THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Sichuan Expressway Company Limited*** (the "**Company**"), you should at once hand this circular and the accompanying form of proxy and the reply slip to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00107)

(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY； AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

Lego Corporate Finance Limited
力高企業融資有限公司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

八方金融有限公司
OCTAL Capital Limited

Capitalised terms used in this cover shall have the same meanings as those defined in the circular.

A letter from the Board is set out on pages 1 to 20 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 21 to 22 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 52 of this circular.

A notice convening the EGM of the Company to be held at 3:00 p.m. on Thursday, 30 March 2023 at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the People's Republic of China is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange and the Company. If you intend to appoint a proxy to attend the EGM, you are required to complete and return the form of proxy enclosed with this circular in accordance with the instructions printed thereon. For the holders of H Shares, the form of proxy should be returned to the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in any event not less than 24 hours before the time appointed for convening the EGM (or any adjournment thereof) or 24 hours before the time appointed for the passing of the resolutions. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

10 March 2023

* *For identification purposes only*

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"A Share(s)"	ordinary share(s) denominated in RMB of the Company with a nominal value of RMB1.00 each, which are issued in the PRC, subscribed for in RMB and listed on the SSE
"Acquisition"	the acquisition of the Target Equity Interest contemplated under the Equity Transfer Agreement
"Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"Chelbi Engineering"	Chelbi Engineering Consultants, Inc.* (華傑工程諮詢有限公司), an independent professional traffic consultant in the PRC
"Company"	Sichuan Expressway Company Limited* (四川成渝高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability and the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00107) and the A Shares of which are listed on the SSE (stock code: 601107)
"Completion Date"	the date on which the Target Company issues its register of shareholders showing the Company as the registered holder of 100% equity interest in the Target Company
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration in the sum of RMB5,903 million, payable by the Company for the Acquisition, to be settled by way of cash
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 3:00 p.m. on Thursday, 30 March 2023 at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan, the PRC, for the Shareholders to consider and, if thought fit, approve, among other things, the Acquisition

"Enlarged Group"	the Group as enlarged by the Acquisition
"Equity Transfer Agreement"	the Equity Transfer Agreement entered into between the Company, Shudao Expressway, SRB Group and Shudao Investment on 17 February 2023 in relation to the Acquisition
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed share(s) of the Company with a nominal value of RMB1.00 each, which are issued in Hong Kong, subscribed for in HKD and listed on the main board of the Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors formed to advise the Independent Shareholders in respect of the Acquisition
"Independent Financial Adviser" or "Octal Capital"	Octal Capital Limited, a licensed corporation under the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser of the Company appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholder(s)"	Shareholders who are not required to abstain from voting on such resolutions at the EGM due to any material interest in the Acquisition
"Latest Practicable Date"	6 March 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Lego"	Lego Corporate Finance Limited, the financial adviser of the Company in respect of the Acquisition
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange and/or the Rules Governing the Listing of Stocks on the SSE, as the case may be

"LPR"	loan prime rate (one-year term) announced by the National Inter-bank Funding Center as authorised by the People's Bank of China
"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Valuer" or "Beijing North Asia"	Beijing North Asia Asset Assessment Firm (Special General Partnership) (北京北方亞事資產評估事務所(特殊普通合夥)), an independent qualified valuer in the PRC
"Related Party Loans"	the outstanding loans in the total amount of RMB300,000,000 and RMB2,200,000,000 as at 30 September 2022 provided by the Target Company to Shudao Expressway and Shudao Investment, respectively
"RMB"	Renminbi, the lawful currency of the PRC
"Second Ring (Western) Expressway"	the western section of the Chengdu Second Ring Expressway, a two-way six-lane expressway with a total length of 114.26 kilometers operated by the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	A Share(s) and/or H Share(s) (as the case may be)
"Shareholder(s)"	registered holder(s) of the Shares
"Shudao Expressway"	Sichuan Shudao Expressway Group Co., Ltd. (四川蜀道高速公路集團有限公司), a limited liability company established in the PRC and, as at the Latest Practicable Date, a wholly-owned subsidiary of Shudao Investment
"Shudao Investment"	Shudao Investment Group Co., Ltd. (蜀道投資集團有限責任公司), the controlling shareholder of the Company which holds approximately 37.863% of the issued shares of the Company as at the Latest Practicable Date
"Shudao Investment Group"	Shudao Investment and its subsidiaries (excluding the Group)

"SRB Group"	Sichuan Road & Bridge (Group) Corporation Ltd. (四川公路橋梁建設集團有限公司), a limited liability company established in the PRC and, as at the Latest Practicable Date, an indirect subsidiary of a wholly-owned subsidiary of Shudao Investment
"SSE"	the Shanghai Stock Exchange
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Target Company"	Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (四川蓉城第二繞城高速公路開發有限責任公司), a limited liability company established in the PRC and, as at the Latest Practicable Date, is owned as to 81% and 19% by Shudao Expressway and SRB Group, respectively
"Target Equity Interest"	100% equity interest in the Target Company to be purchased by the Company under the Equity Transfer Agreement
"Traffic Study Report"	the traffic study report on the forecast and evaluation of traffic volume and toll revenue of the Second Ring (Western) Expressway issued by Chelbi Engineering
"Transitional Period"	the period from the Valuation Benchmark Date to the Completion Date
"Valuation"	the valuation of the market value of the 100% equity interest in the Target Company as at the Valuation Benchmark Date
"Valuation Benchmark Date"	30 September 2022
"Valuation Report"	the valuation report in respect of the market value of the 100% equity interest in the Target Company as at the Valuation Benchmark Date issued by the PRC Valuer
"%"	per cent

* *For identification purposes only*

四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00107)

Executive Directors:
Mr. Gan Yongyi *(Chairman)*
Mr. Li Wenhu *(Vice Chairman)*
Madam Ma Yonghan
Mr. You Zhiming
Madam Xue Min

Non-executive Directors:
Mr. Wu Xinhua *(Vice Chairman)*
Mr. Li Chengyong
Mr. Chen Chaoxiong

Independent non-executive Directors:
Mr. Yu Haizong
Mr. Yan Qixiang
Madam Bu Danlu
Mr. Zhang Qinghua

Registered Address:
252 Wuhouci Da Jie
Chengdu
Sichuan Province
The PRC
Postcode: 610041

10 March 2023

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 17 February 2023 in relation to the Equity Transfer Agreement. The purpose of this circular is to provide you with information on the resolutions to be proposed at the EGM in relation to (i) further details of the Acquisition; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) financial information on the Target Company; (v) unaudited pro forma financial information of the Enlarged Group; (vi) the Valuation Report; (vii) the Traffic Study Report; and (viii) the notice convening the EGM.

II. EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out as follows:

Date: 17 February 2023

Parties:

1. the Company (as the purchaser);
2. Shudao Expressway and SRB Group (jointly as the vendors); and
3. Shudao Expressway and Shudao Investment (jointly as the performance guarantor of the Target Company).

Subject matter: In accordance with the terms and conditions of the Equity Transfer Agreement, the Company conditionally agreed to purchase, and Shudao Expressway and SRB Group conditionally agreed to sell, the Target Equity Interest (being 81% and 19% equity interest in the Target Company held by Shudao Expressway and SRB Group, respectively).

Consideration and basis of determination:

The Consideration of the Acquisition is RMB5,903 million.

The Consideration was determined after arm's length negotiations between the Company and Shudao Expressway and SRB Group with reference to the market value of RMB5,903 million of the Target Equity Interest as at the Valuation Benchmark Date as appraised by the PRC Valuer. The PRC Valuer considered both the asset-based approach and the income approach, and eventually adopted the income approach with the use of the discounted cash flow method in arriving at the conclusion on the valuation of the market value of the Target Equity Interest as at the Valuation Benchmark Date, which constitutes the profit forecast under Rule 14.61 of the Listing Rules.

According to the Valuation Report as set out in Appendix V to this circular, the asset-based approach cannot estimate the enterprise value of the Target Company from the perspective of future revenue, where the valuation result under the income approach, on the other hand, reflects more comprehensively and accurately the market value of the Target Equity Interest as at the Valuation Benchmark Date. As further stated in the Valuation Report, it is in line with the industry practice and applicable regulations in the PRC that the income approach shall be adopted for the valuation of expressways. Having reviewed the Valuation Report and considered (i) the experience and qualifications of the PRC Valuer; (ii) the business and financial condition of the Target Company; and (iii) that the income approach can better reflect the Target Company's ability in generating future profits and cash flows, the Directors shared the same view of the PRC Valuer that it is more appropriate to adopt the valuation result under the income approach as the final valuation conclusion. Based on the above, the Directors are of the view that adopting the valuation result under the income approach rather than that under the asset-based approach to determine the Consideration is fair and reasonable.

The Consideration will be funded through the Group's internal resources and/or debt financing.

The principal assumptions adopted by the PRC Valuer in the Valuation Report are set out in the section headed "Valuation Assumptions" in this letter. Ernst & Young, the reporting accountants of the Company, has reported on the arithmetic accuracy of the discounted cash flow forecast underlying the Valuation. The full text of Ernst & Young's report is set out in Appendix VII to this circular. Lego, the financial adviser to the Company, has confirmed that the future cash flows forecast underlying the Valuation has been prepared after due and careful enquiry by the Directors. The full text of the letter from Lego is set out in Appendix VIII to this circular.

Payment terms: Pursuant to the terms and conditions of the Equity Transfer Agreement, the Company shall pay in cash to the designated banks of Shudao Expressway and SRB Group as follows:

– First installment: Within 5 working days after the Equity Transfer Agreement comes into effect, the Company shall pay no less than 50% of the Consideration to Shudao Expressway and SRB Group;

– Second installment: Within one month from the Completion Date, the Company shall pay the remaining consideration and interest thereto to Shudao Expressway and SRB Group, where the interest shall be the remaining consideration × (LPR/365) × (the number of days between the date of payment of the remaining consideration and the date of payment of the first installment of the Consideration)

Effectiveness of the Equity Transfer Agreement: The Equity Transfer Agreement shall come into effect upon the fulfillment of all of the following conditions:

1. the Equity Transfer Agreement having been duly signed and sealed by each of the Company, Shudao Expressway, SRB Group and Shudao Investment;

2. the Acquisition having fulfilled the state-owned assets supervision and approval procedures;

3. the Company having complied with the relevant requirements of the Listing Rules in respect of the Acquisition, including but not limited to the reporting to the Stock Exchange and the SSE, publishing announcements and obtaining the approval of the Independent Shareholders in respect of the Equity Transfer Agreement; and

4. SRB Group having obtained the approval at the general meeting of Sichuan Road & Bridge Co., Ltd. (四川路橋建設集團股份有限公司) in respect of the Acquisition.

As at the Latest Practicable Date, the above-mentioned conidition 1 has been fulfilled.

Transitional Period arrangement:

The profit or loss of the Target Company during the Transitional Period shall be treated in accordance with the following principles:

1. normal operating profit or loss shall be borne and enjoyed by the Company; and

2. non-normal profit or loss (including but not limited to profit or loss arising from various events or acts affecting the profitability or value of the Target Company such as theft, loss or man-made damage of assets, provided that the non-normal profit or loss is not attributable to the performance of bona fide management obligations by Shudao Expressway and SRB Group) shall be borne by Shudao Expressway and SRB Group.

As set out in the Valuation Report, the valuation result under the income approach has been adopted as the final valuation conclusion, which was arrived at by discounting the future cash flows of the Target Company derived based on the estimated net profit of the Target Company in future years commencing from the Valuation Benchmark Date. Therefore, the Valuation has taken into account the projected profit or loss of the Target Company for the period from the Valuation Benchmark Date to the Completion Date (i.e. the Transitional Period). As the Consideration was determined with reference to the Valuation, the parties to the Equity Transfer Agreement agreed that the normal operating profit or loss of the Target Company during the Transitional Period shall be borne and enjoyed by the Company, while the non-normal profit or loss of the Target Company during the Transitional Period shall be borne by Shudao Expressway and SRB Group.

In addition, pursuant to the Equity Transfer Agreement, Shudao Expressway, SRB Group and Shudao Investment have undertaken that, during the Transitional Period, unless being approved by the Company, the Target Company must not carry out certain activities, including but not limited to: (1) signing, changing, modifying or terminating any major contracts (amount exceeding RMB500,000) or transactions relating to the Target Company; (2) transferring or waiving rights; and (3) abnormal disposal of the assets of the Target Company. Such restrictions allow the Board to have control on the material operational decisions of the Target Company to certain extent during the Transitional Period.

Given that (i) the Consideration was determined based on the Valuation which has taken into account the projected profit or loss of the Target Company for the Transitional Period as mentioned above; (ii) according to the management account of the Target Company for the fourth quarter of 2022, the actual financial result for the fourth quarter of 2022 is close to the projected financial result for the corresponding period which was adopted in the Valuation; and (iii) Shudao Expressway and Shudao Investment are subject to a performance guarantee in respect of the projected net profit of the Target Company covering the period from 1 January 2023 to 31 December 2029 as mentioned below, the Board considers that the aforesaid arrangement during the Transitional Period is reasonable.

Profit guarantee: From 1 January 2023 to 31 December 2029, Shudao Expressway and Shudao Investment are subject to a performance guarantee in respect of the projected net profit of the Target Company underlying the Valuation (the "**Guaranteed Profit**"), which shall not be less than the following amounts:

Relevant period	**Guaranteed Profit (cumulative)**
From 1 January 2023 to 31 December 2025	Not less than RMB231,177,770
From 1 January 2023 to 31 December 2026	Not less than RMB476,947,500
From 1 January 2023 to 31 December 2027	Not less than RMB768,080,831
From 1 January 2023 to 31 December 2028	Not less than RMB1,119,505,121
From 1 January 2023 to 31 December 2029	Not less than RMB1,541,563,886

If the actual realised net profits do not reach the relevant Guaranteed Profit, performance compensation shall be made to the Company in cash in the following manner:

1. the compensation amounts for 2023 to 2025 is calculated and paid in a lump sum as follows:

    (1) Compensation amount for the years from 2023 to 2025 = the Guaranteed Profit of the Target Company for the years from 2023 to 2025 – the actual audited accumulated net profit or loss of the Target Company for the years from 2023 to 2025.

    (2) Compensation amount payable by Shudao Expressway = compensation amount for the years from 2023 to 2025 × 81%.

    (3) Compensation amount payable by Shudao Investment = compensation amount for the years from 2023 to 2025 × 19%.

    (4) Shudao Expressway and Shudao Investment shall pay the performance compensation amount to the Company within 30 business days from the date of the Target Company's annual audit report for the year 2025.

2. For the years from 2026 to 2029, the compensation amount for each year shall be calculated and paid as follows:

    (1) The compensation amount for each year from 2026 to 2029 = the Guaranteed Profit of the Target Company for the years from 2023 to the year in question – the actual audited accumulated net profit or loss of the Target Company for the years from 2023 to year in question – the accumulated compensation amount paid since 2023.

    (2) If the compensation amount for the year calculated according to the above formula is less than or equal to 0, the value shall be deemed as 0.

(3) The amount of compensation payable by Shudao Expressway = the compensation amount of the year × 81%.

(4) The amount of compensation payable by Shudao Investment = the compensation amount of the year × 19%.

(5) Shudao Expressway and Shudao Investment shall pay the performance compensation to the Company within 30 business days from the date of issuance of the Target Company's annual audit report for the year in question.

3. If Shudao Expressway and/or Shudao Investment fail to pay the aforesaid compensation amount in full by the due dates, interest shall be accrued on the outstanding compensation amount from the date of the aforesaid payment due date, and on the date of full payment of compensation, the aforesaid interest accrued up to such date shall be paid to the Company. The formula for calculating interest is as follows: Interest = outstanding compensation amount × (LPR/365) × (date of full payment of compensation – original compensation due date).

The Company will comply with the relevant disclosure requirements (including Rule 14A.63 of the Listing Rules) in the event that the actual performance of the profit guarantee as set out above fails to meet the relevant Guaranteed Profit. It is expected that the Target Company's audited report will be issued by the end of March of each calendar year for determining the performance of the profit guarantee.

Completion arrangement:

1. On the first business day after the payment of the first installment of the Consideration by the Company to Shudao Expressway and SRB Group, the Target Company shall prepare a list of its properties and information to facilitate the completion of the Equity Transfer Agreement. The contents contained in the aforesaid list shall have been verified and signed by the Company, Shudao Expressway, SRB Group and Target Company, and the board of directors of the Target Company shall determine that the Company shall be registered in the register of shareholders of the Target Company; and

2. As conditions precedent to completion of the Acquisition, after the Equity Transfer Agreement comes into effect and prior to the Completion Date, (i) Shudao Expressway and Shudao Investment shall repay their respective outstanding principal and interest of the Related Party Loans to the Target Company in full; and (ii) Shudao Investment shall return all of the Target Company's funds in group cash pool account to the Target Company.

As at the Latest Practicable Date, each of Shudao Expressway and Shudao Investment has entered into an agreement with the Target Company to specify the repayment details of the Related Party Loans, pursuant to which, Shudao Expressway and Shudao Investment agreed to repay their respective outstanding principal and interest of the Related Party Loans to the Target Company in full by no later than 16 June 2023 and 30 June 2023, respectively.

Termination:

In accordance with the Equity Transfer Agreement, the Equity Transfer Agreement will forthwith be terminated or canceled in any of the following conditions, including but not limited to:

1. The Company, Shudao Expressway and SRB Group having agreed to terminate the Equity Transfer Agreement upon negotiations; or

2. If the Acquisition is ordered to be terminated by a government department or competent authority, the Company shall have the right to terminate the Equity Transfer Agreement and request Shudao Expressway and SRB Group to refund all Consideration received together with interest calculated in accordance with the bank's LPR for the corresponding period.

III. VALUATION ASSUMPTIONS

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions for preparing the Valuation Report are set out as below:

(I) General assumptions

1. Assumption of business continuity

The assumption of business continuity is to assume that the business operation of the appraised enterprise is legal, and there will be no unpredictable factors leading to its unsustainable business operation. The current use of the appraised assets shall remain unchanged, and the assets shall continue to be utilised;

2. Assumptions regarding transaction

The assumptions regarding transaction assume that all assets to be appraised are already in the process of trading, and the asset valuation professionals evaluate the assets according to the simulated market such as the trading conditions of the assets to be appraised. The assumptions regarding transaction is a basic premise for asset valuation.

3. Open market assumption

The open market assumption assumes that assets traded in the market, or assets to be traded in the market, have equal status with each other, and each has the opportunity and time to obtain sufficient market information so as to make a rational judgment on the function, purpose and transaction price of the assets. The open market assumption is based on the fact that assets can be traded openly in the market.

(II) Special assumptions

1. It is assumed that there is no significant change in the national macro-economic situation and the relevant prevailing laws, regulations and policies, and there is no significant change in the political, economic and social environment of the region of both parties to the transaction.

2. It is assumed that the appraised entity could maintain a stable development situation in the industry, and the industry policy, management system and related regulations have no significant changes.

3. It is assumed that there is no significant change in the state related credit rates, exchange rates, tax benchmarks and tax rates, policy levy fees and so on.

4. It is assumed that there is no other force majeure factors and unforeseen factors, resulting in significant adverse impact on the enterprise.

5. It is assumed that the production and operation of the appraised entity can be continuously operated according to its current situation, and that its operating conditions will not change significantly during the foreseeable period of operation.

6. It is assumed that the future management personnel of the enterprise are of due diligence, and the enterprise continues to maintain the existing management mode for continuous operation.

7. It is assumed that the enterprise is entitled to the preferential income tax policies for the Western Development until 2030.

8. It is assumed that the enterprise's annual cash flows are projected to be evenly split between inflows and outflows during the year.

9. The assumption of the continued use of assets, that is, the assets of valuation are legally, effectively and continuously used in accordance with their current use and the use of the manner, scope, frequency, environment and other conditions, and within the foreseeable period of usage, there are no major changes.

10. It is assumed that the general information relating to the operation of the enterprise, property rights information, policy documents and other related materials provided by the client and the appraised entity remain true and valid.

11. It is assumed that the acquisition and construction of the assets involved in the valuation target are in accordance with the relevant laws and regulations of the PRC.

12. It is assumed that the relevant approval documents required for the normal operation of the enterprise can be obtained in a timely manner.

Ernst & Young confirms that it has reviewed the calculations for the discounted cash flow forecast underlying the Valuation.

Lego has confirmed that the future cash flows forecast underlying the Valuation has been compiled after due and careful enquiry by the Directors.

The report from Ernst & Young and the letter from Lego are set out in the Appendices VII and VIII, respectively to this circular.

IV. BACKGROUND INFORMATION ON THE TARGET COMPANY AND THE SECOND RING (WESTERN) EXPRESSWAY

The Target Company is a limited liability company established in the PRC and is mainly engaged in the operation, management and maintenance of expressways, highways and bridges; highway engineering, bridge engineering and its related engineering consultation and bidding agency; real estate development and leasing; wholesale and retail of goods, and property management, etc.

As at the Latest Practicable Date, the registered capital of the Target Company was RMB684,210,000 which was fully paid-up and held by Shudao Expressway and SRB Group as to 81% and 19%, respectively. Based on the information provided by Shudao Expressway and SRB Group, the aggregate cost of investment in the Target Company to Shudao Expressway and SRB Group was approximately RMB4,680,230,000 as of 30 September 2022, being the aggregate of the paid-up capital and capital reserves of the Target Company as of 30 September 2022.

