putable feature	Terms	+	Putable feature gives investors a choice to for earlier redemption, usually imply a higher bond floor value
Coupon Rate	Terms	+	
Share Price Volatility	Estimation	+	
Risk free rate	Market	-	Higher discount rate, lower present value
Credit risk spread	Market	-	Requires credit risk assessment
Dividend yield	Market	-	Ex div can lower share price prior CB conversion

Input Parameters Estimation

How to derive parameters not directly observable?

Share Price Volatility

- Implied volatility
  - Derived from market prices of options/warrants/CB or other derivative securities with same underlying stock and similar expiration/maturity period.
  - For options & warrants, may use Black Scholes-Merton formula to derive implied volatility based on market price.
  - May or may not be feasible, depends on whether market price of reference derivative is available
  - Forward looking
- Historical volatility
  - To be derived from historical daily/weekly price change of underlying stock before valuation date
  - Estimation period can be same as maturity period of the CB
  - If the underlying stock is newly listed, may use historical price change data of comparable stocks
  - Historical price volatility is by-definition historical, hence not forward-looking

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Input Parameters Estimation

How to derive parameters not directly observable?

Credit Risk Spread

- Credit rating
  - Any recent credit rating from agencies such as S&P, Moody's, Fitch etc.?
  - If not, perform financial ratio analysis and compare with benchmark ratios of issuers at various ratings using published data from rating agencies to estimate a prelim credit rating.
  - Adjust for qualitative or other factors, if any

- Market data
  - Comparable: Search for market yield of comparable bonds with similar credit rating & remaining maturity period
  - Market benchmark: Check to financial terminal for credit spread of relevant credit rating and

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Binomial Model for CB

Any difference between binomial models for CB, warrants, or other derivatives?

Binomial Model for CB

- If a CB is not converted, the principal will be repaid in cash with credit risk
- If a CB is converted, the principal will be settled by equity without credit risk

- However, it is unknown a priori whether the CB will be converted or not eventually

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Binomial Model for CB

Any difference between binomial models for CB, warrants, or other derivatives?

Binomial Model for CB

- Solution 1: Blended discount rate model (Goldman Sachs model)
  - Discount rate of the CB is a blended discount rate of risk free rate and rates with credit risk, weighted by probability of conversion (including call)
  - If, at maturity:

Share price > conversion price	Share price < conversion price
Convert	Repaid
Prob of conversion = 1	Prob of conversion = 0
Discount rate = risk free rate	Discount rate = risky rate

- For earlier steps:
  - Conversion probability derived from u / d of subsequent nodes
  - Discount rate = risk free rate * prob of conversion + risky rate * (1 – prob of conv)
  - (detail mechanics for binomial trees not to be repeated here)

Binomial Model for CB

Any difference between binomial models for CB, warrants, or other derivatives?

Binomial Model for CB

- Solution 2: Separate cash flow model (Tsioveriotis & Fernandes model)
- CB value = value from equity conversion + value from debt (coupon interest & principal)
  - Value from equity conversion be discounted by risk free rate
  - Value from debt be discounted by risky rate

- Other complications
  - Cross currency (quanto) CB - Currency of CB principal and price of underlying stock are different
  - Interest rate changes over time

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