The Target Company currently operates the Second Ring (Western) Expressway within Sichuan Province, the PRC, and owns the concession rights of the Second Ring (Western) Expressway. The Second Ring (Western) Expressway is a closed expressway with a total length of 114.26 kilometers, designed as a two-way six-lane expressway and its design speed is 100 kilometers per hour. The Second Ring (Western) Expressway is an important integral part of the highway network planning in Sichuan Province and Chengdu's comprehensive traffic and transportation system. It starts from Shuangliu District, passes through various districts in Chengdu including Shuangliu, Xinjin, Chongzhou, Wenjiang, Pixian, Xindu and Pengzhou, and then connects with the eastern section of the Chengdu Second Ring Expressway. The concession period (i.e. the approved toll period) of the Second Ring (Western) Expressway is 29 years and 330 days (commencing from 16 February 2016 to 11 January 2046). For the years ended 31 December 2020 (excluding January to April 2020), 2021 and 2022, the average daily traffic volume of the Second Ring (Western) Expressway was approximately 29,919, 29,324 and 22,611 vehicles, respectively.

V. FINANCIAL INFORMATION ON THE TARGET COMPANY

The following table sets out certain financial information of the Target Company for the two financial years ended 31 December 2021 and the nine months ended 30 September 2022 which were prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December 2020 (audited) *RMB'000*	**For the year ended 31 December 2021 (audited)** *RMB'000*	**For the nine months ended 30 September 2022 (audited)** *RMB'000*
Net loss before tax	(294,526)	(91,841)	(107,582)
Net loss after tax	(270,172)	(78,640)	(91,956)

As at 30 September 2022, the audited total assets and net assets of the Target Company were approximately RMB16,349.7 million and RMB2,940.1 million, respectively. The accountants' report of the Target Company for the three years ended 31 December 2021 and the nine months ended 30 September 2022 is set out in Appendix II to this circular.

VI. FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Immediate after the completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, i.e. the Company will hold 100% of the issued share capital of the Target Company. The financial results of the Target Company will be consolidated into the consolidated financial statements of the Group.

Assets and liabilities

The following table sets forth the significant financial effects of the Acquisition on the Enlarged Group identified in the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular ("**Unaudited Pro Forma Financial Information**"), assuming that completion of the Acquisition had taken place on 30 June 2022, as compared to the financial position of the Group as at 30 June 2022.

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2022	**Upon Completion (unaudited pro forma Enlarged Group)**	**Change**
	RMB'000	*RMB'000*	*%*
Net assets	18,579,815	15,616,950	(15.9)
Total assets	40,588,072	54,984,735	35.5
Total liabilities	22,008,257	39,367,785	78.9

As disclosed in the section headed "4. WORKING CAPITAL" of Appendix I to this circular, the Directors, after due and careful enquiries, are of the opinion that, after taking into account the effect of the Acquisition, the Enlarged Group's internal resources, cash flow from operations, facilities and corporate bonds available to the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next twelve months following the date of this circular, in the absence of unforeseeable circumstances.

The net assets, the total assets and the total liabilities of the Enlarged Group which are referred to in this subsection were extracted from the Unaudited Pro Forma Financial Information, which was based on, among other things, the Consideration of RMB5,903 million and the assumption that the completion of the Acquisition had occurred on 30 June 2022.

Details of the Unaudited Pro Forma Financial Information of the Enlarged Group is set out in Appendix IV to this circular.

Earnings

Upon the Completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company. According to the Traffic Study Report of the Second Ring (Western) Expressway as set out in Appendix Ⅵ to this circular, the earnings of the Enlarged Group is expected to increase as a result of the Acquisition due to the expected increase in the traffic flow and toll revenue generated from the Second Ring (Western) Expressway in the next few years. Having considered the factors as set out in the section headed "Reasons for and benefits of the Acquisition" in this letter, the Board expects that the Acquisition will have a positive impact on the earnings of the Enlarged Group in the future, which will benefit the Enlarged Group and the Shareholders as a whole.

VII. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the investment, construction, operation and management of expressway infrastructure projects in Sichuan Province, the PRC, as well as the operation of other businesses relating to toll roads. The principal business of the Target Company is the investment, construction and operation of the Second Ring (Western) Expressway. Therefore, the acquisition of the Target Company aligns with the development strategy of the Group.

The Board regards the Second Ring (Western) Expressway as an important integral part of the highway network planning in Sichuan Province and Chengdu's comprehensive traffic and transportation system, which connects various districts in Chengdu, and is of great significance in promoting the development of the economy and industries along the route, the development of natural resources and the upgrading of featured industries.

The Second Ring (Western) Expressway is beneficial to improving the regional traffic environment and promoting the rapid development of the local economy and tourism. It also alleviates the increasing traffic pressure of the Chengdu Ring Expressway, which is conducive to the expansion of urban space in Chengdu.

Since the trial toll operation of the Target Company in February 2016, the toll revenue has shown a steady growth trend as a whole. In particular, the toll revenue has increased from approximately RMB354 million in 2016 to approximately RMB804 million in 2021, with a compound annual growth rate of approximately 17.8%. However, the Target Company has not achieved profitability due to the effect of the COVID-19 pandemic and financial expenses. Considering that the acquisition of the Target Company is in line with the strategic consideration of the Company to further strengthen its control over the quality road network resources in the province, the acquisition of the Target Company will enable the Group to enrich its expressway profile and increase its market share in Sichuan Province and further establish the Group's position as a platform for the operation and integration of highway quality assets. Meanwhile, with the easing of the COVID-19 pandemic, the Second Ring (Western) Expressway shall also bring stable revenue. Currently, the Chengdu First Ring Expressway is basically saturated and Chengdu's urban development is gradually expanding from the central urban area to the peripheral areas. The logistics parks and logistics centres are gradually moving towards and developing in the vicinity of the Chengdu Second Ring Expressway, which will assume a more important role in the future with the function of the city's ring expressway becoming more prominent. Taking into account of the above and with the full easing of the policies for the prevention and control of the COVID-19 pandemic and the recovery of economic and social development in 2023, the Second Ring (Western) Expressway is expected to maintain rapid growth and its profitability is expected to be improved. Therefore, the Directors are of the view that the Acquisition promotes the sustainable development of the Company and is in line with the development strategy of the Company.

The Acquisition could effectively enhance the overall management of the Group's toll expressways in Sichuan Province, creating synergies of the expressway network and thereby strengthening the core competitiveness of the Group. In particular, the Second Ring (Western) Expressway and Chengya Expressway and Chengren Expressway under the management of the Company will form a hub and interchange, and after the Acquisition, it will be more convenient for the Company in coordinating and responding more quickly to road emergencies, which will be conducive to improving the road access service capacity. Furthermore, after the Acquisition, the Company will unify the management systems of service areas, gas stations and billboards relating to the Second Ring (Western) Expressway, and thereby improving the service quality which will be conducive to increasing the road-related income.

The Directors (including all the independent non-executive Directors whose opinions are set out in the letter from the Independent Board Committee contained in this circular) are of the view that the terms and conditions of the Equity Transfer Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

VIII. INFORMATION ON THE COMPANY, SHUDAO EXPRESSWAY, SRB GROUP AND SHUDAO INVESTMENT

The Company

The Company is principally engaged in the investment, construction, operation and management of expressways infrastructure projects in Sichuan Province, the PRC, as well as the operation of other businesses relating to toll roads.

Shudao Expressway

Shudao Expressway is a limited liability company established in the PRC and is mainly engaged in the highway management and maintenance, roadbed and road maintenance and on-road cargo transportation. Shudao Expressway is a wholly-owned subsidiary of Shudao Investment.

SRB Group

SRB Group is a limited liability company established in the PRC and is mainly engaged in the contracting, investigation, design, supervision and technical consultation of construction projects such as highway and bridge engineering, railway engineering, port and airway engineering, hydraulic and hydropower engineering, electric power engineering, municipal and utility engineering; project development and investment, project management, real estate development and operation, among other businesses. As at the Latest Practicable Date, SRB Group is a wholly-owned subsidiary of Sichuan Road & Bridge Co., Ltd., and Sichuan Road & Bridge Co., Ltd. is a subsidiary of Shudao Investment.

Shudao Investment

Shudao Investment is a wholly-owned subsidiary of Sichuan Development Holding Co., Ltd. (四川發展(控股)有限責任公司), and Sichuan Development Holding Co., Ltd. is wholly-owned by the People's Government of Sichuan Province. Its business covers highway management and maintenance; construction engineering survey; construction engineering design; construction engineering supervision; various engineering construction activities, etc.

IX. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but are all less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Shudao Expressway and SRB Group are the subsidiaries of Shudao Investment, the controlling shareholder of the Company, and are therefore connected persons of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Acquisition. Octal Capital has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

X. ABSTENTION FROM VOTING ON BOARD RESOLUTIONS AND ABSTENTION FROM VOTING AT THE EGM

As Mr. Li Chengyong and Mr. Chen Chaoxiong, the two non-executive Directors, hold positions in certain members of the Shudao Investment Group (Mr. Li Chengyong, a non-executive Director, is the deputy head of the finance management department in Shudao Investment; and Mr. Chen Chaoxiong, a non-executive Director, is a Class II Director (i.e. a director of a subsidiary nominated and appointed by Shudao Investment from its subsidiaries (including the Company)) in Shudao Investment), they are regarded as being interested in the Acquisition and therefore have abstained from voting on the Board resolutions in relation to the approval of the Acquisition. Saved as mentioned above, none of the Directors have any material interest in the Acquisition and are required to abstain from voting on the Board resolutions in relation to the Acquisition.

As Shudao Investment is interested in the Acquisition, Shudao Investment (the controlling Shareholder of the Company holding approximately 37.863% equity interest in the Company as at the Latest Practicable Date) and its associates will abstain from voting on the relevant resolution(s) to be proposed at the EGM to approve the Acquisition.

XI. VOTING BY POLL

According to the Listing Rules, each of the resolutions to be proposed at the EGM will be voted on by poll. Results of the poll voting will be published on the Company's website at www.cygs.com and the website of the Stock Exchange at www.hkexnews.hk after the EGM.

XIII. EGM

The Company proposes to convene the EGM at 3:00 p.m. on Thursday, 30 March 2023 at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC.

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying proxy form in accordance with the instructions printed thereon. For the H Shareholders, the proxy forms should be returned to the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by hand or by post not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof (i.e. on or before 3:00 p.m. on Wednesday, 29 March 2023.

Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish, but in such event the instrument appointing a proxy shall be deemed to be revoked.

If you intend to attend the EGM in person or by proxy, you are required to complete and lodge the reply slip for attending the EGM at the Company's registered address at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC not later than 4:30 p.m. on Friday, 24 March 2023. The reply slip may be delivered to the Company by hand, by post or by fax (fax no.: (8628) 8553 0753).

XIV. CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The H Shares register of members of the Company will be closed from Monday, 27 March 2023 to Thursday, 30 March 2023, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM, holders of H Shares shall ensure that all transfer documents of H Shares accompanied by the relevant share certificates and the appropriate transfer documents must be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 March 2023.

XV. RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors has been established to give advice to the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, is set out on pages 21 to 22 of this circular. The Company has appointed Octal Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. The letter of advice from Octal Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 52 of this circular.

The Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee contained in this circular) consider that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution for approving the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
By order of the Board
Sichuan Expressway Company Limited*
Yao Jiancheng
Joint Company Secretary

* *For identification purpose only*

四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*
(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00107)

10 March 2023

To the Independent Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY

We have been appointed as members of the Independent Board Committee to give our advice on the Equity Transfer Agreement, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 10 March 2023 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Octal Capital has been appointed as the Independent Financial Adviser to advise us on the Equity Transfer Agreement. The letter from Octal Capital is set out on pages 23 to 52 of the Circular.

Having considered the terms and conditions of the Equity Transfer Agreement, the advice given by Octal Capital and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that the terms of the Equity Transfer Agreement and the transactions contemplated

* *For identification purposes only*

thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Yu Haizong	**Mr. Yan Qixiang**	**Madam Bu Danlu**	**Mr. Zhang Qinghua**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

八方金融有限公司
OCTAL Capital Limited

801–805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

10 March 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Equity Transfer Agreement, particulars of which are set out in the Letter from the Board (the "**Letter from the Board**") of the circular of the Company dated 10 March 2023 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined under the definition section of the Circular.

On 17 February 2023, the Company entered into the Equity Transfer Agreement with Shudao Expressway, SRB Group and Shudao Investment, pursuant to which, the Company conditionally agreed to purchase, and Shudao Expressway and SRB Group conditionally agreed to sell, the Target Equity Interest (i.e. being 81% and 19% equity interest in the Target Company held by Shudao Expressway and SRB Group respectively) at a consideration of RMB5,903 million, and the parties also agreed that Shudao Expressway and Shudao Investment are subject to a performance guarantee in respect of the projected net profit of the Target Company underlying the Valuation.

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but are all less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Shudao Expressway and SRB Group are the subsidiaries of Shudao Investment, the controlling shareholder of the Company, and are therefore connected persons of the Company (as defined under the Listing Rules), thus the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Yu Haizong, Mr. Yan Qixiang, Madam Bu Danlu and Mr. Zhang Qinghua, has been formed to advise the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder. We, Octal Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, we were not connected with the directors, chief executive and substantial shareholders of the Company or Shudao Expressway or SRB Group or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and is therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. During the last two years, we were engaged as the independent financial adviser to the Company (the "**Previous Engagements**") in respect of (i) the discloseable and connected transaction in relation to disposal of 91% equity interest and shareholder's loan in relation to Renshou Trading Landmark Company Limited (the "**Renshou Landmark**") and the disposal of a real estate asset (details of which are set out in the circular of the Company dated 7 September 2021); and (ii) the discloseable and connected transaction in relation to the disposal of 5% equity interest in Sichuan Transportation Construction Group Co., Ltd. (details of which are set out in the circular of the Company dated 19 May 2022).

Under the Previous Engagements, we were required to express our opinion on and give recommendation to the then independent board committee and the then independent shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us in connection with these appointments, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Advisor pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Equity Transfer Agreement, and the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information, among other things, (i) the Equity Transfer Agreement; (ii) the Valuation Report; (iii) the Traffic Study Report; (iv) the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**") and the interim report of the Company for the six months ended 30 June 2022 (the "**2022 Interim Report**"); and (v) other information as set out in the Circular, to reach an informed view and justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Target Company, and any of their respective subsidiaries and their respective associates, nor have we carried out any independent verification of the information supplied to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Acquisition, we have taken into consideration of the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the investment, construction, operation and management of expressway infrastructure projects, as well as the diversified operations that are highly related to its principal activities. The revenue of the Group is mainly generated from (i) the toll roads and bridges segment comprises the operation of expressways and a high-grade toll bridge in the PRC; (ii) the city operation segment comprises the provision of construction and upgrade services under the service concession arrangements and construction contracts, advertising, the rental of properties along expressways, investment and development of properties located in the PRC and trading of commodities; (iii) the financial investment segment comprises finance lease operation, factoring business and financial investment; and (iv) the energy investment segment comprises the operation of gas stations along expressways, sale of oil products.

As at the Latest Practicable Date, the Group is operating seven expressways which are situated in Sichuan Province.

Expressway	**Origin/ destination**	**Approximate length** *(kilometer)*	**Year of commencement of toll collection right**	**Year of expiry of the toll collection right**
Chengyu (Chengdu-Chongqing) Expressway (Sichuan Section) ("**Chengyu Expressway**")	Chengdu/Sangjiapo	226.0	1997	2027
Sichuan Chengya (Chengdu-Ya'an) Expressway ("**Chengya Expressway**")	Chengdu/Duiyan	144.2	2000	2029
Chengdu-Meishan (Renshou) Section of ChengZiLuChi (Chengdu-Zigong-Luzhou-Chishui) Expressway ("**Chengren Expressway**")	Jiangjia/Zhichanggou	106.6	2012	2042
Sichuan Chengle (Chengdu-Leshan) Expressway ("**Chengle Expressway**")	Qinglongchang/Guliba	86.4	2000	2029
Chengdu Chengbei Exit Expressway ("**Chengbei Exit Expressway**")	Qinglongchang/ Baihelin	10.4	1998	2024
Sichuan Suixi (Suining-Xichong) Expressway ("**Suixi Expressway**")	Jixiang Town Fushanba/ Taiping interchange	67.6	2016	2046
Sichuan Suiguang (Suining-Guang'an) Expressway ("**Suiguang Expressway**")	Jinqiao interchange/ Hongtudi interchange	102.9	2016	2046

The table below summarises the major financial information of the Group for the years ended 31 December 2020 and 2021 ("**FY2020**" and "**FY2021**", respectively) extracted from the 2021 Annual Report and for the six months ended 30 June 2021 and 2022 ("**1H2021**" and "**1H2022**", respectively) extracted from the 2022 Interim Report.

RMB' million	**FY2020** (audited)	**FY2021** (audited)	**1H2021** (unaudited)	**1H2022** (unaudited)
Toll roads and bridges	3,008	3,466	1,795	1,593
City operation	3,545	3,376	1,376	1,441
Financial investment	187	199	100	92
Energy investment	1,459	1,789	752	960
Total revenue	**8,199**	**8,830**	**4,023**	**4,086**
Profit for the year/period	**734**	**1,951**	**732**	**528**

Source: 2021 Annual Report and 2022 Interim Report

FY2021 compared to FY2020

The revenue of the Group increased from approximately RMB8,199 million in FY2020 to approximately RMB8,830 million in FY2021 by approximately 7.7% which was driven by the improvement in the toll roads and bridges segment. After the one-off toll free policy imposed by the Government of the PRC resulting from COVID-19 pandemic during the period from February 2020 to May 2020, the toll collection had resumed for toll roads for the rest of FY2020 and FY2021, leading to an improvement in the revenue of the toll roads and bridges segment in FY2021.

The Group recorded the profit after tax of approximately RMB1,951 million in FY2021 as compared to that of approximately RMB734 million in FY2020, representing an improvement of approximately 165.8%. The improvement of profitability was mainly attributable to the growth in revenue and the gain on disposal of Renshou Landmark amounted to approximately RMB899 million.

1H2021 compared to 1H2022

The revenue of the Group increased slightly from approximately RMB4,023 million in 1H2021 to approximately RMB4,086 million in 1H2022, mainly due to the improvement in the city operation segment and energy investment segment. The revenue from toll roads and bridges segment for 1H2022 amounted to approximately RMB1,593 million, representing a decrease of approximately RMB202 million or 11.3% as compared to that for 1H2021. The decrease was mainly due to the lock-down measures in Chengdu in response to the resurgence of COVID-19 pandemic, resulting in a decrease in vehicle travel.

The Group recorded the profit after tax of approximately RMB528 million in 1H2022 as compared to that of approximately RMB732 million in 1H2021, representing a decrease of approximately 27.9%. The decrease of profitability is mainly attributable to (i) the decline in revenue from toll roads and bridges segment; (ii) the real estate business of Renshou Landmark was no longer included in the consolidated financial statements of the Company due to the disposal of Renshou Landmark in FY2021; (iii) the decrease in the amount of financial leasing projects launched during 1H2022; and (iv) the decline in retail sales volume of refined oil caused by the decrease in vehicle travel due to the lock-down measures in Chengdu in response to the resurgence of COVID-19 pandemic.

The major items of the unaudited consolidated financial position of the Company as at 30 June 2022 are summarised as below:

	As at 30 June 2022 *RMB' million* (unaudited)
Non-current assets	
Property, plant and equipment	682
Service concession arrangements	30,477
Other non-current assets	3,098
	34,257

	As at 30 June 2022 RMB' million (unaudited)
Current assets	
Trade and other receivables	2,075
Cash and cash equivalents	2,889
Other current assets	1,367
	6,331
Total assets	**40,588**
Non-current liabilities	
Interest-bearing bank and other borrowings	17,565
Other non-current liabilities	234
	17,799
Current liabilities	
Trade and other payables	1,645
Interest-bearing bank and other borrowings	2,350
Other current liabilities	214
	4,209
Total liabilities	**22,008**
Net current assets	**2,122**
Net assets	**18,580**
Total interest-bearing bank and other borrowings	**19,915**
Gearing ratio (total interest-bearing bank and other borrowings/total assets)	**49.1%**

Source: 2022 Interim Report

As at 30 June 2022, the Group's non-current assets amounted to approximately RMB34,257 million in which the service concession arrangements in relation to the seven expressways were amounted to approximately RMB30,477 million, representing approximately 75.1% of the total assets. As at 30 June 2022, the Group recorded approximately RMB2,889 million of cash and cash equivalents.

The Group's liabilities mainly include bank and other borrowings amounted to approximately RMB19,915 million as at 30 June 2022, representing approximately 90.5% of total liabilities as at 30 June 2022. The Group's gearing ratio (as defined above) as at 30 June 2022 was approximately 49.1%.

2. Background information of the Target Company

The Target Company is a limited liability company established in the PRC. Its major asset is the concession rights of the Second Ring (Western) Expressway. The Target Company is principally engaged in the operation and management of the Second Ring (Western) Expressway.

The Second Ring (Western) Expressway is a closed expressway with a total length of 114.26 kilometers, designed as a two-way six-lane expressway. It is an integral part of the highway network planning in Chengdu's integrated traffic and transportation system. It starts from Shuangliu District and passes through various districts in Chengdu including Shuangliu, Xinjin, Chongzhou, Wenjiang, Pixian, Xindu and Pengzhou, and then connects with the eastern section of the Chengdu Second Ring Expressway.

The concession period of the Second Ring (Western) Expressway commenced on 16 February 2016 and will expire on 11 January 2046.

The table below summarises the major financial information of Target Company for the year ended 31 December 2019 ("**FY2019**"), FY2020 and FY2021 and for the nine months ended 30 September 2021 and 2022 ("**9M2021**" and "**9M2022**", respectively) extracted from the accountants' report of the Target Company as shown in Appendix II of the Circular:

RMB' million	**FY2019**	**FY2020**	**FY2021**	**9M2021**	**9M2022**
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Revenue	689	665	814	620	515
Cost of sales	(348)	(419)	(351)	(260)	(225)
Gross profit	341	246	463	360	290
Gross profit margin	*49.5%*	*37.0%*	*56.9%*	*58.1%*	*56.3%*
Finance costs	(652)	(642)	(638)	(476)	(471)
Net loss after tax	(197)	(270)	(79)	(47)	(92)
Adjusted EBITDA *(Note)*	527	511	697	539	439

Note: Adjusted EBITDA refers to earnings before interest expenses, income tax, depreciation and amortisation and excluding the interest income from related parties.

The revenue of Target Company decreased by approximately 3.5% from approximately RMB689 million in FY2019 to approximately RMB665 million in FY2020. The reduction in revenue is mainly due to (i) the decrease in traffic volume caused by the imposition of travel restrictions within the PRC in 2020 in response to the outbreak of COVID-19 pandemic; and (ii) the toll-free policy for all vehicles implemented by the Ministry of Transport from 17 February 2020 to 5 May 2020. The gross profit of the Target Company decreased from approximately RMB341 million for FY2019 to approximately RMB246 million for FY2020, representing a decrease of approximately 27.9%. The decrease in gross profit was mainly due to the reduction in revenue as discussed above and the increase in cost of sales. The loss after tax of the Target Company was approximately RMB197 million and RMB270 million for FY2019 and FY2020, respectively, representing an increase of approximately 37.1%. Such increase was mainly attributable to the decrease in gross profit while the administrative expenses and finance costs remained relatively stable as compared to that for FY2019.

The revenue of Target Company increased by approximately 22.4% from approximately RMB665 million in FY2020 to approximately RMB814 million in FY2021. In line with the growth in revenue, the gross profit of the Target Company also increased by approximately 88.2% from approximately RMB246 million in FY2020 to approximately RMB463 million in FY2021. We understand from the management of the Target Company that such improvement is mainly attributable to (i) the rebound of traffic volume due to the gradual relaxation of travel restrictions within the PRC in 2021; and (ii) the resumption of toll collection after the termination of the toll-free policy implemented by the Ministry of Transport in 2020. The loss after tax of the Target Company reduced from approximately RMB270 million in FY2020 to approximately RMB79 million in FY2021, representing a decrease of approximately 70.7%. The reduction in loss was mainly attributable to the improvement in gross profit which was partially offset by the increase in administrative expenses by 6.8% as compared to that for FY2020.

During 9M2022, the Target Company recorded revenue of approximately RMB515 million, representing a decrease of approximately 16.9% as compared to that of 9M2021. Such decrease was mainly attributable to the decrease in traffic volume which was caused by the imposition of travel restrictions within the PRC during 9M2022 in response to the resurgence of COVID-19 pandemic. The gross profit of the Target Company decreased from approximately RMB360 million in 9M2021 to approximately RMB290 million during 9M2022. The loss after tax increased by approximately 95.7% from approximately RMB47 million in 9M2021 to approximately RMB92 million in 9M2022.

During FY2021 and 9M2022, the finance costs of the Target Company amounted to approximately RMB638 million and RMB471 million, respectively, representing approximately 78.4% and 91.5% of the total revenue for the respective year/period. The heavy burden of finance costs led to loss-making performance in FY2021 and 9M2022. We calculated the adjusted EBITDA (as defined above) of the Target Company, which was approximately RMB697 million and RMB439 million for FY2021 and 9M2022, respectively and demonstrated that the ordinary operation of Target Company is able to generate positive earnings for paying its interest expenses.

The table below summarises the consolidated financial position of the Target Company as at 30 September 2022 extracted from the accountants' report of the Target Company as shown in Appendix II of the Circular.

	As at 30 September 2022 *RMB' million* (audited)
Non-current assets	
Property, plant and equipment	88
Service concession arrangement	13,455
Due from the ultimate holding company	2,200
Deferred tax assets	64
	15,807
Current assets	
Prepayments, other receivables and other assets	21
Due from the ultimate holding company	185
Due from the parent company	300
Cash and cash equivalents	37
	543
Total assets	**16,350**
Non-current liabilities	
Interest-bearing bank and other borrowings	12,186
Deferred income	72
	12,258
Current liabilities	
Other payables and accruals	577
Due to the ultimate holding company	104
Interest-bearing bank and other borrowings	470
	1,151
Total liabilities	**13,409**
Net current liabilities	**608**
Net assets	**2,941**
Total interest-bearing bank and other borrowings	**12,656**
Gearing ratio (total interest-bearing bank and other borrowings/total assets)	**77.4%**

The total assets of the Target Company mainly included service concession arrangement amounted to approximately RMB13,455 million as at 30 September 2022, representing approximately 82.3% of total assets of the Target Company.

As at 30 September 2022, the interest-bearing bank and other borrowings of the Target Company amounted to approximately RMB12,656 million, representing approximately 94.4% of the total liabilities of the Target Company. The Target Company maintained net current liabilities of approximately RMB608 million and net asset position of approximately RMB2,941 million as at 30 September 2022.

Pursuant to the Equity Transfer Agreement, it is one of the completion arrangement that Shudao Expressway and Shudao Investment shall repay their respective Related Party Loans and the outstanding interests and Shudao Investment shall return the Target Company's funds in Shudao Investment's cash pool account (i.e. the amount due from the ultimate holding company and the amount due from parent company) in full prior to the Completion Date. As at 30 September 2022, the Related Party Loans and the outstanding interests were, in aggregate, approximately RMB2,503 million, while the Target Company's funds in Shudao Investment's cash pool account was approximately RMB182 million. After the full settlement of the Related Party Loans and the outstanding interests and the refund of the Target Company's funds in Shudao Investment's cash pool account, the Target Company's cash and cash equivalents will be increased by approximately RMB2,685 million, thus, the net current liabilities of the Target Company amounted to approximately RMB608 million will be turned around to net current assets of approximately RMB1,592 million. As advised by the management of the Company, the available cash will be used for repayment of borrowings.

3. Background information of Shudao Expressway, SRB Group and Shudao Investment

Shudao Expressway

Shudao Expressway is a limited liability company established in the PRC and is mainly engaged in the highway management and maintenance, roadbed and road maintenance and on-road cargo transportation. Shudao Expressway is a wholly-owned subsidiary of Shudao Investment.

SRB Group

SRB Group is a limited liability company established in the PRC and is mainly engaged in the contracting, investigation, design, supervision and technical consultation of construction projects such as highway and bridge engineering, railway engineering, port and airway engineering, hydraulic and hydropower engineering, electric power engineering, municipal and utility engineering; project development and investment, project management, real estate development and operation, among other businesses. As at the Latest Practicable Date, SRB Group is a wholly-owned subsidiary of Sichuan Road & Bridge Co., Ltd., and Sichuan Road & Bridge Co., Ltd. is a subsidiary of Shudao Investment.

Shudao Investment

Shudao Investment is a wholly-owned subsidiary of Sichuan Development Holding Co., Ltd., and Sichuan Development Holding Co., Ltd. is wholly-owned by the People's Government of Sichuan Province. Its business covers highway management and maintenance; construction engineering survey; construction engineering design; construction engineering supervision; various engineering construction activities, etc.

4. Economic and industry development of Sichuan Province

The Second Ring (Western) Expressway is a part of the Chengdu Second Ring Expressway located within Chengdu, Sichuan Province. The Second Ring (Western) Expressway starts from Yongxing Town, Shuangliu District and end in Mengyang Town, Pengzhou City, connecting to the eastern section of Chengdu Second Ring Expressway. The Second Ring (Western) Expressway is an integral part of the transportation network of Chengdu, which passes through six out of 12 metropolitan area in Chengdu.

The table below sets out the annual growth rate of the real gross domestic product ("**Real GDP**") and urbanisation rate from 2016 to 2022 of the PRC, Sichuan Province and Chengdu:

	2016	2017	2018	2019	2020	2021	2022
Real GDP Growth Rate							
– PRC	8.4%	11.5%	10.5%	7.3%	2.7%	13.4%	5.3%
– Sichuan Province	9.2%	14.4%	13.2%	8.1%	4.6%	11.5%	4.9%
– Chengdu	11.4%	17.3%	12.7%	8.4%	4.1%	12.4%	4.5%
Urbanisation Rate *(Note 1)*							
– PRC	58.8%	60.2%	61.5%	62.7%	63.9%	64.7%	N/A *(Note 2)*
– Sichuan Province	50.0%	51.8%	53.5%	55.4%	56.7%	57.8%	N/A *(Note 2)*
– Chengdu	74.0%	75.3%	76.6%	78.0%	78.8%	79.5%	N/A *(Note 2)*

Source: National Bureau of Statistics of China, Sichuan Provincial Bureau of Statistics and Chengdu Bureau of Statistics

Notes:

1. Urbanisation rate represents the percentage of urban population to total population.

2. N/A refers to the relevant information not available.

Chengdu-Chongqing economic circle, being one of the four major economic circles recognised by the PRC government, Chengdu plays a vital role in the development of national transportation network and implementation of the "Belt and Road" initiative of the PRC government. Chengdu is a logistics and railway transportation hub in south western China and also has a well-developed highway network. Chengdu Tianfu International Airport, the second airport in Chengdu, commenced operation since June 2021, which also makes Chengdu being the only city in western China that has two airports.

According to the statistics from the National Bureau of Statistics of China, Sichuan Provincial Bureau of Statistics and Chengdu Bureau of Statistics, the Real GDP in the PRC has been increasing at a CAGR of approximately 8.4% between 2016 to 2022, while the Real GDP in Sichuan Province and Chengdu have been increasing at CAGR of approximately 9.4% and 10.0% between 2016 to 2022, respectively, exceeding the national growth rate, in the same period. Sichuan Province is ranked sixth in term of Real GDP in the PRC in 2022. Chengdu being the capital city of Sichuan Province recorded a Real GDP of approximately RMB2,082 billion in 2022 which was the highest among all the cities in Sichuan Province. Chengdu ranked seventh in the country in PRC by GDP in 2022.

The urbanisation rate of the PRC has been increasing at CAGR of approximately 2.4% between 2016 to 2021 while the urbanisation rate of Sichuan Province has been increasing at CAGR of approximately 3.4% between 2016 to 2021. Chengdu, being the capital city of Sichuan Province, its urbanisation rate reached 79.5% in 2021 which was higher than national rate and Sichuan Province. By the end of 2021, Chengdu's population reached 21.2 million.

In January 2022, Department of Transportation of Sichuan Province and Development and Reform Commission of Sichuan Province published Sichuan Provincial Expressway Network Layout Planning (2022–2035) (《四川省高速公路網佈局規劃(2022－2035 年)》), in which expressway network of Sichuan Province will be covered by 20 Chengdu radial lines, 13 vertical lines, 13 horizontal lines, four circular lines and 44 contact lines in 2035 (the "**Expressway Network Plan**"). The Expressway Network Plan will have a total length of approximately 20,000 kilometers which has increased by 3,900 kilometers as compared to the previous expressway network plan initiated in 2019. Among the Expressway Network Plan, approximately 8,608 kilometers of expressways have been constructed, including the Second Ring (Western) Expressway being one of the four circular lines in Sichuan Province, and approximately 3,009 kilometers are in the construction progress.

Taking into account of Chengdu's strong economic development in the past years and the strong initiatives in expanding and upgrading the transportation network by the Sichuan Government, we concur with the Directors that the prospect of Chengdu remains positive and it is beneficial for the Group to further expand its market share in Chengdu.

5. Reasons for and benefits of entering into the Equity Transfer Agreement

In-line with development strategy of the Group

As disclosed in the 2022 Interim Report, the Company's business development plan is to deepen the operation of expressways and expand the economy along the lines (including service areas, gas stations, urban and rural infrastructure, multimodal transport, etc.), actively explore various investment methods such as capacity expansion and reconstruction of existing expressways, acquisition of toll collection right of expressway projects with an objective to expand and strengthen the core main business of expressways. The Company has also restructured its business by disposal of non-core businesses (including leasing business operated by Chengyu Financial Leasing Company Limited, engineering construction business operated by Sichuan Transportation Construction Group Co., Ltd. and the real estate development and management business operated by Renshou Landmark) in the recent year in order to improve its efficiency of resources utilisation.

As set out in the 2022 Interim Report, the Group's expressway network includes seven expressways, covering a total network mileage of approximately 744 kilometers. After the Completion, the total network mileage will increase to approximately 858 kilometers, in which the Second Ring (Western) Expressway connected to three expressways of the Group, Chengya Expressway, Chengle Expressway and Chengren Expressway (collectively the "**Connected Expressways**"), providing a total mileage of approximately 452 kilometers, connecting Ya'an City, Leshan City and Renshou City. The connection of the Second Ring (Western) Expressway with the Connected Expressways will increase the market share and competitive strength of the Company in Sichuan Province. Moreover, as disclosed in the 2022 Interim Report, the average daily traffic flow of Connected Expressways was relatively high among the Group's expressways. Furthermore, Second Ring (Western) Expressway and the Connected Expressways will form a hub and interchange which will enhance the efficiency of the Company in coordinating and responding to road emergencies and improve the road access service capacity. It is beneficial for the Group to further expand its expressway mileage by acquiring the neighboring expressway of the Connected Expressways.

On the other hand, the toll collection rights of four out of seven self-owned expressways of the Company, being Chengbei Exit Expressway, Chengya Expressway, Chengle Expressway and Chengyu Expressway will be expired between 2024 and 2029. In any event that the toll collection rights of these four expressways cannot be renewed, it will affect the Company's profitability and operating result. We noted that the toll collection right of Chengle Expressway and Chengya Expressway, being two of the Connected Expressways will be expired in 2029. Based on the 2022 Interim Report, Chengle Expressway is currently undergoing an expansion project. As disclosed in the announcement of the Company dated 2 August 2021, a new toll collection right will be granted upon the completion of the expansion project, subject to the approval of relevant authorities. Under the Expressway Network Plan, Chengya Expressway has planned to expand. As advised by the management of the Company, the Company is actively striving for the participation of the expansion project and the Company being the original investor and the owner of the toll collection right of Chengya Expressway will have a higher chance to participate in the expansion project and a new toll collection right will be granted upon completion, subject to the approval of the relevant authorities. The toll collection rights of Chengbei Exit Expressway and Chengyu Expressway will be expired in 2024 and 2027, respectively. Moreover, the revenue generated from the Second Ring (Western) Expressway was approximately RMB814 million in FY2021, which is close to the aggregate revenue generated from Chengbei Exit Expressway and Chengyu Expressway amounted to approximately RMB877 million for FY2021. Given the historical toll revenue of the Second Ring (Western) Expressway together with the toll collection right to be expired in 2046, the Acquisition not only strengthens the Company's expressway portfolio but also prolong the revenue streams and enhance the long-term operation of the Group.

Positive market outlook with Government initiatives

According to the Sichuan Provincial Strategy and the "Fourteenth Five-Year" Plan on Comprehensive Traffic Transport Development of Sichuan Province (《四川省「十四五」綜合交通運輸發展規劃》), Sichuan Government planned to invest approximately RMB1,200 billion in the construction of the integrated transportation facilities, in which RMB700 billion will be used for highway and waterway. It is expected that the total mileage of high-speed expressways will increase from approximately 8,140 kilometers in 2020 to approximately 11,000 kilometers in 2025. The Sichuan Government will continue to accelerate the construction of expressways and further strengthen the interconnection of the expressways within the Sichuan Province, in order to establish the expressways connection of 152 counties, cities and districts of Sichuan Province. In a long term prospective, as discussed in the section headed "4. Economic and industry development of Sichuan Province", the Department of Transportation of Sichuan Province and Development and Reform Commission of Sichuan Province have initiated the Expressway Network Plan which the total length of expressway network of Sichuan Province is planned to reach approximately 20,000 kilometers in 2035.

Given the provincial plan and the continuous improvement of the expressway facilities, the Directors are optimistic of the prospect of the toll road infrastructure in Sichuan Province and the traffic volume is expected to further increase.

Cost-effective and time-saving approach to expand the expressway network

We discussed and understood from the management of the Company that construction of expressway is a lengthy process including but not limited to preliminary researching traffic flow, conducting feasibility study, obtaining various governmental approval, acquiring land, demolishing buildings, relocating local residents, recruiting construction companies, etc. The existing expressways have completed their construction and in operation only required regular repair and maintenance, and have established their stable traffic flow. As compared with acquiring an existing expressway, building a new expressway is relatively more time-consuming and administratively burdensome. Therefore, the Directors regard that investing in the Second Ring (Western) Expressway is a desirable way to enrich the Company's expressway profile.

Continuing improvement in the financial result of the Target Company

As discussed in the section headed "2. Background information of the Target Company", the heavy burden of finance costs led to loss-making performance of the Target Company during FY2019, FY2020, FY2021 and 9M2022.

Based on the Traffic Study Report, the toll revenue of the Target Company is expected to grow at CAGR of approximately 6.4% from 2023 to 2045. From a long run perspective, the Directors are of the view that the Target Company's financial performance could be turned around from 2023 onwards based on the following major assumptions:

1. toll revenue (included value-added tax) will increase from approximately RMB900 million in 2023 to approximately RMB3,517 million in 2045, based on the estimated toll revenue shown in the Traffic Study Report; and

2. finance costs will decrease due to the gradual repayment of bank and other borrowings according to the repayment terms of the loans.

Although the Target Company is currently making loss, we understand that (i) the Second Ring (Western) Expressway is an integral part of the highway network planning in Sichuan Province and Chengdu's integrated traffic and transportation system; (ii) the Acquisition is in-line with the business strategy of the Group to focus on its principal business and complement the Company's expressway portfolio in Sichuan Province; and (iii) the Second Ring (Western) Expressway has been well-established and the Acquisition is more cost-effective and time-saving to enrich the Company's expressways portfolio as compared to constructing an expressway by the Company. Having considered the above, we concur with the Directors that there is a commercial justification for the Company to enter into the Equity Transfer Agreement.

6. Principal terms of the Equity Transfer Agreement

Major terms of the Equity Transfer Agreement are summarised as below:

Date: 17 February 2023

Parties:

1. the Company (as the purchaser);

2. Shudao Expressway and SRB Group (jointly as the vendors); and

3. Shudao Expressway and Shudao Investment (jointly as the performance guarantor of the Target Company).

Subject Matter:

The Company conditionally agreed to purchase, and Shudao Expressway and SRB Group conditionally agreed to sell, the Target Equity Interest (being 81% and 19% equity interest in the Target Company held by Shudao Expressway and SRB Group, respectively).

Consideration and basis of determination:

The Consideration of the Acquisition is RMB5,903 million.

The Consideration was determined after arm's length negotiations between the Company and Shudao Expressway and SRB Group with reference to the market value of RMB5,903 million of the Target Equity Interest as at the Valuation Benchmark Date as appraised by the PRC Valuer.

The Consideration will be funded through the Group's internal resources and/or debt financing.

Payment terms:

The Company shall pay in cash to the designated banks of Shudao Expressway and SRB Group as follows:

First installment: Within five working days after the Equity Transfer Agreement comes into effect, the Company shall pay no less than 50% of the Consideration to Shudao Expressway and SRB Group;

Second installment: Within one month from the Completion Date, the Company shall pay the remaining Consideration and interest thereto to Shudao Expressway and SRB Group, where the interest shall be the remaining Consideration x (LPR/365) x (the number of days between the date of payment of the remaining Consideration and the date of payment of the first installment of the Consideration).

Transitional Period Arrangement:

The profit or loss of the Target Company during the Transitional Period shall be treated in accordance with the following principles:

1. normal operating profit or loss shall be borne and enjoyed by the Company; and

2. non-normal profit or loss (including but not limited to profit or loss arising from various events or acts affecting the profitability or value of the Target Company such as theft, loss or man-made damage of assets, provided that the non-normal profit or loss is not attributable to the performance of bona fide management obligations by Shudao Expressway and SRB Group) shall be borne by Shudao Expressway and SRB Group.

Given that (i) the Consideration has considered the financial performance of the Target Company for the Transitional Period; (ii) based on the management account of the Target Company for the fourth quarter of 2022, the financial result for the fourth quarter of 2022 is close to the forecast result adopted in the Valuation; and (iii) Shudao Expressway and Shudao Investment are subject to a performance commitment for the year ending 31 December 2023, we considered that the aforesaid transitional period arrangement is reasonable.

Profit guarantee:

From 1 January 2023 to 31 December 2029 (the "**Guarantee Period**"), Shudao Expressway and Shudao Investment are subject to a performance commitment in respect of the net profit of the Target Company, and if the actual realised net profits do not reach the valuation projection underlying the valuation, performance compensation shall be made to the Company in cash. The detailed calculation basis of the profit guarantee can be referred to the Letter from the Board.

Taking into account (i) provision of profit guarantee by Shudao Expressway and Shudao Investment for the Guarantee Period demonstrated their confidence in the Target Company's performance in the near future; (ii) the Company would be able to secure a cash compensation from Shudao Expressway and Shudao Investment if the profit guarantee cannot be achieved; and (iii) in the event that the Target Company makes a profit less than the profit guarantee or even record a loss during the Guarantee Period, the committed cash compensation would protect the Group from incurring a loss from the Acquisition, we concur with the Directors that the profit guarantee serves as an additional favourable term of the Acquisition to the Company and the Shareholders as a whole.

Completion arrangement:

1. On the first business day after the payment of the first installment of the Consideration by the Company to Shudao Expressway and SRB Group, the Target Company shall prepare a list of its properties and information to facilitate the completion of the Equity Transfer Agreement. The contents contained in the aforesaid list shall have been verified and signed by the Company, Shudao Expressway, SRB Group and the Target Company, and the board of directors of the Target Company shall determine that the Company shall be registered in the register of shareholders of the Target Company; and

2. As conditions precedent to completion of the Acquisition, after the Equity Transfer Agreement comes into effect and prior to the Completion Date, (i) Shudao Expressway and Shudao Investment shall repay their respective outstanding principal and interest of the Related Party Loans to the Target Company in full; and (ii) Shudao Investment shall return all of the Target Company's funds in group cash pool account to the Target Company.

Each of the Shudao Expressway and Shudao Investment has entered into an agreement with the Target Company to specify the repayment details of the Related Party Loans, pursuant to which, Shudao Expressway and Shudao Investment agreed to repay their respective outstanding principal and interest of the Related Party Loans to the Target Company in full by no later than 16 June 2023 and 30 June 2023, respectively.

For further details of the terms of the Equity Transfer Agreement, please refer to the Letter from the Board.

7. Traffic Study Report

Chelbi Engineering (the "**Traffic Study Expert**") has been engaged by the Company to conduct an independent research on the traffic volume and toll revenue of the Second Ring (Western) Expressway for the period from October 2022 to January 2046. As advised by the management of the Company, the estimated toll revenue for the period from October 2022 to January 2046 in the Traffic Study Report has been used in the Valuation.

Competence of the Traffic Study Expert

In order to assess the expertise and independence of the Traffic Study Expert, we have (i) reviewed the engagement letter between the Traffic Study Expert and the Company for the engagement of the traffic study of the Second Ring (Western) Expressway; (ii) conducted a phone interview with the core team members of the Traffic Study Expert to understand its experience, its relationship with the Company and the projection methodology; and (iii) discussed with the Traffic Study Expert about its previous experiences on traffic consulting projects.

We understand that (a) the Traffic Study Expert is an experienced consultant in the traffic study for the PRC's infrastructure and has been participated in acquisition of expressway projects of companies listed in Hong Kong, Shenzhen and Shanghai; (b) the Traffic Study Expert has confirmed that it is an independent third party of the Company, Shudao Expressway and SRB Group, and their connected persons; and (c) the scope of work of their engagement is appropriate and suitable for the preparation of the Traffic Study Report. As such, we are not aware of any matters that could cause us to have doubts on the expertise and independence of the Traffic Study Expert.

Methodologies and assumptions

We have reviewed and discussed with the Traffic Study Expert about the Traffic Study Report on the bases, assumptions and methodologies adopted to estimate the traffic volume and toll revenue of the Second Ring (Western) Expressway for the period from October 2022 to January 2046. We note that the Traffic Study Expert has (i) collected economic data of Sichuan Province and Chengdu and researched the future development plan in Sichuan Province and Chengdu; (ii) obtained historical traffic data (for example, traffic volume, types of vehicles, toll revenue) of the Second Ring (Western) Expressway; (iii) analysed the data in (i) and (ii) above; and (iv) built a traffic model to estimate the traffic volume and toll revenue of the Second Ring (Western) Expressway.

In estimating the traffic volume and toll revenue of the Second Ring (Western) Expressway, we noted that the Traffic Study Expert has considered (i) the existing travel patterns; (ii) the historical traffic data for the period from February 2016 to September 2022 for the Second Ring (Western) Expressway; (iii) the toll fare of each type of vehicle is based on the official toll fare issued by the Sichuan Government on 23 September 2021; and (iv) the future development of the surrounding transportation network. In addition, we understand from the Traffic Study Expert that they have also considered the potential competition factors in relation to the transportation network surrounding the Second Ring (Western) Expressway and the government toll policies in the traffic projection of the Second Ring (Western) Expressway. As stated in the Traffic Study Report, the Traffic Study Expert adopted the "four-stage method" in estimating the traffic volume and toll revenue. We further noted that the traffic volume of Second Ring (Western) Expressway decreased from approximately 8.2 million during 9M2021 to approximately 6.4 million during 9M2022, representing a decrease of approximately 22.0%, due to the implementation of COVID-19 pandemic control measures in different area of Sichuan Province. Especially during September 2022, the traffic volume decreased by approximately 55.9% as compared to that for September 2021 due to the travel restrictions and lockdown measures in relation to COVID-19 pandemic in Chengdu. The Traffic Study Expert is of the view that the traffic data for 9M2022 was distorted due to a series of COVID-19 pandemic control measures, resulting to a dramatic reduction in traffic volume and such data was not suitable for the estimation of the future traffic volume. Thus, the Traffic Study Expert has taken the traffic data for FY2021 as the base year for the estimation of traffic volume and toll revenue for 2023 to 2046. Based on the above, we concur with the Traffic Study Expert's basis and assumptions for the estimation of traffic volume of Second Ring (Western) Expressway.

On this basis, nothing has come to our attention that will cause us to doubt the reasonableness of the Traffic Study Report prepared by the Traffic Study Expert. The Traffic Study Expert has advised that the underlying assumptions and the forecast procedures adopted in the Traffic Study Report are commonly used in its previous relevant traffic projects in the PRC. We reviewed the following acquisition of expressway transactions conducted by other listed entities in Hong Kong:

Date of Relevant Circular	**Company Name (Stock Code)**
2 November 2022	Yuexiu Transport Infrastructure Limited (1052)
30 November 2021	Anhui Expressway Company Limited (995)
7 December 2020	Zhejiang Expressway Co., Ltd. (576)
26 June 2020	Qilu Expressway Company Limited (1576)
29 November 2019	Chengdu Expressway Co., Ltd.(1785)
17 October 2019	Yuexiu Transport Infrastructure Limited (1052)
15 January 2019	Zhejiang Expressway Co., Ltd. (576)

We noted that their traffic expert used similar basis, assumptions and valuation methodology in estimating the traffic volume and toll revenue of the expressways. Having considered that (i) the toll revenue of the Target Company increased at a CAGR of approximately 11.0% from 2019 to 2021; (ii) our understanding in respect of the basis and assumptions for the estimation of traffic volume of Second Ring (Western) Expressway adopted by the Traffic Study Expert; and (iii) the basis, assumptions and valuation methodology adopted by the Traffic Study Expert are similar to the market, we agreed with the Traffic Study Expert's professional judgement regarding the basis and assumptions for the estimation of traffic volume of Second Ring (Western) Expressway as well as the basis of the growth rate of the toll revenue adopted.

Based on our phone interview with the Traffic Study Expert and our review of Traffic Study Report, we have not identified any major issues that would cause us to doubt the fairness and reasonableness of the bases, assumptions and methodologies applied in the Traffic Study Report. As such, we are of the opinion that the Traffic Study Report provides a fair and reasonable basis for the estimation of toll revenue in the Valuation.

8. Valuation Report

The PRC Valuer been jointly engaged by the Company, Shudao Expressway and SRB Group to assess the Target Equity Interest (details of which are set out in the Appendix V to the Circular). According to the Valuation Report, the Target Equity Interest as at 30 September 2022 estimated by the PRC Valuer was RMB5,903 million.

Competence of the PRC Valuer

We have reviewed and enquired the qualification and experience of the PRC Valuer. We have (i) reviewed their respective engagement letter (including their scope of work); (ii) conducted a phone interview to understand the qualification of the PRC Valuer including its previous experience in conducting business valuation, as well as the valuation methodology; (iii) enquired the current or previous working relationship between the PRC Valuer, the Company, Shudao Expressway, SRB Group and their respective connected persons. We understood that the PRC Valuer is a valuation firm established in the PRC with solid experience in conducting business valuation. They have participated in other valuation projects of companies listed in Hong Kong and the PRC. The PRC Valuer is a qualified valuer under State-owned Assets Supervision and Administration Commission of the State Council. We also confirmed with the PRC Valuer that they are independent third parties of the Company, Shudao Expressway, SRB Group and their respective connected persons. Moreover, we have reviewed their engagement letter and noted that the scope of work for the Valuation is suitable for the Acquisition. Furthermore, the Valuation of the Acquisition is led by Mr. Li Qineng and Ms. Zuo Tao who possess over 20 years and 15 years of experience in the valuation sector, respectively. The team members are also qualified valuer with relevant experience in conducting valuation for toll road projects.

Therefore, we considered that the PRC Valuer is qualified and possesses relevant experience in performing the Valuation.

Methodologies and assumptions

We understood that the PRC Valuer has considered three generally adopted valuation approaches, which are income approach, market approach and cost approach (asset-based approach) in performing the Valuation. As advised by the PRC Valuer, they have adopted the income approach and cost approach (asset-based approach) in performing the Valuation in order to comply with the "Notice on Issues related to Strengthening the Evaluation and Management of State-owned Assets of Enterprises" (《關於加強企業國有資產評估管理工作有關問題的通知》) (the "**Notice**") published by State-owned Assets Supervision and Administration Commission of the State Council, which stated that two methods should be used in evaluating the value of the state-owned enterprises and one of the results should be used as the conclusion after comprehensive analysis. In analysing the result of the income approach and cost approach (asset-based approach), the PRC Valuer takes into account the "Measures for the Transfer of Rights and Interests in Toll Roads" (《收費公路權益轉讓辦法》) (the "**Measures**") published in 2008 by Ministry of Transport of the PRC, State-owned Assets Supervision and Administration Commission of the State Council and Ministry of Finance of the PRC, which stated that income approach should be adopted in evaluating the value of toll collection rights. In view of the abovementioned regulatory requirements, the PRC Valuer adopted the income approach for the Valuation.

We discussed with the PRC Valuer about the market approach and the cost approach. The PRC Valuer advised that there are limited appropriate market transactions which are either similar or comparable to the Target Company and each of these comparable transactions has their own location characteristics, traffic characteristics, concession terms, operating environment, cost structure and ongoing maintenance schedule. The cost approach, which is a method of replacing the historical costs of the assets and liabilities shown in the statements of the financial position of the Target Company, primarily involves the assessment of assets and liabilities to appraise the business value of the valuation subject. However, the cost approach does not take into consideration of traffic demand, traffic volume, toll revenue and future development of expressway. Having considered the limitations of market approach and cost approach, the PRC Valuer is of the view that the market approach and cost approach may not result in a fair estimate of the business value of the Target Company. Regarding the income approach, it is commonly adopted in the business valuation for valuation subject with supportable operating profit and cash flow forecast such as expressway company. Based on our discussion with the PRC Valuer that the Valuation is derived from the discounted cash flow forecast for the period between October 2022 and January 2046. With reference to the comfort letters included in Appendix VII and VIII in this Circular, we understand that Ernst & Young checked the arithmetical accuracy of the calculations of the discounted cash flow forecast while Lego confirmed that the cash flow forecast have been prepared by the Directors after due and careful enquiry, who are solely responsible for the cash flow forecast.

Given that (i) the profit and cash flow forecast of the Target Company are made reference with the audited financial result for FY2021 and 9M2022, reflecting the recent cost structure of the Target Company; (ii) the discounted cash flow forecast has been reviewed by Ernst & Young; (iii) the future cash flow forecast underlying the Valuation has been reviewed by Lego; and (iv) the estimated toll revenue of the Target Company is supported by the Traffic Study Report, the PRC Valuer considered that income approach is the most appropriate methodology for the business valuation of the Target Company.

We have reviewed and discussed with the PRC Valuer in respect of the major assumptions applied in the Valuation. Since the Second Ring (Western) Expressway has been approved with a toll collection right of 29 years and 330 days toll collection rights until January 2046, the profit and cash flow forecast of the Target Company underlying the Valuation have been built under an important assumption that the approved toll collection right is effective up to January 2046 without further extension. Based on our discussion with the PRC Valuer and our review of the profit and cash flow forecast of the Target Company for the period between October 2022 and January 2046, we understand that (i) the projected annual revenue of the Target Company is directly derived from the annual toll revenue estimated by the Traffic Study Expert; (ii) the projected operating cost of the Target Company is primarily based on the historical costs and the current accounting policies of the Target Company; (iii) the projected capital expenditure considered two large-scale maintenance and repair projects to be conducted during the two years ending 31 December 2029 and 2040; and (iv) the projected working capital is mainly made reference to the historical working capital for maintaining the operation of the Target Company. Regarding the above assumptions used in the profit and cash flow forecast, we (i) have cross-checked and compared the forecasted toll revenue (excluding 3% value-added tax) used in the Valuation and the Traffic Study Report; (ii) compared the projected operating cost against the historical operating cost for FY2021 and 9M2022; (iii) reviewed the estimation basis of the capital expenditure; and (iv) discussed with the management of the Company for the future development of the Target Company and the relevant financial impact to the profit and working capital forecast. Based on our review of the Valuation, we noted that (i) the toll revenue used in the Valuation has no difference with those in the Traffic Study Report; (ii) the growth rate of operating cost has made reference to the average PRC CPI of 2% for the years from 2012 to 2021; and (iii) the estimated capital expenditure is based on the maintenance cost control notice provided by Shudao Investment to all of its subsidiaries in relation to the large maintenance project of expressways.

For the forecast period from October 2022 to January 2046, the average discount rate is approximately 9.3% which is derived by the PRC Valuer through the Capital Asset Pricing Model (the "**CAPM Model**"), by utilising on risk-free rate of return in the PRC, market risk premium and company specific risk premium. In arriving at the beta being adopted in the CAPM Model, the PRC Valuer adopted eight companies which are primarily engaged in toll road operation in the PRC and listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. We have further reviewed the background of these comparable companies and noted that the core businesses of these comparable companies are in same industry as the Target Company; and 50% or more of revenue is derived from expressway operation in the PRC, we are of the view that these comparable companies are fair and representative samples. The unleveraged beta derived from the said comparables has been further adjusted to derive the leverage beta based on the debt level of the Target Company at the end of each year during the forecast period.

On the other hand, the PRC Valuer advised that the general assumptions used in the Valuation including but not limited to no material change in the existing political, economic, social, legal, tax conditions where the business is currently in operation are common assumptions adopted in various business valuation projects.

Taking into account (i) the PRC Valuer is independent from the Company and has relevant experience in conducting the valuation similar to that of the Target Company; (ii) adoption of income approach is in line with the requirements of the Measures; (iii) the reasonableness of the bases and assumptions adopted in the Valuation; (iv) the key assumptions adopted in the forecast from October 2022 to January 2046 of the Target Company are fair and reasonable; (v) the assumptions adopted in the Valuation has been reviewed and agreed by the Directors; (vi) the discounted cash flow forecast of the Target Company has been reviewed by Ernst and Young; and (vii) the future cash flow forecast of the Target Company underlying the Valuation has been reviewed by Lego, we considered that the valuation methodologies adopted by the PRC Valuer behind the Consideration is fair and reasonable.

9. Financial effect of the Acquisition

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company, the financial results of the Target Company will be consolidated in the Group's financial statements.

Net asset value

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV of the Circular, the Company and the Target Company are ultimately controlled by the same controlling shareholder of the Company, thus, the Acquisition is a business combination under common control. The Acquisition is accounted for based on the principles of merger accounting as if the Acquisition had occurred on the date when the Target Company first came under the control of the controlling shareholder. Accordingly, the assets and liabilities of the Target Company acquired in the Acquisition are stated at their carrying amounts as if such assets and liabilities had been held or incurred by the Group from the later of the date of the relevant transactions giving rise to such assets or liabilities and the date on which the Target Company first came under the control of the controlling shareholder.

Under the principles of merger accounting, a merger deficit, which represents the difference between the Consideration and the net asset value of the Target Company, is recorded.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV of the Circular, the net asset value of the Group as at 30 June 2022 amounted to approximately RMB18,580 million will be decreased to approximately RMB15,617 million upon Completion for the Enlarged Group, resulting from the recognition of the merger deficit of RMB2,963 million.

Earnings

The net profit attributed to the shareholders of the Company for FY2021 amounted to approximately RMB1,871 million. According to the audited financial statement of the Target Company, the Target Company recorded net loss after tax of approximately RMB79 million for FY2021. After the Completion, the result of the Group may be affected by the loss-making performance of the Target Company.

However, having considered the factors as set out in the section headed "5. Reasons for and benefits of entering into the Equity Transfer Agreement", we concur with the Board that the Acquisition will have a positive impact on the earnings of the Enlarged Group in the future, which will benefit the Enlarged Group and the Shareholders as a whole.

Working capital

As set out in the Letter from the Board, the Consideration of RMB5,903 million will be settled by internal resources and/or debt financing.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV of the Circular, the Group intends to finance the Consideration by new loans amounting to RMB2,950 million, new corporate bonds amounting to RMB1,000 million and internal resources amounting RMB1,953 million. The Group's cash and cash equivalent is approximately RMB2,889 million as at 30 June 2022, while the cash and cash equivalent of the Enlarged Group upon Completion will increase to approximately RMB3,657 million. According to the unaudited pro forma financial information of the Enlarged Group, assuming the Consideration is partially financed by new loans of approximately RMB2,950 million, the Group will record net current liabilities of RMB1,189 million as compared to the net current asset of the Group as at 30 June 2022. However, as disclosed in Appendix I of the Circular, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of the Circular, in the absence of unforeseeable circumstances.

It should be noted that the afore-mentioned analyses are for illustrative purpose only and do not purport to represent how the financial results and the financial position of the Group will be upon the Completion.

Opinion and Recommendation

Based on the above analysis, we noted that notwithstanding:

1. the Target Company is heavily indebted with total borrowings of approximately RMB12,656 million and a gearing ratio (as defined above) of approximately 77.4%;

2. the Target Company recorded net loss during FY2019, FY2020, FY2021 and 9M2022;

3. the Consideration is determined from the discounted cash flow forecast of the Target Company for the period from October 2022 to January 2046 based on a series of major assumptions, such as an increase in revenue, a reduction in finance costs and an estimation of discount rate by the PRC Valuer; and

4. the Consideration will be partially financed by new loans of RMB2,950 million and thus the Enlarged Group will record net current liabilities of approximately RMB1,189 million, according to the unaudited pro forma financial information of the Enlarged Group.

However, taking into account the long term benefit of the Group, in particular with the following:

1. the Acquisition is in line with the Group's business strategy to enrich its expressway portfolio and increase its market share in Sichuan Province;

2. the Second Ring (Western) Expressway with the toll collection right up to January 2046 is able to prolong the toll revenue stream of the Group;

3. the Acquisition is time-saving and cost-effective as compared to constructing a new expressway by the Group itself;

4. the toll revenue of the Target Company increased at a CAGR of approximately 11.0% from 2019 to 2021 and is expected to increase at a CAGR of approximately 6.4% from 2023 to 2046;

5. the leverage level and the interest burden of the Target Company are expected to reduce from 2023 onwards, hence the Target Company's financial performance is expected to turn around; and

6. the Target Company's profitability is secured through the profit guarantee arrangement during the Guarantee Period,

we concur with the Directors that the Acquisition is commercially justifiable.

Nevertheless, we are of the opinion that (i) the terms of the Equity Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) the entering into the Equity Transfer Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	**Wong Wai Leung**
Managing Director	*Executive Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions of listed companies in Hong Kong subject to the compliance to the Listing Rules and the Takeovers Code. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the three financial years ended 31 December 2021 and the six months ended 30 June 2022 has been disclosed in the following documents published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (https://www.cygs.com/).

(i) The annual report of the Company for the year ended 31 December 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041601233.pdf

(ii) The annual report of the Company for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0420/2021042000677.pdf

(iii) The annual report of the Company for the year ended 31 December 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0420/2022042000998.pdf

(iv) The interim report of the Company for the six months ended 30 June 2022:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0915/2022091501090.pdf

2. INDEBTEDNESS STATEMENT

As at 31 January 2023, being the latest practicable date of the Enlarged Group for the purpose of this statement of indebtedness, the Group and the Target Company had the following outstanding indebtedness:

(a) Bank Loans, other borrowings and medium term notes

(i) As at 31 January 2023, the Group had total interest-bearing bank loans of approximately RMB19,076,411,000, of which approximately RMB16,065,461,000 were secured and approximately RMB3,010,950,000 were unsecured; and

(ii) As at 31 January 2023, the Group had two tranches of outstanding medium term notes totalling approximately RMB1,290,000,000 issued to domestic institutional investors participating in the PRC interbank debt market; and

(iii) As at 31 January 2023, the Target Company had total interest-bearing bank and other borrowings of approximately RMB12,658,632,000, of which approximately RMB9,104,000,000 were secured and guaranteed and approximately RMB3,554,632,000 were guaranteed.

(b) Contingent Liabilities

As at 31 January 2023, the Group and the Target Company had no material contingent liabilities and guarantees on a group consolidated basis.

(c) Lease Liabilities

(i) As at 31 January 2023, Group had lease liabilities of approximately RMB135,101,000. These lease liabilities were unsecured and unguaranteed; and

(ii) As at 31 January 2023, the Target Company did not have any material lease liabilities.

Save as those disclosed above or elsewhere in this circular and except for the inter-group liabilities during the ordinary course of business and normal trade payables, as at 31 January 2023, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases commitments, guarantees or other contingent liabilities.

3. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Enlarged Group is principally engaged in the investment, construction, operation and management of expressway infrastructure projects, as well as the diversified operations that are highly related to its principal activities.

As disclosed in the 2022 Interim Report of the Group, the net revenue of the Group amounted to approximately RMB4,085,534,000 in the first half of 2022, representing a period-on-period increase of approximately 1.56%. In particular, the net income from the toll roads and bridges segment amounted to approximately RMB1,592,973,000, representing a period-on-period decrease of approximately 11.28%; the net revenue from city operation segment amounted to approximately RMB1,441,119,000, representing a period-on-period increase of approximately 4.75%; the net revenue from financial investment segment amounted to approximately RMB91,273,000, representing a period-on-period decrease of approximately 8.65%; and the net revenue from energy investment segment amounted to approximately RMB960,169,000, representing a period-on-period increase of approximately 27.73%. The profit attributable to the owners of the Company was approximately RMB485,663,000, representing a period-on-period decrease of 27.91%. Basic earnings per Share was approximately RMB0.159 (the same period in 2021: approximately RMB0.220). As of 30 June 2022, the Group had total assets of approximately RMB40,588,072,000 and net assets of approximately RMB18,579,815,000.

Please refer to the section headed "Financial Information on the Target Company" in the Letter from the Board of this circular for the relevant financial information of the Target Company for the two financial years ended 31 December 2021 and the nine months ended 30 September 2022. The accountants' report of the Target Company is also set out in Appendix II to this circular.

Based on the Company's forecast and judgement of the future economic situation, policy environment and development of the industry and the Group's business, the Company has formulated the following work plan with a focus on the basic development idea of "14th Five-Year" Plan, where such plan will continue following the completion of the acquisition of the Target Company by the Group:

1. Focusing on Development Planning and Accumulating Energy in Consensus

Focusing on the development of highway investment, construction and operation and green energy.

Firstly, the Company will continue to deepen the operation of expressways and expand the economy along the lines (service areas, gas stations, urban and rural infrastructure, multimodal transport, etc.), actively explore various investment methods such as capacity expansion and reconstruction of existing road products, acquisition of high quality and completed road products, and continue to expand and strengthen the core main business of expressway. Through business innovation and mode innovation, the Company will lay stress on differentiated competitive advantages, and continue to make efforts around the construction of characteristic service areas, the acquisition of road infrastructure projects, the layout of energy business and the construction of multimodal transport service system. Secondly, the Company will vigorously cultivate green energy industry. Relying on the road network, public places and specific scenes, the Company will comprehensively lay out the business of "charging, battery bank + power exchange and hydrogen energy", expand the upstream and downstream cooperation of the green energy industry chain, research and development and application of deep dive technology, and strive to build an industrial ecosystem that integrates new energy infrastructure with low-carbon transportation, green construction equipment and intelligent construction technology.

2. Focusing on Improving Quality and Efficiency and Developing Steadily in Boosting Operation Efficiency

The Company will focus on the quality and efficiency by exploring mechanism to redirect traffic and improve efficiency of expressway through multi-channel and widely and deeply promoting the reformation of system and mechanism of market. The Company will widen the project channel and enrich the project reserves to strengthen the function of fund for investing in key projects. The Company will improve the operation of import, sales, inventories of oil products to prepare for the golden period promotion and realize the improvement of quality and efficiency. The Company will develop new market business of multi-model united transportation and comprehensively consider reserve project to increase the scale of operation income.

3. Focusing on Strengthening the Management by Increasing Efficiency of Management through Unfolding Internal Potential

The Company will innovate methods of management and control through authorization and decentralization and balance the risk prevention and efficiency improvement. The Company will strengthen financial management by establishing comprehensive budget, strictly controlling cost and expenses and improving the economic efficiency. The Company will complete risk prevention and control system by continuously improving the collaborative and efficient supervising mechanism and ensuring the Company to operate in accordance with the laws and regulations. The Company will regulate project construction management, firmly establish the management thinking and the concept of cost control, strengthen the special supervision, strive to improve the progress of important project, implement the management of issues, and make judgement on special topic.

4. Focusing on Optimizing the Assessment and Motivation through the Sound Incentive and Constraint Mechanism

The Company will strengthen the assessment of performance and allocation of remuneration by improving the incentive and constraint mechanism, amending the system to assess the performance, setting performance target scientifically, improving the details of assessment and bringing the operation performance assessment into full play.

5. Focusing on Safety and Environmental Protection to Develop Steadily while Firmly Holding the Red Line

The Company will work on the normal prevention and control of pandemic by insisting on scientific and precise prevention and control, particularly focusing on the prevention work on expressway, in construction site and office area. The Company values the production safety and environmental protection. The Company will strengthen the inspection of hidden safety issue comprehensively, prevent various incidents with maximum effort, and continue to strengthen the concept of environmental protection in compliance with the system, in order to comply with law on disposal of sewage, soil and slag.

4. WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that, after taking into account the effect of the transactions contemplated under the Equity Transfer Agreement, the Enlarged Group's internal resources, cash flow from operations, facilities and corporate bonds available to the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular, in the absence of unforeseeable circumstances.

5. MATERIAL CHANGE

The Directors confirm that as at the Latest Practicable Date, they were not aware of any material changes in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up, up to and including the Latest Practicable Date.

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SICHUAN RONGCHENG SECOND RING EXPRESSWAY DEVELOPMENT CO., LTD.

Introduction

We report on the historical financial information of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (the "**Target Company**") set out on pages II-4 to II-75, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2019, 2020 and 2021, and the nine months ended 30 September 2022 (the "**Relevant Periods**"), and the statements of financial position of the Target Company as at 31 December 2019, 2020 and 2021 and 30 September 2022, and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-75 forms an integral part of this report, which has been prepared for inclusion in the circular of Sichuan Expressway Company Limited (the "**Company**") dated 10 March 2023 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2019, 2020 and 2021 and 30 September 2022, and of the financial performance and cash flows of the Target Company for the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the nine months ended 30 September 2021 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

No dividends have been paid or declared by the Target Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
10 March 2023

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statements of profit or loss and other comprehensive income

		Year ended 31 December			**Nine months ended 30 September**	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	6	688,708	665,020	814,289	619,873	515,291
Cost of sales		(348,365)	(419,161)	(350,799)	(259,825)	(225,005)
Gross profit		340,343	245,859	463,490	360,048	290,286
Other income and gains	6	136,669	133,456	117,463	87,758	99,452
Administrative expenses		(26,520)	(26,333)	(28,131)	(21,295)	(20,691)
Other expenses		(3,804)	(5,121)	(6,342)	(4,631)	(5,492)
Finance costs	7	(651,706)	(642,387)	(638,321)	(476,482)	(471,137)
LOSS BEFORE TAX	8	(205,018)	(294,526)	(91,841)	(54,602)	(107,582)
Income tax credit	10	7,696	24,354	13,201	7,810	15,626
LOSS FOR THE YEAR/PERIOD		(197,322)	(270,172)	(78,640)	(46,792)	(91,956)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY						
– Basic and diluted	11	N/A	N/A	N/A	N/A	N/A

Statements of financial position

		As at 31 December			As at 30 September
		2019	**2020**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	12	96,119	110,758	98,797	87,668
Service concession arrangement	13	14,050,809	13,846,142	13,602,050	13,454,503
Due from the ultimate holding company	25(c)	2,500,000	2,200,000	2,200,000	2,200,000
Deferred tax assets	15	11,138	35,492	48,693	64,319
Total non-current assets		16,658,066	16,192,392	15,949,540	15,806,490
CURRENT ASSETS					
Prepayments, other receivables and other assets	16	15,301	46,803	31,937	21,609
Due from the ultimate holding company	25(c)	147,788	216,142	365,127	184,600
Due from the parent company	25(c)	–	–	–	300,000
Cash and cash equivalents	17	215,795	54,182	64,764	36,964
Total current assets		378,884	317,127	461,828	543,173
CURRENT LIABILITIES					
Other payables and accruals	18	697,667	650,373	575,345	577,216
Due to the ultimate holding company	25(c)	78	78	56,463	103,802
Interest-bearing bank and other borrowings	19	523,200	249,492	163,067	470,051
Total current liabilities		1,220,945	899,943	794,875	1,151,069

		As at 31 December			As at 30 September
		2019	2020	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NET CURRENT LIABILITIES	2.1	(842,061)	(582,816)	(333,047)	(607,896)
TOTAL ASSETS LESS CURRENT LIABILITIES		15,816,005	15,609,576	15,616,493	15,198,594
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	19	12,366,938	12,417,446	12,508,379	12,186,468
Deferred income	18	68,164	81,399	76,023	71,991
Total non-current liabilities		12,435,102	12,498,845	12,584,402	12,258,459
Net assets		3,380,903	3,110,731	3,032,091	2,940,135
EQUITY					
Paid-in capital	20	684,210	684,210	684,210	684,210
Reserves	21	2,696,693	2,426,521	2,347,881	2,255,925
Total equity		3,380,903	3,110,731	3,032,091	2,940,135

Statements of changes in equity

	Paid-in capital *RMB'000*	**Capital reserve*** *RMB'000*	**Accumulated losses*** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2019	684,210	3,996,020	(1,102,005)	3,578,225
Total comprehensive loss for the year	–	–	(197,322)	(197,322)
At 31 December 2019 and 1 January 2020	684,210	3,996,020	(1,299,327)	3,380,903
Total comprehensive loss for the year	–	–	(270,172)	(270,172)
At 31 December 2020 and 1 January 2021	684,210	3,996,020	(1,569,499)	3,110,731
Total comprehensive loss for the year	–	–	(78,640)	(78,640)
At 31 December 2021 and 1 January 2022	684,210	3,996,020	(1,648,139)	3,032,091
Total comprehensive loss for the period	–	–	(91,956)	(91,956)
At 30 September 2022	**684,210**	**3,996,020**	**(1,740,095)**	**2,940,135**
At 1 January 2021	684,210	3,996,020	(1,569,499)	3,110,731
Total comprehensive loss for the period (Unaudited)	–	–	(46,792)	(46,792)
At 30 September 2021 (Unaudited)	684,210	3,996,020	(1,616,291)	3,063,939

* These reserve accounts comprise the reserves in the statements of financial position.

Statements of cash flows

		Year ended 31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(205,018)	(294,526)	(91,841)	(54,602)	(107,582)
Adjustments for:						
Finance costs	7	651,706	642,387	638,321	476,482	471,137
Depreciation of property, plant and equipment	8	2,870	12,879	15,020	11,248	11,336
Amortisation of service concession arrangement	8	200,779	261,877	244,092	186,840	147,547
Gain on disposal of items of property, plant, and equipment	6	–	–	(37)	(37)	–
Loss on disposal of items of property, plant, and equipment	8	17	6	–	–	–
Interest income from bank deposits	6	(4,777)	(586)	(703)	(700)	(407)
Interest income from funds under centralised management	6	(244)	(506)	(704)	(343)	(672)
Interest income from the ultimate holding company	6	(123,030)	(111,435)	(108,266)	(80,977)	(80,977)

		Year ended 31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Interest income from the parent company	6	–	–	–	–	(2,583)
		522,303	510,096	695,882	537,911	437,799
Additions to service concession arrangement	13	(25,787)	(57,210)	–	–	–
Decrease/(increase) in prepayments, other receivables and other assets		(3,905)	(31,502)	14,866	2,291	10,328
Decrease in deferred income	6	(2,717)	(3,604)	(5,376)	(4,032)	(4,032)
Increase/(decrease) in other payables and accruals		15,279	(28,965)	(46,916)	(25,539)	8,927
Net cash flows from operating activities		505,173	388,815	658,456	510,631	453,022
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(24,906)	(32,206)	(29,757)	(18,793)	(4,459)

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Proceeds from disposal of items of property, plant and equipment		–	–	81	81	–
Interest received from banks deposits		10,380	586	703	700	407
Interest received from funds under centralised management	6	244	506	704	343	672
Interest received from loans to the ultimate holding company		123,030	111,906	108,266	81,292	81,292
Interest received from loans to the parent company	6	–	–	–	–	2,583
Loans to the parent company	25(b)	–	–	–	–	(300,000)
Repayment of loans to the ultimate holding company	25(b)	–	300,000	–	–	–
Due from funds under centralised management		(143,792)	(68,825)	(148,985)	(120,456)	180,212
Receipt of government grants		–	3,487	–	–	–
Net cash flows from/(used in) investing activities		(35,044)	315,454	(68,988)	(56,833)	(39,293)

		Year ended 31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid		(601,626)	(599,416)	(545,531)	(411,401)	(406,285)
Proceeds from bank and other borrowings		–	300,000	8,659,000	8,659,000	150,000
Proceeds from a loan from the ultimate holding company	25(b)	–	296,000	–	–	–
Repayment of bank and other borrowings		(243,624)	(566,466)	(8,692,355)	(8,692,355)	(185,244)
Repayment of a loan from the ultimate holding company	25(b)	–	(296,000)	–	–	–
Net cash flows used in financing activities		(845,250)	(865,882)	(578,886)	(444,756)	(441,529)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(375,121)	(161,613)	10,582	9,042	(27,800)
Cash and cash equivalents at beginning of year/ period		590,916	215,795	54,182	54,182	64,764
CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD	17	215,795	54,182	64,764	63,224	36,964

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (the "**Target Company**") is a limited liability company incorporated in the People's Republic of China (the "**PRC**"). The registered office of the Target Company is located at No. 1456, Chongyang Avenue, Yang Ma Town, Chongzhou, the PRC.

During the Relevant Periods, the Target Company was involved in the management and operation of Second Ring (Western) Expressway in Mainland China.

On 2 April 2021, the Target Company's former ultimate holding company, Sichuan Railway Investment Group Co., Ltd. ("**Sichuan Railway Investment**"), and Sichuan Transportation Investment Group Corporation Limited ("**Sichuan Transportation Investment**") entered into a restructuring agreement, pursuant to which a new entity, Shudao Investment Group Company Limited ("**Shudao Investment**"), was established by way of merger of Sichuan Transportation Investment and Sichuan Railway Investment on 28 May 2021 (the "**Completion**"). From the date of the Completion, all the assets, liabilities, business, employees, contracts and qualifications together with all other rights and obligations of Sichuan Railway Investment and Sichuan Transportation Investment, and the subordinate branch entities and equity interest or other interest in the subordinate companies held by Sichuan Railway Investment and Sichuan Transportation Investment were vested in Shudao Investment.

In the opinion of the directors of the Target Company (the "**Directors**"), as at the date of this report, the parent company and the ultimate holding company of the Target Company is Sichuan Shudao Expressway Group Co., Ltd. ("**Shudao Expressway**") and Shudao Investment, respectively, which are incorporated in the PRC.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong ("**HK GAAP**"). All HKFRSs effective for the accounting period commencing from 1 January 2022, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

Going concern basis

During the years ended 31 December 2019, 2020 and 2021, and the nine months ended 30 September 2022, the Target Company incurred net loss of RMB197,322,000, RMB270,172,000, RMB78,640,000 and RMB91,956,000, respectively. As at 30 September 2022, the Target Company's current liabilities exceeded its current assets by RMB607,896,000, primarily due to the interest-bearing bank and other borrowings borrowed for the construction of Second Ring (Western) Expressway to which the service concession arrangement is pertained.

In view of the net current liabilities position, the Directors have considered the future liquidity and performance of the Target Company and its available sources of finance in assessing whether the Target Company would have sufficient financial resources to continue as a going concern. Shudao Expressway and the Company have undertaken to provide adequate financial support to the Target Company to enable it to meet its financial obligations as and when they fall due. The Directors have reviewed the Target Company's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. Having considered the cash flows from operations and its available resource of finance, the Directors are of the opinion that the Target Company is able to meet in full its financial obligations as they fall due for the foreseeable future and it is appropriate to prepare the Historical Financial Information on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the statements of financial position. In addition, the Target Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the Historical Financial Information.

2.2 ISSUED BUT NOT YET EFFECTIVE HONGKONG FINANCIAL REPORTING STANDARDS

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the "**2020 Amendments**")[2, 3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

4 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

The Target Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Company considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Target Company's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, properties under development, completed properties held for sale and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarter building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of items of property, plant and equipment are as follows:

Safety equipment	10 years
Communication and signalling systems	10 years
Toll collection equipment	8 years
Buildings	30 years
Machinery and equipment	5–10 years
Motor vehicles	8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Service concession arrangement

Service concession arrangement represents the right to charge users of the public service, that the Target Company obtained under the service concession arrangement. Service concession arrangement is stated at cost, that is, the fair value of the consideration received or receivable in exchange for the construction services provided under the service concession arrangement, less accumulated amortisation and any impairment losses.

Subsequent expenditures such as repairs and maintenance are charged to profit or loss in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditures are capitalised as an additional cost of service concession arrangement.

The amortisation of service concession arrangement is provided on a unit-of-usage basis to write off the costs of the arrangement, based on the share of traffic volume in a particular period over the projected total traffic volume throughout the periods for which the Target Company is granted to operate the service concession arrangement.

It is the Target Company's policy to review regularly the projected total traffic volume throughout the concession periods of the respective service concession arrangement. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

Costs incurred during the period of construction of underlying assets of a service concession arrangement are recorded in the service concession arrangement and will be amortised upon the commencement of operation of the service concession arrangement.

Particulars of the expressway managed and operated by the Target Company as at 30 September 2022 are as follows:

Name	**Origin/destination**	**Approximate length** *(KM)*	**Operation period**
Second Ring (Western) Expressway	Shuangliu County/ Mengyang County	114.26	February 2016 ~ Janurary 2046

Leases

The Target Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Target Company as a lessee

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to its short-term leases of other equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of other equipment that is considered to be of low value. Lease payments on short-term leases are recognised as a cost and an expense on a straight-line basis over the lease term.

Target Company as a lessor

When the Target Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Target Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivable that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivable that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primary derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement in the asset. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivable which applies the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivable that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Company's financial liabilities include other payables and accruals, amounts due to the ultimate holding company and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Target Company's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Interest expenses" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. When the contract contains a financing component which provides the Target Company a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Provision of road operation services

Revenue from the provision of road operation services is recognised at a point of time when the relevant services have been provided and the Target Company received the payment or the right to receive payment has been established.

(b) Provision of the construction and upgrade services under service concession arrangements

Revenue from the construction and upgrade services provided under the service concession arrangements is recognised over time, using the input method, as further explained in the accounting policy for "Construction and upgrade services under service concession arrangements" below;

Revenue from other sources

(a) Rental income is recognised on a time proportion basis over the lease terms; and

(b) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Construction and upgrade services under service concession arrangements

The Target Company recognises income and expenses associated with construction and upgrade services provided under the service concession arrangements in accordance with HKFRS 15 Revenue from Contracts with Customers.

Revenue generated from construction and upgrade services rendered by the Target Company is measured at fair value of the consideration received or receivable. The consideration represents the rights to obtain an intangible asset.

The Target Company uses the input method to determine the appropriate amount of income and expenses to be recognised in a given period, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion is measured by reference to the construction costs of the related infrastructure incurred up to the end of the reporting period as a percentage of the total estimated costs for each contract.

Employee benefits

Defined contribution pension scheme

In accordance with the state regulations of the PRC, the Target Company participates in a defined contribution pension scheme. All retired employees are entitled to an annual pension equivalent to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. During the year, the Target Company was required to make contributions to a local social security bureau at a certain rate of 16% of the employees' salaries or wages of the current year, up to an amount equivalent to three times the employees' average salaries of the prior year within the geographical area where the employees are employed. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Supplementary defined contribution pension scheme

The supplementary defined contribution pension scheme was managed by an independent financial institution. Under the supplementary defined contribution pension scheme, the Target Company makes a monthly defined contribution to certain qualified employees at certain rates of the qualified employees' salaries or wages of the prior year. There were no vested benefits attributable to past services upon the adoption of the plan. The contributions under the supplementary defined contribution pension scheme are charged to profit or loss as incurred.

Housing fund

According to the relevant rules and regulations of the Sichuan Province, the Target Company and its employees are each required to make contributions, which are in proportion to the employees' salaries or wages of the prior year, to a housing fund. Contributions to a housing fund administered by the Public Accumulation Funds Administration Centre are charged to profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING ESTIMATES

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders. Proposed final dividends are disclosed in the note to the financial statements.

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment of non-financial assets

The Target Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) Amortisation of costs of service concession arrangement

Amortisation of service concession arrangements is calculated under the unit-of-usage method, whereby the amortisation is provided based on the share of traffic volume in a particular period over the projected total traffic volume throughout the periods for which the Target Company is granted to operate those service concession arrangements. The projected total traffic volume over the respective concession periods could change significantly. The Target Company reviews regularly the projected total traffic volume throughout the operating periods of the respective service concession arrangements. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

(c) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as at 30 September 2022, 31 December 2021, 31 December 2020 and 31 December 2019 are RMB64,319,000, RMB48,693,000, RMB35,492,000, RMB11,138,000, respectively. Further details are given in note 15 to the Historical Financial Information.

5. OPERATING SEGMENT INFORMATION

The Target Company's revenue and contribution to results are derived from the management and operation of Second Ring (Western) Expressway, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Directors for purposes of resource arrangement and performance assessment. In addition, all the assets employed by the Target Company are located in Mainland China. Accordingly, no operating segment information is presented, other than the entity-wide disclosures.

Entity-wide disclosures

Geographical information

All of the Target Company's external revenue is derived from customers based in Mainland China, and all of the non-current assets of the Target Company are located in Mainland China. Accordingly, no segment information by geographical segment is presented.

Information about major customers

During the Relevant Periods and the nine months ended 30 September 2021, no revenue derived from a customer accounted for 10% or more of the Target Company's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue from contracts with customers					
Toll income	653,301	598,203	804,482	612,434	507,326
Construction services	25,787	57,210	–	–	–
	679,088	655,413	804,482	612,434	507,326
Revenue from other sources					
Gross rental income from operating leases: other lease payments, including fixed payments *(note 14)*	9,620	9,607	9,807	7,439	7,965
	688,708	665,020	814,289	619,873	515,291

Revenue from contracts with customers

(a) Disaggregated revenue information

Geographical market

Revenues under HKFRS 15 of the Target Company during the Relevant Periods and the nine months ended 30 September 2021 are all generated in Mainland China.

Timing of revenue recognition

	Year ended 31 December			**Nine months ended 30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Services provided at a point in time	653,301	598,203	804,482	612,434	507,326
Services transferred over time	25,787	57,210	–	–	–
Total revenue from contracts with customers	679,088	655,413	804,482	612,434	507,326

(b) Performance obligations

Information about the Target Company's performance obligations is summarised below:

Toll income

The performance obligation is satisfied when the relevant services have been provided upon the completion of passing through the expressway.

Construction services

The performance obligation is satisfied over time as services are rendered, the contract price shall be settled subject to the contractual agreement.

An analysis of other income and gains is as follows:

		Year ended 31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Other income and gains						
Interest income from:						
– bank deposits		4,777	586	703	700	407
– funds under centralised management	25(b)	244	506	704	343	672
– loans to the ultimate holding company	25(b)	123,030	111,435	108,266	80,977	80,977
– loans to the parent company	25(b)	–	–	–	–	2,583
Government grants*		–	12,878	4	4	270
Deferred income released to profit or loss		2,717	3,604	5,376	4,032	4,032
Road damage and road occupation compensation income		3,604	2,520	1,883	1,250	9,886
Gain on disposal of items of property, plant and equipment		–	–	37	37	–
Miscellaneous		2,297	1,927	490	415	625
Total other income and gains		136,669	133,456	117,463	87,758	99,452

* There were no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest on bank and other borrowings	651,706	640,085	581,936	435,912	423,798
Interest on loans from the ultimate holding company *(note 25(b))*	–	2,302	–	–	–
Guarantee fees *(note 25(b))*	–	–	56,385	40,570	47,339
	651,706	642,387	638,321	476,482	471,137

8. LOSS BEFORE TAX

The Target Company's loss before tax is arrived at after charging/(crediting):

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Employee benefit expense (including directors', chief executive's and supervisors' remuneration *(note 9)*):						
Wages and salaries		44,682	47,158	49,638	44,953	37,925
Pension scheme contributions*						
– Defined contribution fund		6,804	610	6,385	3,802	5,124
Housing fund*						
– Defined contribution fund		4,730	5,255	4,849	3,646	3,897

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Supplementary pension scheme*						
– Defined contribution fund		3,422	2,720	2,628	1,314	2,133
Other staff benefits		8,080	9,540	10,292	5,015	6,530
		67,718	65,283	73,792	58,730	55,609
Depreciation of property, plant and equipment	12	2,870	12,879	15,020	11,248	11,336
Amortisation of service concession arrangement	13	200,779	261,877	244,092	186,840	147,547
Construction costs in respect of service concession arrangement	13	25,787	57,210	–	–	–
Repairs and maintenance		53,839	21,586	17,838	8,808	16,819
Lease payments not included in the measurement of lease liabilities	14	65	57	158	69	73
Late fees relating to unpaid taxes		3,747	5,056	6,215	4,536	5,389
Loss on disposal of items of property, plant and equipment		17	6	–	–	–

* There are no forfeited contributions that may be used by the Target Company as the employer to reduce the existing level of contributions.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and supervisors' remuneration

The aggregate amounts of remuneration of directors and supervisors of the Target Company during the Relevant Periods and the nine months ended 30 September 2021 are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	695	593	783	565	628
Performance related bonus	443	600	580	–	–
Pension scheme contributions	87	6	66	45	49
Supplementary pension scheme contributions	83	58	64	47	56
	1,308	1,257	1,493	657	733

The names of the directors and supervisors and their remuneration for the Relevant Periods and the nine months ended 30 September 2021 are as follows:

	Salaries, allowances and benefits in kind	Performance bonus	Pension scheme contributions	Supplementary pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019					
Executive director:					
Mr. Liu Guanghui	224	153	36	23	436
Non-executive directors:					
Mr. Xu Kaigui	176	124	36	22	358
Mr. Tian Yi	224	153	–	32	409
Mr. Zhang Kunpeng	–	–	–	–	–
Mr. Hu Shengxia	–	–	–	–	–
	400	277	36	54	767
Supervisors:					
Mr. Wang Meng	–	–	–	–	–
Mr. Song Xuefei	–	–	–	–	–
Ms. Zhou Shunping [(i)]	71	13	15	6	105
	71	13	15	6	105
	695	443	87	83	1,308

	Salaries, allowances and benefits in kind	Performance bonus	Pension scheme contributions	Supplementary pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2020					
Executive director:					
Mr. Liu Guanghui	213	213	3	21	450
Non-executive directors:					
Mr. Xu Kaigui	167	174	3	16	360
Mr. Tian Yi	213	213	–	21	447
Mr. Zhang Kunpeng	–	–	–	–	–
Mr. Hu Shengxia	–	–	–	–	–
	380	387	3	37	807
Supervisors:					
Mr. Wang Meng (ii)	–	–	–	–	–
Mr. Song Xuefei	–	–	–	–	–
	–	–	–	–	–
	593	600	6	58	1,257

	Salaries, allowances and benefits in kind	Performance bonus	Pension scheme contributions	Supplementary pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2021					
Executive directors:					
Mr. Liu Guanghui	291	218	36	22	567
Non-executive directors:					
Mr. Xu Kaigui (iii)	15	–	3	1	19
Mr. Tian Yi	291	218	–	22	531
Mr. Zhang Kunpeng	–	–	–	–	–
Mr. Hu Shengxia	–	–	–	–	–
Mr. Hu Jiangang (iv)	186	144	27	19	376
	492	362	30	42	926
Supervisor:					
Mr. Song Xuefei	–	–	–	–	–
	783	580	66	64	1,493

	Salaries, allowances and benefits in kind *RMB'000*	Performance bonus *RMB'000*	Pension scheme contributions *RMB'000*	Supplementary pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Nine months ended 30 September 2021 (unaudited)					
Executive director:					
Mr. Liu Guanghui	213	–	25	16	254
Non-executive directors:					
Mr. Xu Kaigui (iii)	15	–	3	1	19
Mr. Tian Yi	213	–	–	16	229
Mr. Zhang Kunpeng	–	–	–	–	–
Mr. Hu Shengxia	–	–	–	–	–
Mr. Hu Jiangang (iv)	124	–	17	14	155
	352	–	20	31	403
Supervisor:					
Mr. Song Xuefei	–	–	–	–	–
	565	–	45	47	657

	Salaries, allowances and benefits in kind	Performance bonus	Pension scheme contributions	Supplementary pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nine months ended 30 September 2022					
Executive directors:					
Mr. Liu Guanghui (v)	130	–	16	12	158
Non-executive directors:					
Mr. Tian Yi	234	–	–	22	256
Mr. Zhang Kunpeng	–	–	–	–	–
Mr. Hu Shengxia	–	–	–	–	–
Mr. Hu Jiangang	186	–	33	16	235
Mr. Li Zhongjun (vi)	78	–	–	6	84
	498	–	33	44	575
Supervisor:					
Mr. Song Xuefei	–	–	–	–	–
	628	–	49	56	733

Notes:

(i) On 31 May 2019, Ms. Zhou Shunping resigned as a supervisor of the Target Company.

(ii) On 30 October 2020, Mr. Wang Meng resigned as a supervisor of the Target Company.

(iii) On 9 February 2021, Mr. Xu Kaigui resigned as a director of the Target Company.

(iv) On 9 February 2021, Mr. Hu Jiangang was appointed as a director of the Target Company.

(v) On 31 May 2022, Mr. Liu Guanghui resigned as a director of the Target Company.

(vi) On 17 June 2022, Mr. Li Zhongjun was appointed as a director of the Target Company.

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the nine months ended 30 September 2021. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducement to join or upon joining the Target Company or as compensation for loss of office.

(b) Five highest paid employees

The five highest paid employees included three directors during the Relevant Periods and the nine months ended 30 September 2022, details of whose remuneration are set out above. Details of the remuneration for the Relevant Periods and the nine months ended 30 September 2021 of the remaining two highest paid employees who are not a director, chief executive, or supervisor of the Target Company are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	357	333	460	336	310
Performance related bonus	254	348	385	–	–
Pension scheme contributions	71	29	72	50	47
Supplementary pension scheme contributions	43	32	35	26	30
	725	742	952	412	387

The remuneration of the above five highest paid non-director and non-supervisor during the Relevant Periods and the nine months ended 30 September 2021 was below HK$1,000,000.

In addition to the amounts disclosed above, no executive director, two non-executive directors and two supervisors did not receive any remuneration from the Target Company in Relevant Periods and the nine months ended 30 September 2021. They are respectively the senior executives and directors of Shudao Expressway. In the opinion of the directors and supervisors, it is not practicable to apportion these amounts between their services as directors and supervisors of the Target Company and their services as senior executives and directors of Shudao Expressway.

10. INCOME TAX

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the Relevant Periods and the nine months ended 30 September 2021.

No tax provision has been made as the Target Company did not generate any taxable income in Mainland China during the Relevant Periods and the nine months ended 30 September 2021.

The major components of the income tax credit for the Relevant Periods and the nine months ended 30 September 2021 are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current – Mainland China charge for the year/period	–	–	–	–	–
Deferred *(note 15)*	(7,696)	(24,354)	(13,201)	(7,810)	(15,626)
Total tax credit for the year/period	(7,696)	(24,354)	(13,201)	(7,810)	(15,626)

Pursuant to the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies of the State Administration of Taxation, the Ministry of Finance and General Administration of Customs (Cai Shui [2011] No. 58) ("**Circular [2011] No. 58**"), the tax preferential treatments for the Western Region Development were valid until 2020. According to the Circular [2011] No. 58, from 1 January 2011 to 31 December 2020, corporate income tax could be levied at a reduced tax rate of 15% for enterprises established in the western region and engaged in encouraged industries.

Pursuant to the Circular on Issues Announcement on the Continuation of Cai Shui [2011] No. 58 for Western Development Strategies of the State Administration of Taxation, the Ministry of Finance and National Development and Reform Commission ("**Circular [2020] No. 23**"), the tax preferential treatments for the Western Region Development are valid until 2030. According to the Circular [2020] No. 23, from 1 January 2021 to 31 December 2030, corporate income tax can be levied at a reduced tax rate of 15% for enterprises established in the western region and engaged in encouraged industries prescribed in the Catalogue if the income which is within the Catalogue accounts for more than 60% of the total income of such enterprises.

The income tax of the Target Company, which is in the scope of the transportation industry, is levied at the rate of 15%.

A reconciliation of the tax credit applicable to loss before tax using the statutory tax rate in Mainland China for the Target Company to the tax credit at the effective tax rate is as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Loss before tax	(205,018)	(294,526)	(91,841)	(54,602)	(107,582)
Tax at the applicable tax rates of 15%	(30,753)	(44,179)	(13,776)	(8,190)	(16,137)
Expenses not deductible for tax	743	882	974	679	810
Origination/(reversal) of deductible temporary differences relating to deferred income previously not recognised	–	1,994	(399)	(299)	(299)
Tax losses not recognised	22,314	16,949	–	–	–
Tax credit at the Target Company's effective tax rate	(7,696)	(24,354)	(13,201)	(7,810)	(15,626)

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

Loss per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful since the Target Company was a limited liability enterprise during the Relevant Periods and the nine months ended 30 September 2021.

12. PROPERTY, PLANT AND EQUIPMENT

	Safety equipment	Communication and signalling systems	Toll collection equipment	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:								
At 1 January 2019	14	12,464	–	–	2,221	12,859	–	27,558
Additions	70	1,852	14,483	–	154	–	63,860	80,419
Disposals	–	–	–	–	–	(333)	–	(333)
Transfer	–	–	63,860	–	–	–	(63,860)	–
At 31 December 2019 and 1 January 2020	84	14,316	78,343	–	2,375	12,526	–	107,644
Additions	–	371	–	–	394	824	25,935	27,524
Disposals	–	–	–	–	–	(142)	–	(142)
Transfer	–	25,935	–	–	–	–	(25,935)	–
At 31 December 2020 and 1 January 2021	84	40,622	78,343	–	2,769	13,208	–	135,026
Additions	–	1,761	7	1,082	253	–	–	3,103
Disposals	–	–	–	–	–	(869)	–	(869)
At 31 December 2021 and 1 January 2022	84	42,383	78,350	1,082	3,022	12,339	–	137,260
Additions	8	–	–	–	199	–	–	207
At 30 September 2022	92	42,383	78,350	1,082	3,221	12,339	–	137,467

	Safety equipment	Communication and signalling systems	Toll collection equipment	Buildings	Machinery and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation:							
At 1 January 2019	3	400	–	–	1,150	7,418	8,971
Provided during the year *(note 8)*	5	1,209	169	–	258	1,229	2,870
Disposals	–	–	–	–	–	(316)	(316)
At 31 December 2019 and 1 January 2020	8	1,609	169	–	1,408	8,331	11,525
Provided during the year *(note 8)*	8	2,042	9,499	–	281	1,049	12,879
Disposals	–	–	–	–	–	(136)	(136)
At 31 December 2020 and 1 January 2021	16	3,651	9,668	–	1,689	9,244	24,268
Provided during the year *(note 8)*	8	4,041	9,500	9	314	1,148	15,020
Disposals	–	–	–	–	–	(825)	(825)
At 31 December 2021 and 1 January 2022	24	7,692	19,168	9	2,003	9,567	38,463
Provided during the period *(note 8)*	7	3,092	7,125	26	244	842	11,336
At 30 September 2022	31	10,784	26,293	35	2,247	10,409	49,799
Net carrying amount:							
At 1 January 2019	11	12,064	–	–	1,071	5,441	18,587
At 31 December 2019	76	12,707	78,174	–	967	4,195	96,119
At 31 December 2020	68	36,971	68,675	–	1,080	3,964	110,758
At 31 December 2021	60	34,691	59,182	1,073	1,019	2,772	98,797
At 30 September 2022	61	31,599	52,057	1,047	974	1,930	87,668

13. SERVICE CONCESSION ARRANGEMENT

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At beginning of the year/period	14,722,883	14,748,670	14,805,880	14,805,880
Additions	25,787	57,210	–	–
At end of the year/period	14,748,670	14,805,880	14,805,880	14,805,880
Accumulated amortisation:				
At beginning of the year/period	497,082	697,861	959,738	1,203,830
Charged for the year/period *(note 8)*	200,779	261,877	244,092	147,547
At end of the year/period	697,861	959,738	1,203,830	1,351,377
Net carrying amount:				
At beginning of the year/period	14,225,801	14,050,809	13,846,142	13,602,050
At end of the year/period	14,050,809	13,846,142	13,602,050	13,454,503

(a) The service concession arrangement pertaining to Second Ring (Western) Expressway was pledged to secure bank loans granted to the Target Company (note 19).

(b) During the years ended 31 December 2019 and 2020, the Target Company was in the construction of Second Ring (Western) Expressway Chongzhou Dahua Interchange Project (the "**Dahua Project**"). Construction works of the Dahua Project were sub-contracted to related party subcontractors.

Construction revenue in respect of the Dahua Project of RMB25,787,000 and RMB57,210,000 were recognised in respect of the construction service provided by the Target Company for the Dahua Project using the input method for the years ended 31 December 2019 and 2020, respectively. They were regarded as additions to the service concession arrangement, in the opinion of the Directors, the Dahua Project could improve the traffic flow of Second Ring (Western) Expressway.

(c) Other than land with a site area of approximately 698,666 square metres, the Target Company has not obtained land use right certificates of certain land occupied by Second Ring (Western) Expressway. In the opinion of the Directors, there are no major obstacles for the Target Company to obtain these certificates, and the normal operation of Second Ring (Western) Expressway will not be adversely affected before obtaining these certificates.

14. LEASES

The Target Company as a lessee

The Target Company has lease contracts for various items of other equipment used in its operations. Other equipment generally has lease terms of 12 months or less and is individually of low value.

The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Expense relating to short-term leases					
– included in cost of sales	–	26	80	9	17
– included in administrative expenses	65	31	78	60	56
Total amount recognised in profit or loss *(note 8)*	65	57	158	69	73

The Target Company as a lessor

The Target Company leases its service zones under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions. Rental income recognised by the Target Company amounted to RMB9,620,000, RMB9,607,000, RMB9,807,000, RMB7,439,000 and RMB7,965,000 for each of the Relevant Periods, the nine months ended 30 September 2021 and 2022, respectively, details of which are included in note 6 to the Historical Financial Information.

15. DEFERRED TAX ASSETS

Gross deferred tax assets

	Deductible tax losses	Deferred income	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2018 and 1 January 2019	3,442	–	3,442
Deferred tax credited to loss during the year *(note 10)*	7,696	–	7,696
At 31 December 2019 and 1 January 2020	11,138	–	11,138
Deferred tax credited to loss during the year *(note 10)*	23,556	798	24,354
At 31 December 2020 and 1 January 2021	34,694	798	35,492
Deferred tax credited to loss during the year *(note 10)*	13,201	–	13,201
At 31 December 2021 and 1 January 2022	47,895	798	48,693
Deferred tax credited to loss during the period *(note 10)*	15,626	–	15,626
At 30 September 2022	63,521	798	64,319

The Group has tax losses arising in Mainland China of RMB510,772,000, RMB780,807,000, RMB868,811,000 and RMB972,990,000 as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively, that will expire in one to five years from the end of each of the Relevant Periods for offsetting against future taxable profits. Deferred tax assets have been recognised to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised.

16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Toll income receivables	9,026	40,861	25,411	16,539
Deposits	4,600	4,600	4,600	–
Prepayments	945	1,076	1,235	911
Miscellaneous	730	266	691	4,159
	15,301	46,803	31,937	21,609

An impairment analysis is performed at the end of each of the Relevant Periods by considering ECLs, which are estimated by applying a loss rate approach with reference to the historical loss record of the Target Company. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

In determining the ECLs for other receivables, the Directors have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The Target Company has assessed and concluded that the risk of default rate for the other instruments was minimal at the end of each of the Relevant Periods since the counterparties to these instruments have a high credit rating.

17. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	215,795	54,182	64,764	36,964

At the end of each of the Relevant Periods, cash and bank balances of the Target Company are denominated in RMB.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

18. OTHER PAYABLES AND ACCRUALS

		As at 31 December			As at 30 September
		2019	**2020**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	(a)	676,820	627,161	553,591	558,266
Accruals	(b)	18,130	17,835	16,377	13,573
Deferred income	(c)	70,881	86,776	81,400	77,368
		765,831	731,772	651,368	649,207
Non-current portion					
Deferred income	(c)	(68,164)	(81,399)	(76,023)	(71,991)
Portion clarified as current liabilities		697,667	650,373	575,345	577,216

Notes:

(a) Other payables at the end of each of the Relevant Periods mainly include the following balances:

		As at 31 December			As at 30 September
		2019	**2020**	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Advances		–	–	–	2,285
Payroll and welfare payables		8,035	12,002	14,834	27,815
Taxes and surcharge payables		31,183	39,984	47,087	51,706
Progress billing payables		450,102	412,928	350,793	331,933
Retention payables		96,841	90,605	92,638	92,698
Deposits		22,619	20,034	18,343	21,022
Late fees for unpaid other taxes	(i)	7,386	12,442	18,657	24,046
Others		60,654	39,166	11,239	6,761
		676,820	627,161	553,591	558,266

Note:

(i) The balance represented late fees relating to unpaid value-added tax arising from the interest income generated from the loans to the ultimate holding company, unpaid urban and town land use tax and real estate tax.

(b) Balances as at the end of each of the Relevant Periods represented interest accrued in respect of interest-bearing bank and other borrowings.

(c) Deferred income as at the end of each of the Relevant Periods mainly include the following items:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred compensation received in advance	70,881	68,164	65,447	63,409
Subsidy funds for improving the toll collection equipment	–	18,612	15,953	13,959
	70,881	86,776	81,400	77,368

Deferred income of the Target Company to be released to profit or loss after twelve months has been recorded as a non-current liability.

The performance guarantee deposits and retention payables which have a longer repayment term ranges from one to five years.

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

		As at 31 December									As at 30 September		
		2019			2020			2021			2022		
	Notes	Effective interest rate (%)	Maturity	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Current:													
Bank loans:													
Secured and guaranteed	(a)	4.90	2020	80,000	4.90	2021	100,000	4.20	2022	5,000	4.20	2022–2023	10,000
Guaranteed	(a)	6.18	2020	297,000			–			–			–
				377,000			100,000			5,000			10,000
Other borrowings:													
Guaranteed	(b)	4.89–4.93	2020	146,200	4.89–4.93	2021	149,492	4.89–4.93	2022	158,067	4.89–4.93	2022–2023	160,051
Guaranteed	(c)			–			–			–	5.15	2023	300,000
				146,200			149,492			158,067			460,051
Total current interest-bearing bank and other borrowings				523,200			249,492			163,067			470,051
Non-current:													
Bank loans:													
Secured and guaranteed	(a)	4.90	2021–2032	8,505,000	4.90	2022–2032	8,705,000	4.20	2023–2045	8,954,000	4.20	2023–2045	9,099,000
Other borrowings:													
Guaranteed	(b)	4.89–4.93	2021–2026	861,938	4.89–4.93	2022–2026	712,446	4.89–4.93	2023–2026	554,379	4.89–4.93	2023–2026	387,468
Guaranteed	(c)	5.15	2021–2026	3,000,000	5.15	2022–2026	3,000,000	5.15	2023–2026	3,000,000	5.15	2023–2026	2,700,000
				3,861,938			3,712,446			3,554,379			3,087,468
Total non-current interest-bearing bank and other borrowings				12,366,938			12,417,446			12,508,379			12,186,468
				12,890,138			12,666,938			12,671,446			12,656,519

Analysed into:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans repayable:				
Within one year	377,000	100,000	5,000	10,000
In the second year	100,000	185,000	12,500	15,000
In the third to fifth years, inclusive	1,180,000	1,852,500	102,500	145,000
Beyond five years	7,225,000	6,667,500	8,839,000	8,939,000
	8,882,000	8,805,000	8,959,000	9,109,000
Other borrowings repayable:				
Within one year	146,200	149,492	158,067	460,051
In the second year	149,492	158,067	462,056	865,381
In the third to fifth years, inclusive	1,387,945	2,303,772	3,092,323	2,222,087
Beyond five years	2,324,501	1,250,607	–	–
	4,008,138	3,861,938	3,712,446	3,547,519
Total bank and other borrowings	12,890,138	12,666,938	12,671,446	12,656,519
Portion classified as current liabilities	(523,200)	(249,492)	(163,067)	(470,051)
Non-current portion	12,366,938	12,417,446	12,508,379	12,186,468

Notes:

(a) The bank loans of approximately RMB8,585,000,000, RMB8,805,000,000, RMB8,959,000,000 and RMB9,109,000,000 were secured by the service concession right pertaining to Second Ring (Western) Expressway (note 13) as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively.

The bank loans of approximately RMB8,882,000,000, RMB8,805,000,000, RMB8,959,000,000 and RMB9,109,000,000 as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively, were guaranteed by Shudao Investment (note 25).

(b) It represented two other borrowings borrowed from an independent third party leasing company by the Target Company, with the respective principals of RMB1,000,000,000 and RMB500,000,000, which bear interest at effective rates of 4.89% and 4.93% per annum with annual instalment payments up to the maturity dates on 15 March 2025 and 15 August 2026, respectively. The other borrowings were guaranteed by Shudao Investment (note 25).

(c) It represented an other borrowing borrowed from an independent third party asset management company by the Target Company, with the principal of RMB3,000,000,000 which bear interest rates of 5.15% per annum with instalment payments of RMB300,000,000, RMB600,000,000, RMB900,000,000 and RMB1,200,000,000 up to the maturity dates on 8 June 2023, 8 June 2024, 8 June 2025 and 8 June 2026, respectively. The other borrowing was guaranteed by Shudao Investment (note 25).

At the end of each of the Relevant Periods, all interest-bearing bank and other borrowings were denominated in RMB.

20. PAID-IN CAPITAL

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Paid-in capital	684,210	684,210	684,210	684,210

21. RESERVES

The amounts of the Target Company's reserves and the movements therein for the Relevant Periods and the nine months ended 30 September 2021 are presented in the statements of changes in equity.

(a) Capital reserve

The application of the share premium account is governed by the Company Law of the PRC. Under the constitutional documents and the Company Law of the PRC, the share premium is distributable as a dividend in the condition that the Target Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC and the articles of association of the Target Company, the Target Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC Generally Accepted Accounting Principles ("**GAAP**"), to the statutory surplus reserve (the "**SSR**") until such reserve reaches 50% of its registered capital.

The SSR is non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations. They can be used to offset accumulated losses or capitalised as paid-up capital.

22. NOTES TO THE STATEMENT OF CASH FLOWS

(1) Major non-cash transactions

During the year ended 31 December 2020, Sichuan Railway Investment received the subsidy funds of RMB16,012,000 for improving the toll collection equipments on behalf of the Target Company and further instructed the Target Company to offset it against balance payable to Sichuan Yunkong Transportation Technology Co., Ltd. ("**Yunkong Transportation**", formerly known as "**Sichuan Railway Investment Information Technology Industry Investment Co., Ltd.**").

(2) Changes in liabilities arising from financing activities

	Bank and other borrowings	**Interest payable**	**Due to the ultimate holding company**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	13,083,603	18,209	78
Changes from financing cash flows	(243,624)	(601,626)	–
Interest expenses	651,706	–	–
Interest payables	(601,547)	601,547	–
At 31 December 2019 and 1 January 2020	12,890,138	18,130	78
Changes from financing cash flows	(266,466)	(599,416)	–
Interest expenses	640,085	–	2,302
Interest payables	(596,819)	599,121	(2,302)

	Bank and other borrowings	Interest payable	Due to the ultimate holding company
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2020 and 1 January 2021	12,666,938	17,835	78
Changes from financing cash flows	(33,355)	(545,531)	–
Interest expenses	581,936	–	56,385
Interest payables	(544,073)	544,073	–
At 31 December 2021 and 1 January 2022	12,671,446	16,377	56,463
Changes from financing cash flows	(35,244)	(406,285)	–
Interest expenses	423,798	–	47,339
Interest payables	(403,481)	403,481	–
At 30 September 2022	12,656,519	13,573	103,802
At 1 January 2021	12,666,938	17,835	78
Changes from financing cash flows	(33,356)	(411,400)	–
Interest expenses	435,912	–	40,570
Interest payables	(408,399)	408,399	–
At 30 September 2021 (unaudited)	12,661,095	14,834	40,648

23. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Target Company did not have any significant contingent liabilities.

24. COMMITMENTS

The Target Company did not have any significant capital and lease commitments at the end of each of the Relevant Periods.

25. RELATED PARTY TRANSACTIONS AND BALANCES

The Directors are of the view that the following companies are related parties that had material transactions or balances with the Target Company during the Relevant Periods and the nine months ended 30 September 2021.

(a) Name and relationships with related parties

Related parties	Relationships
Sichuan Railway Investment	Ultimate holding company before 28 May 2021*
Shudao Investment	Ultimate holding company from 28 May 2021*
Shudao Expressway	Parent company
Sichuan Road and Bridge (Group) Co., Ltd. ("**SRB Group**")	A company controlled By Shudao Investment
Yunkong Transportation	A company controlled by Shudao Investment
Sichuan Road and Bridge Engineering Co., Ltd. ("**Bridge Engineering**")	A company controlled by Shudao Investment
Sichuan Road and Waterway Construction Engineering Co., Ltd. ("**Road and Waterway Construction**")	A company controlled by Shudao Investment
Sichuan Road & Bridge Construction Group Traffic Engineering Co., Ltd. ("**Traffic Engineering**")	A company controlled by Shudao Investment
Sichuan Zhineng Transportation System Management Company Limited ("**Zhineng Transportation**")	A company controlled by Shudao Investment
Sichuan Shudao Property Service Group Co., Ltd. ("**Shudao Property Service**")	A company controlled by Shudao Investment

* On 2 April 2021, the Target Company's former ultimate holding company, Sichuan Railway Investment, and Sichuan Transportation Investment entered into a restructuring agreement, pursuant to which a new entity, Shudao Investment, was established by way of merger of Sichuan Transportation Investment and Sichuan Railway Investment on 28 May 2021. From the date of the Completion, all the assets, liabilities, business, employees, contracts and qualifications together with all other rights and obligations of Sichuan Railway Investment and Sichuan Transportation Investment, and the subordinate branch entities and equity interest or other interest in the subordinate companies held by Sichuan Railway Investment and Sichuan Transportation Investment were vested in Shudao Investment.

In addition to the transactions detailed elsewhere in this report, the Target Company had the following transactions with related parties:

(b) Transactions with related parties

(1) Details of interest-bearing loans received from/(repaid to) the Sichuan Railway Investment

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Loans received	–	296,000	–	–	–
Loans repaid	–	(296,000)	–	–	–

Interest expenses

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sichuan Railway Investment	–	2,302	–	–	–

On 23 October 2020, the Target Company borrowed RMB296,000,000 from Sichuan Railway Investment for a term of one year with annual interest rate of 5.00%. The loan was repaid on 17 December 2020.

The Directors are of the view that interest paid to Sichuan Railway Investment determined according to borrowing agreements is based on the market interest rate of similar borrowings.

(2) Details of interest-bearing loans provided to/(collected from) related parties

		Year ended 31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Collection of loans from						
– Ultimate holding company	(i)	–	(300,000)	–	–	–
Provision of loans to						
– Shudao Expressway	(ii)	–	–	–	–	300,000

Interest income

		Year ended 31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Ultimate holding company	(i)	123,030	111,435	108,266	80,977	80,977
Shudao Expressway	(ii)	–	–	–	–	2,583
Funds under centralised management	(iii)	244	506	704	343	672
		123,274	111,941	108,970	81,320	84,232

(i) On 8 June 2016, the Target Company provided a loan of RMB1.7 billion to Sichuan Railway Investment with instalment repayments of RMB170 million, RMB340 million, RMB510 million and RMB680 million on the respective maturity dates of 8 June 2023, 8 June 2024, 8 June 2025 and 8 June 2026. On 22 February 2017, the Target Company provided a loan of RMB800 million to Sichuan Railway Investment with instalment repayments of RMB80,000,000, RMB160,000,000, RMB240,000,000 and RMB320,000,000 on the respective maturity dates of 22 February 2024, 22 February 2025, 22 February 2026 and 8 June 2026. On 16 March 2020, an aggregate amount of RMB300,000,000 was early repaid by Sichuan Railway Investment. The above-mentioned loans provided to Sichuan Railway Investment bear interest at the rate of 5.15% per annum.

The Directors are of the view that interest charged to Sichuan Railway Investment has been determined according to the borrowing agreements by reference to the prevailing interest rate of similar bank loans.

(ii) On 17 June 2022, the Target Company provided a loan of RMB300 million to Shudao Expressway for a term of one year and at annual interest rate of 3.10%. Interest thereof shall be paid on a quarterly basis and the principal shall be repaid in one lump sum upon maturity.

The Directors are of the view that interest charged to Shudao Expressway has been determined according to the borrowing agreements by reference to the prevailing interest rate of similar bank loans.

(iii) The ultimate holding company sets up a group cash pool bank account to centrally manage working capital of entities within the group. The Target Company's deposits in the group cash pool bank account bear the same interest rate as demand bank deposit.

(3) Bank and other borrowings guaranteed by the ultimate holding company (note 19)

	Year ended 31 December			**Nine months ended 30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Bank loans	8,882,000	8,805,000	8,959,000	8,959,000	9,109,000
Other borrowings	4,008,138	3,861,938	3,712,446	3,702,096	3,547,519
	12,890,138	12,666,938	12,671,446	12,661,096	12,656,519

(4) During the year ended 31 December 2021 and nine months ended 30 September 2021 and 2022, in consideration of the guarantee provided by Shudao Investment in respect of the bank loans granted to the Target Company, the respective guarantee fees of RMB56,385,000, RMB40,570,000 and RMB47,339,000 were accounted for at 0.7% per annum of the corresponding guaranteed bank loans.

(5) During the years ended 31 December 2019, 2020 and 2021, the nine months ended 30 September 2021 and 2022, the relevant service fee in relation to the provision of highway toll fee collection networks and supportive technological services to the Target Company amounted to RMB2,706,000, RMB2,462,000, RMB3,335,000, RMB2,540,000 and RMB2,102,000, respectively. The service fee was determined at the rate of 0.4% of toll income of the Target Company.

(6) Machinery and electronic equipment purchased from related parties

	Year ended 31 December			**Nine months ended 30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yunkong Transportation	68,538	25,645	1,301	1,301	–
Traffic Engineering	–	–	1,082	–	–
SRB Group	10,025	–	–	–	–

The Directors consider that the purchase prices paid by the Target Company has been determined at market prices.

(7) Construction services provided by related parties

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Road and Waterway Construction	5,750	13,653	–	–	–
SRB Group	35,893	31,561	–	–	–
Traffic Engineering	–	11,746	–	–	–

The Directors consider that those construction services has been determined at prices similarly available to the related parties' third-party customers.

(8) Maintenance works provided by related parties

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Bridge Engineering	19,267	7,514	8,309	2,393	7,950
Traffic Engineering	2,958	–	–	–	–
SRB Group	26,845	11,940	6,135	2,943	6,823

The Directors consider that the amount paid for the maintenance works have been determined at prices similarly available to the related parties' third-party customers.

(9) Property management services provided by related parties

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Shudao Property Service	1,905	1,498	1,671	1,111	859

The Directors considered that the amount paid for the property management services from a related company was determined based on prices similarly available to the related party's third-party customers.

(c) Balances with related parties

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from the ultimate holding company				
Principal of loans granted	2,500,000	2,200,000	2,200,000	2,200,000
Interest receivables	3,930	3,459	3,459	3,144
Group cash pool account	143,858	212,683	361,668	181,456
	2,647,788	2,416,142	2,565,127	2,384,600
Due from the parent company				
Principal of loans granted	–	–	–	300,000
Due from other related parties				
Other receivables	13,782	45,610	30,536	19,071
Prepayments	71	71	71	–
	13,853	45,681	30,607	19,071

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to the ultimate holding company				
Guarantee fees payable	–	–	56,385	103,724
Other payables	78	78	78	78
	78	78	56,463	103,802
Due to other related parties				
Other payables	353,736	315,075	288,380	285,128

(d) Compensation of key management personnel of the Target Company

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,305	926	1,631	1,165	1,145
Performance related bonus	881	946	1,272	–	–
Pension scheme contributions	208	34	195	133	122
Supplementary pension scheme contributions	150	90	127	93	122
	2,544	1,996	3,225	1,391	1,389

Further details of director's emoluments are included in note 9 to the Historical Financial Information.

26. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost				
Financial assets included in prepayments, other receivables, and other assets	14,356	45,727	30,702	20,698
Due from the ultimate holding company	2,647,788	2,416,142	2,565,127	2,384,600
Due from the parent company	–	–	–	300,000
Cash and cash equivalents	215,795	54,182	64,764	36,964
	2,877,939	2,516,051	2,660,593	2,742,262

Financial liabilities

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities at amortised cost				
Financial liabilities included in other payables and accruals	637,602	575,175	491,670	476,460
Due to the ultimate holding company	78	78	56,463	103,802
Interest-bearing bank and other borrowings	12,890,138	12,666,938	12,671,446	12,656,519
	13,527,818	13,242,191	13,219,579	13,236,781

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Target Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts				
Financial assets				
Due from the ultimate holding company, non-current portion	2,500,000	2,200,000	2,200,000	2,200,000
Financial liabilities				
Interest-bearing bank and other borrowings	12,890,138	12,666,938	12,671,446	12,656,519
Fair values				
Financial assets				
Due from the ultimate holding company, non-current portion	2,530,352	2,223,601	2,219,764	2,217,093
Financial liabilities				
Interest-bearing bank and other borrowings	12,373,673	12,162,735	12,480,008	12,353,966

Management has assessed that the fair values of cash and cash equivalents, the financial assets included in prepayments, other receivables and other assets, amounts due from the parent company, the current portion of amounts due from the ultimate holding company, the current portion of financial liabilities included in other payables and accruals and amounts due to the ultimate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of the Target Company's amounts due from the ultimate holding company and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, adjusted by the Target Company's own non-performance risk where appropriate.

Fair value hierarchy

The fair value measurement hierarchy of the Target Company's non-current portion of financial assets and financial liabilities for which fair values are disclosed is considered to be Level 3, which required significant unobservable inputs as at the end of each of the Relevant Period.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from the ultimate holding company, amounts due from the parent company, cash and cash equivalents and amounts due to the ultimate holding company. The main purpose of these financial instruments is to raise finance for the Target Company's operations. It is the Target Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The interest rates and terms of repayment of interest-bearing bank and other borrowings are disclosed in note 19. The Target Company does not have any significant exposure to the risk of changes in market interest rates as the Target Company does not have any long term receivables and loans which are subject to floating interest rates.

Credit risk

There is no significant credit concentration risk for the Target Company. The credit risk of the Target Company's financial assets, which comprise cash and bank balances and financial assets included in prepayments, other receivables and other assets, amounts due from the ultimate holding company and amounts due from the parent company arises from default of the counterparty. In addition, the financial assets are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Target Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	**Lifetime ECLs**		**Simplified**	
	Stage 1	**Stage 2**	**Stage 3**	**approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets included in prepayments, other receivables and other assets – Normal*	14,356	–	–	–	14,356
Cash and cash equivalents	215,795	–	–	–	215,795
Amounts due from the ultimate holding company	2,647,788	–	–	–	2,647,788
	2,877,939	–	–	–	2,877,939

As at 31 December 2020

	12-month ECLs	Lifetime ECLs		Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets included in prepayments, other receivables and other assets – Normal*	45,727	–	–	–	45,727
Cash and cash equivalents	54,182	–	–	–	54,182
Amounts due from the ultimate holding company	2,416,142	–	–	–	2,416,142
	2,516,051	–	–	–	2,516,051

As at 31 December 2021

	12-month ECLs	Lifetime ECLs		Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets included in prepayments, other receivables and other assets – Normal*	30,702	–	–	–	30,702
Cash and cash equivalents	64,764	–	–	–	64,764
Amounts due from the ultimate holding company	2,565,127	–	–	–	2,565,127
	2,660,593	–	–	–	2,660,593

As at 30 September 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets included in prepayments, other receivables and other assets – Normal*	20,698	–	–	–	20,698
Cash and cash equivalents	36,964	–	–	–	36,964
Amounts due from the ultimate holding company	2,384,600	–	–	–	2,384,600
Amounts due from the parent company	300,000	–	–	–	300,000
	2,742,262	–	–	–	2,742,262

* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality the financial assets is considered to be "doubtful".

Liquidity risk

The Target Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Target Company's objective is to maintain a balance between continuity of funding and flexibility using interest-bearing bank and other borrowings and financial support from its shareholder.

The liquidity of the Target Company is primarily dependent on its ability to maintain adequate cash flows from operations to meet its debt obligations as they fall due.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2019					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	268,297	876,496	4,963,139	10,897,268	17,005,200
Due to the ultimate holding company	78	–	–	–	–	78
Other payables and accruals	614,983	22,619	–	–	–	637,602
	615,061	290,916	876,496	4,963,139	10,897,268	17,642,880

	As at 31 December 2020					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	265,711	594,990	6,512,335	8,875,806	16,248,842
Due to the ultimate holding company	78	–	–	–	–	78
Other payables and accruals	555,141	20,034	–	–	–	575,175
	555,219	285,745	594,990	6,512,335	8,875,806	16,824,095

	As at 31 December 2021					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	253,339	467,680	5,575,641	12,910,417	19,207,077
Due to the ultimate holding company	56,463	–	–	–	–	56,463
Other payables and accruals	473,327	18,343	–	–	–	491,670
	529,790	271,682	467,680	5,575,641	12,910,417	19,755,210

	As at 30 September 2022					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	141,349	865,983	5,055,617	12,722,786	18,785,735
Due to the ultimate holding company	103,802	–	–	–	–	103,802
Other payables and accruals	455,438	21,022	–	–	–	476,460
	559,240	162,371	865,983	5,055,617	12,722,786	19,365,997

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is the Target Company's total liabilities over its total assets. The Target Company's policy is to keep the gearing ratio at a healthy capital level in order to support its businesses. The Target Company's gearing ratio as at 31 December 2019, 2020 and 2021 and nine months ended 30 September 2022 was 80%, 81%, 82% and 82%, respectively.

29. EVENTS AFTER THE RELEVANT PERIODS

No significant events that require additional disclosure or adjustments occurred after the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 September 2022.

Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2021 and the nine months ended 30 September 2022 (the "**Reporting Period**") based on the financial information included in the accountants' report of the Target Company as set out in Appendix II to this circular.

The Target Company is a limited liability company established in the PRC. Its major asset is the concession rights of the Second Ring (Western) Expressway. The Target Company is principally engaged in the operation and management of the Second Ring (Western) Expressway. For more information on the Target Company and its assets, please refer to the section headed "Background information on the Target Company and the Second Ring (Western) Expressway" in the "Letter from the Board" in this circular.

OPERATING RESULTS

Revenue

During the Reporting Period, the Target Company had only one reportable business segment and its revenue was derived from the operation of the Second Ring (Western) Expressway, which consisted of (i) toll income from toll expressway operation; (ii) construction revenue in respect of the construction services provided by the Target Company; and (iii) rental income from leasing of related assets. The concession rights of the Second Ring (Western) Expressway will expire on 11 January 2046.

The following table sets out a breakdown of the Target Company's revenue by nature during the Reporting Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Toll income	653,301	598,203	804,482	612,434	507,326
Construction revenue	25,787	57,210	–	–	–
Rental income	9,620	9,607	9,807	7,439	7,965
Total	688,708	665,020	814,289	619,873	515,291

Toll income

The Target Company's toll income from toll expressway operation:

(a) decreased by approximately 8.4% from approximately RMB653.3 million for the year ended 31 December 2019 to approximately RMB598.2 million for the year ended 31 December 2020;

(b) increased by approximately 34.5% from approximately RMB598.2 million for the year ended 31 December 2020 to approximately RMB804.5 million for the year ended 31 December 2021; and

(c) decreased by approximately 17.2% from approximately RMB612.4 million for the nine months ended 30 September 2021 to approximately RMB507.3 million for the nine months ended 30 September 2022.

The decrease in the Target Company's toll income for the year ended 31 December 2020 was primarily attributable to the decrease in traffic volume caused by the imposition of travel restrictions within the PRC in 2020 in response to the outbreak of COVID-19 pandemic. Meanwhile, the toll-free policy for all vehicles using the toll roads, which was implemented by the Ministry of Transport with effect from 17 February 2020 to 5 May 2020 in order to support the economic recovery, also contributed to the decrease in the Target Company's toll income for the year ended 31 December 2020.

The increase in the Target Company's toll income for the year ended 31 December 2021 was primarily attributable to (i) the rebound of traffic volume due to the gradual relaxation of travel restrictions within the PRC in 2021; and (ii) the resumption of toll collection after the termination of the toll-free policy implemented by the Ministry of Transport in 2020.

The decrease in the Target Company's toll income for the nine months ended 30 September 2022 was primarily attributable to the decrease in traffic volume which was caused by the imposition of travel restrictions within the PRC in 2022 in response to the resurgence of COVID-19 pandemic.

Construction revenue

During the years ended 31 December 2019 and 2020, the Target Company was engaged in the construction of Rongcheng Second Ring Expressway Chongzhou Dahua Interchange Project and recorded notional construction revenue of approximately RMB25.8 million and RMB57.2 million, respectively.

Pursuant to HK (IFRIC) Interpretation 12 "Service Concession Arrangements", if an operator constructs the infrastructure, the operator is required to account for its construction revenue and construction costs at the same time and to recognise the fair value of the consideration received and receivable for the construction services as an intangible asset to the extent that the operator receives a right to charge users of the public service. As such, the fair value of the construction revenue recognised by the Target Company is approximate to the construction costs incurred (referred to as "construction costs in respect of service concession arrangement" under "Cost of sales" below).

Rental income

During the Reporting Period, the rental income of the Target Company primarily represented income from leasing of billboards and premises in service zones of the Second Ring (Western) Expressway.

The Target Company's rental income (i) remained relatively stable for the years ended 31 December 2019, 2020 and 2021, amounting to approximately RMB9.6 million, RMB9.6 million and RMB9.8 million, respectively; and (ii) slightly increased from approximately RMB7.4 million for the nine months ended 30 September 2021 to approximately RMB8.0 million for the nine months ended 30 September 2022.

Cost of sales

During the Reporting Period, the cost of sales of the Target Company primarily consisted of (i) amortisation of service concession arrangement; (ii) depreciation of property, plant and equipment; (iii) direct staff costs; (iv) repair and maintenance expenses; and (v) construction costs in respect of service concession arrangement.

The Target Company's cost of sales:

(a) increased by approximately 20.3% from approximately RMB348.4 million for the year ended 31 December 2019 to approximately RMB419.2 million for the year ended 31 December 2020, mainly due to the increase in construction costs, amortisation of service concession arrangement and depreciation of property, plant and equipment, and partly offset by the decrease in repair and maintenance expenses;

(b) decreased by approximately 16.3% from approximately RMB419.2 million for the year ended 31 December 2020 to approximately RMB350.8 million for the year ended 31 December 2021, mainly due to the decrease in construction costs and amortisation of service concession arrangement, and partly offset by the increase in direct staff costs; and

(c) decreased by approximately 13.4% from approximately RMB259.8 million for the nine months ended 30 September 2021 to approximately RMB225.0 million for the nine months ended 30 September 2022, mainly due to the decrease in amortisation of service concession arrangement which were driven by the decrease in traffic volume and the decrease in direct staff costs, and partly offset by the increase in repair and maintenance expenses.

Gross profit and gross profit margin

For the three years ended 31 December 2021, the Target Company recorded gross profit of approximately RMB340.3 million, RMB245.9 million and RMB463.5 million, respectively, with corresponding gross profit margin being approximately 49.4%, 37.0% and 56.9%, respectively.

The Target Company recorded a gross profit of approximately RMB360.0 million for the nine months ended 30 September 2021 with a gross profit margin of approximately 58.1%, whereas the Target Company recorded a gross profit of approximately RMB290.3 million for the nine months ended 30 September 2022 with a gross profit margin of approximately 56.3%.

Other income and gains

During the Reporting Period, the other income and gains of the Target Company mainly included (i) interest income; (ii) government grants; and (iii) road damage and road occupation compensation income.

The Target Company's other income and gains:

(a) slightly decreased by approximately 2.3% from approximately RMB136.7 million for the year ended 31 December 2019 to approximately RMB133.5 million for the year ended 31 December 2020, mainly due to the combined effect of (i) the decrease in interest income from loans to the ultimate holding company and bank deposits; and (ii) the receipt of government grants during the year;

(b) decreased by approximately 12.0% from approximately RMB133.5 million for the year ended 31 December 2020 to approximately RMB117.5 million for the year ended 31 December 2021, mainly due to the decrease in government grants received during the year as compared to those received during the previous year; and

(c) increased by approximately 13.3% from approximately RMB87.8 million for the nine months ended 30 September 2021 to approximately RMB99.5 million for the nine months ended 30 September 2022, mainly due to the increase in road damage and road occupation compensation income and interest income from loans to the parent company.

Administrative expenses

During the Reporting Period, the administrative expenses of the Target Company mainly comprised (i) employee benefit expenses for management and administrative staff; (ii) vehicle usage expenses; (iii) office and utilities expenses; (iv) depreciation expenses; and (v) other miscellaneous expenses.

The Target Company's administrative expenses:

(a) remained relatively stable at approximately RMB26.5 million and RMB26.3 million for the years ended 31 December 2019 and 2020, respectively;

(b) increased by approximately 6.8% from approximately RMB26.3 million for the year ended 31 December 2020 to approximately RMB28.1 million for the year ended 31 December 2021, mainly due to the year-on-year increase in employee benefit expenses which was caused by the overall increase in wages and salaries and pension scheme contributions in 2021; and

(c) remained relatively stable at approximately RMB21.3 million and RMB20.7 million for the nine months ended 30 September 2021 and 2022, respectively.

Finance costs

During the Reporting Period, the finance costs of the Target Company mainly represented (i) interest on bank and other borrowings; and (ii) guarantee fees for the bank guarantees provided by its ultimate holding company.

The Target Company's finance costs:

(a) slightly decreased by approximately 1.4% from approximately RMB651.7 million for the year ended 31 December 2019 to approximately RMB642.4 million for the year ended 31 December 2020, mainly due to the repayment of certain bank and other borrowings during the year;

(b) remained relatively stable at approximately RMB642.4 million and RMB638.3 million for the years ended 31 December 2020 and 2021, respectively; and

(c) slightly decreased by approximately 1.1% from approximately RMB476.5 million for the nine months ended 30 September 2021 to approximately RMB471.1 million for the nine months ended 30 September 2022, mainly due to the repayment of certain bank and other borrowings during the period.

Loss for the year/period

The Target Company was loss-making during the Reporting Period, primarily as a result of the high finance costs incurred during the Reporting Period as mentioned above.

In particular, the Target Company's loss for the year/period:

(a) increased by approximately 36.9% from approximately RMB197.3 million for the year ended 31 December 2019 to approximately RMB270.2 million for the year ended 31 December 2020;

(b) decreased by approximately 70.9% from approximately RMB270.2 million for the year ended 31 December 2020 to approximately RMB78.6 million for the year ended 31 December 2021; and

(c) increased by approximately 96.6% from approximately RMB46.8 million for the nine months ended 30 September 2021 to approximately RMB92.0 million for the nine months ended 30 September 2022.

The fluctuations of the Target Company's loss in each of the years/periods referred to above were primarily attributable to the foregoing reasons as discussed above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the Target Company financed its operations and working capital requirements primarily through a combination of cash flows generated from its operating activities and borrowings.

Cash and cash equivalents

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Company had cash and cash equivalents amounting to approximately RMB215.8 million, RMB54.2 million, RMB64.8 million and RMB37.0 million, respectively. All of the cash and bank balances held by the Target Company were denominated in RMB.

Bank and other borrowings

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Company had bank and other borrowings of approximately RMB12,890.1 million, RMB12,666.9 million, RMB12,671.4 million and RMB12,656.5 million, respectively, all of which were denominated in RMB.

The following table sets out a breakdown of the Target Company's bank and other borrowings as at the dates indicated:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current:				
– Bank loans	377,000	100,000	5,000	10,000
– Other borrowings	146,200	149,492	158,067	460,051
Non-current:				
– Bank loans	8,505,000	8,705,000	8,954,000	9,099,000
– Other borrowings	3,861,938	3,712,446	3,554,379	3,087,468
Total	12,890,138	12,666,938	12,671,446	12,656,519

All of the Target Company's bank loans and other borrowings (which represented borrowings from financial institutions) were interest bearing during the Reporting Period. The effective interest rates of bank loans during the Reporting Period were 4.90%–6.18%, 4.90%, 4.20% and 4.20% per annum, respectively. The effective interest rates of other borrowings during the Reporting Period were 4.89%–5.15%, 4.89%–5.15%, 4.89%–5.15% and 4.89%–5.15% per annum, respectively. Please refer to note 19 to the accountants' report of the Target Company in Appendix II to this circular for the maturity analysis of the Target Company's bank and other borrowings.

GEARING RATIO

The gearing ratio of the Target Company, being its net debts (such being total borrowings less cash and cash equivalents) divided by its total capital (such being total equity plus net debts), was approximately 78.9%, 80.2%, 80.6% and 81.1% as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively.

CHARGE ON ASSETS

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Company pledged the concession rights of the Second Ring (Western) Expressway held by it as securities for certain interest-bearing bank loans which amounted to approximately RMB8,585 million, RMB8,805 million, RMB8,959 million and RMB9,109 million, respectively. The net carrying amount of such concession rights was approximately RMB14,050.8 million, RMB13,846.1 million, RMB13,602.1 million and RMB13,454.5 million as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively.

FOREIGN CURRENCY AND HEDGING

The Target Company conducts its business in the PRC and all transactions are denominated in RMB. Therefore, the Target Company has no foreign exchange risk exposure. In addition, the Target Company has not used any financial instrument to hedge potential fluctuation in interest rates and exchange rates.

CONTINGENT LIABILITIES

As at 30 September 2022, the Target Company did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2022, the Target Company had a total number of approximately 500 employees based in the PRC. During the Reporting Period, the Target Company's staff costs mainly comprised wages and salaries, pension scheme contributions, housing funds and other staff benefits and amounted to approximately RMB67.7 million, RMB65.3 million, RMB73.8 million and RMB55.6 million, respectively.

The Target Company is required to participate in defined contribution retirement plans organised by the PRC government. The remuneration policy of the Target Company considers its own human resources policy, market circumstances and the overall qualities of employees taking into account the requirements of the positions concerned and making the best use of the individual capabilities of each employee.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Reporting Period, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by the Target Company.

SIGNIFICANT INVESTMENTS

During the Reporting Period, there were no significant investments held by the Target Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 September 2022, the Target Company did not have any material capital commitments.

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

To the directors of Sichuan Expressway Company Limited

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Sichuan Expressway Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), and Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (the "**Target Company**", together with the Group hereafter collectively referred to as the "**Enlarged Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2022 and related notes (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV of the circular of the Company dated 10 March 2023 (the "**Circular**").

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate purpose only, to provide information about how the acquisition of 100% equity interest in the Target Company (the "**Acquisition**") by the Company might have affected the financial position of the Group as at 30 June 2022 as if the Acquisition had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the unaudited interim information for the six months ended 30 June 2022, on which no audit or review report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the transaction had taken place at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong
10 March 2023

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

This unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Sichuan Expressway Company Limited (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), and Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (the "**Target Company**") (the Group and the Target Company are hereafter collectively referred to as the "**Enlarged Group**"), comprising the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2022, has been prepared by the directors of the Company (the "**Directors**") in accordance with Rule 4.29 of the Listing Rules and is solely prepared for the purpose to illustrate the effect of the proposed acquisition of 100% equity interest in the Target Company (the "**Acquisition**") to the Group as if the Acquisition has been completed on 30 June 2022.

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2022, which has been extracted from the interim report of the Group for the six months ended 30 June 2022; and (ii) the audited statement of financial position of the Target Company as at 30 September 2022, which has been extracted from the financial information of the Target Company thereon set out in Appendix II to the circular dated 10 March 2023 ("**Circular**"), after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. As a result of the hypothetical nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition been completed on 30 June 2022. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group, as incorporated by reference in Appendix I to this Circular, and that of the Target Company, as set out in Appendix II to this Circular, and other financial information included elsewhere in this Circular.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (CONTINUED)

The Unaudited Pro Forma Financial Information

	The Group as at 30 June 2022	The Target Company as at 30 September 2022	Pro forma adjustments		Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	
NON-CURRENT ASSETS					
Property, plant and equipment	681,538	87,668			769,206
Right-of-use assets	341,794	–			341,794
Service concession arrangements	30,476,674	13,454,503			43,931,177
Investment in joint ventures	129,505	–			129,505
Investment in associates	300,228	–			300,228
Equity investments designated at fair value through other comprehensive income	446,167	–			446,167
Loans to customers	1,239,780	–			1,239,780
Payments in advance	586,534	–			586,534
Contract assets	31,000	–			31,000
Due from the ultimate holding company	–	2,200,000		(2,200,000)	–
Deferred tax assets	15,677	64,319			79,996
Restricted deposits	40	–			40
Goodwill	7,538	–			7,538
Total non-current assets	34,256,520	15,806,490			47,863,010

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (CONTINUED)

The Unaudited Pro Forma Financial Information (continued)

	The Group as at 30 June 2022	The Target Company as at 30 September 2022	Pro forma adjustments		Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	
CURRENT ASSETS					
Inventories	89,440	–			89,440
Loans to customers	1,270,225	–			1,270,225
Trade and other receivables	2,075,066	21,609			2,096,675
Financial assets at fair value through profit or loss	398	–			398
Restricted deposits	7,796	–			7,796
Cash and cash equivalents	2,888,627	36,964	(1,953,000)	2,684,600	3,657,191
Due from the ultimate holding company	–	184,600		(184,600)	–
Due from the parent company	–	300,000		(300,000)	–
Total current assets	6,331,552	543,173			7,121,725

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (CONTINUED)

The Unaudited Pro Forma Financial Information (continued)

	The Group as at 30 June 2022	The Target Company as at 30 September 2022	Pro forma adjustments		Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	
CURRENT LIABILITIES					
Tax payables	93,414	–			93,414
Trade and other payables	1,644,618	577,216			2,221,834
Dividends payable	120,222	–			120,222
Interest-bearing bank and other borrowings	2,349,753	470,051	2,950,000		5,769,804
Derivative financial instruments	1,327	–			1,327
Due to the ultimate holding company	–	103,802			103,802
Total current liabilities	4,209,334	1,151,069			8,310,403
NET CURRENT ASSETS/ (LIABILITIES)	2,122,218	(607,809)			(1,188,678)
TOTAL ASSETS LESS CURRENT LIABILITIES	36,378,738	15,198,594			46,674,332
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	17,564,792	12,186,468			29,751,260
Corporate bonds	–	–	1,000,000		1,000,000
Deferred tax liabilities	7,667	–			7,667
Deferred income	226,464	71,991			298,455
Total non-current liabilities	17,798,923	12,258,459			31,057,382

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (CONTINUED)

The Unaudited Pro Forma Financial Information (continued)

	The Group as at 30 June 2022	The Target Company as at 30 September 2022	Pro forma adjustments		Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	
Net assets	18,579,815	2,940,135			15,616,950
EQUITY					
Issued capital	3,058,060	684,210	(684,210)		3,058,060
Reserves	14,454,462	2,255,925	(2,255,925)		14,454,462
Merger deficit	–	–	(2,962,865)		(2,962,865)
	17,512,522	2,940,135			14,549,657
Non-controlling interests	1,067,293	–			1,067,293
Total Equity	18,579,815	2,940,135			15,616,950

Notes:

(1) The figures are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2022 as set out in the published interim results announcement of the Company for the six months ended 30 June 2022.

(2) The figures are extracted from the audited statement of financial position of the Target Company as at 30 September 2022 as set out in Appendix II to this Circular.

(3) As the Company and the Target Company are ultimately controlled by a controlling shareholder of the Company (the "**Vendor**"), the Acquisition is a business combination under common control. Being consistent with the Group's accounting policy for common control combination, the Acquisition is accounted for based on the principles of merger accounting in accordance with merger accounting as if the Acquisition had occurred on the date when the Target Company first came under the control of the controlling shareholder. Accordingly, the assets and liabilities of Target Company acquired in the Acquisition are stated at their carrying amounts as if such assets and liabilities had been held or incurred by the Group from the later of the date of the relevant transactions giving rise to such assets or liabilities and the date on which the Target Company first came under the control of the controlling shareholder.

In accordance with the Equity Transfer Agreement, the Company conditionally agreed to purchase a 100% equity interest of the Target Company, with the consideration for the Acquisition amounted to RMB5,903,000,000, which shall be satisfied by cash payable to the Vendor.

Merger deficit of RMB2,962,865,000 represents the consideration of RMB5,903,000,000 paid to the Vendor to acquire 100% equity interests in the Target Company and after netting off the book value of net assets in the Target Company of RMB2,940,135,000.

For the purpose of this unaudited pro forma financial information, the Group intends to finance total consideration of RMB5,903,000,000 by new loans amounting to RMB2,950,000,000, new corporate bonds amounting to RMB1,000,000,000 and the remaining balance of RMB1,953,000,000 to be satisfied by the Group's internal resources.

(4) In accordance with the Equity Transfer Agreement, the loans and related interest of RMB2,503,144,000 granted by the Target Company to the ultimate controlling company and parent company will be settled before the Completion Date. The funds in group cash pool account of RMB181,456,000 will be returned by the ultimate controlling company before the Completion Date.

(5) In the preparation of the Unaudited Pro Forma Financial Information, the Directors have assessed the current overall market environment, industrial policies and the operating situation of the Enlarged Group, and believes that there is no impairment indication of the service concession arrangement arising from the Acquisition of the Target Company as set out in the Unaudited Pro Forma Financial Information.

(6) No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisers, reporting accountants, valuer, and other expenses) and the directors determined that such costs are insignificant.

(7) No other adjustments have been made to reflect any trading results or other transactions of the Group or the Target Company entered into subsequent to 30 June 2022 or 30 September 2022 respectively.

The following is the English translation of the asset valuation report prepared for the purpose of inclusion in this circular received from Beijing North Asia, an independent qualified PRC valuer, in connection with the appraised value of the entire equity interest in the Target Company as at 30 September 2022. The Chinese text of this report shall prevail over the English text in the event of inconsistency.

This report has been prepared in accordance with the Asset Valuation Standards of the PRC.

ASSET VALUATION REPORT ON THE PROJECT OF VALUATION OF THE VALUE OF THE ENTIRE SHAREHOLDERS' EQUITY INTERESTS OF SICHUAN RONGCHENG SECOND RING EXPRESSWAY DEVELOPMENT CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTERESTS BY SICHUAN EXPRESSWAY COMPANY LIMITED*

North Asia Ping Bao Zi [2023] No. 01–055

北京北方亚事资产评估事务所(特殊普通合伙)
BEIJING NORTH ASIA ASSET ASSESSMENT FIRM (Special General Partnership)

13 February 2023

CONTENT

STATEMENTS

I. This asset valuation report has been prepared in accordance with the basic standards for asset valuation issued by the Ministry of Finance and the practicing standards for asset valuation and the code of ethics for asset valuation issued by the China Appraisal Society.

II. The client or other users of this asset valuation report shall use this asset valuation report in accordance with the provisions of laws and administrative regulations as well as the scope of use indicated herein. Where the client or other users of this asset valuation report violate(s) the preceding provisions in using this asset valuation report, we, as the asset valuation institution, and our asset valuation professionals shall bear no liability therefore.

III. This asset valuation report shall be used only by the client, other users of this asset valuation report as agreed in the asset valuation engagement contract and the users of this asset valuation report stipulated by laws and administrative regulations. Save for the above, any other institutions or individuals shall not become the users of this asset valuation report.

IV. We, as the asset valuation institution, and our asset valuation professionals advise that users of this asset valuation report shall understand and use the valuation conclusion in a correct manner, which is not equivalent to the realisable price of the valuation target. The valuation conclusion shall not be considered as a guarantee for the realisable price of the valuation target.

V. The users of this asset valuation report shall pay attention to the assumptions and premises for the concluding of the valuation conclusion as well as the special notes and restrictions over use contained herein.

VI. We, as the asset valuation institution, and our asset valuation professionals shall abide by the laws, administrative regulations and the asset valuation standards, adhere to the principles of independence, objectivity and fairness, and bear the liability for this asset valuation report they have provided in accordance with the laws.

VII. The lists of assets involved of the valuation target shall be declared by the client or the valued entity and confirmed by signature, affixation of seal or adoption of other forms permitted by laws. The client and other parties concerned shall be responsible for the authenticity, integrity and legality of the documents they have provided in accordance with the laws.

VIII. The asset valuation agency and asset valuation professionals are not interested, either presently or expectedly, in the appraised entity contained in this asset valuation report, not interested, either presently or expectedly, in relevant concerned parties, and not biased against relevant concerned parties.

IX. The asset valuation professionals have carried out on-site inspection on the valuation target and its assets involved as set out in the asset valuation report, paid necessary attention to the legal titles of the valuation target and its assets involved, verified the information related to the legal titles of the valuation target and its assets involved, and truthfully disclosed the issues identified in the process, and requested the client and other parties concerned to perfect their ownership so as to meet the requirements for issuing an asset valuation report.

X. The analysis, judgment and conclusion as set out in the asset valuation report issued by us, as the asset valuation institution, are subject to the assumptions and limitations as set out in the asset valuation report. The users of the asset valuation report shall give due consideration to the assumptions, limitations, notes on special issues and their impact on the valuation conclusions set out herein.

SUMMARY OF ASSET VALUATION REPORT ON THE PROJECT OF VALUATION OF THE VALUE OF THE ENTIRE SHAREHOLDERS' EQUITY INTERESTS OF SICHUAN RONGCHENG SECOND RING EXPRESSWAY DEVELOPMENT CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTERESTS BY SICHUAN EXPRESSWAY COMPANY LIMITED*

North Asia Ping Bao Zi [2023] No. 01–055

Beijing North Asia Asset Assessment Firm (Special General Partnership) accepted the engagement by Sichuan Expressway Company Limited, Sichuan Shudao Expressway Group Co., Ltd. (四川蜀道高速公路集團有限公司) and Sichuan Road & Bridge (Group) Corporation Ltd. (四川公路橋樑建設集團有限公司) to value the market value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (hereinafter as "**Rongcheng Second Ring**" or the "**Enterprise**") involved in the proposed acquisition of equity interests by Sichuan Expressway Company Limited as at 30 September 2022 by adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with the laws, administrative regulations and asset valuation standards and adhering to the principles of independence, objectivity and fairness. The summary of asset valuation report is as follows:

I. Valuation purpose: in accordance with the document titled "Request for Instructions on the Establishment of the Equity Acquisition Project of Rongcheng Second Ring Expressway Development Co., Ltd." and "Approval of Shudao Investment Group Co., Ltd. for the Project Establishment of the Non-public Agreement Transfer of the Equity Interests in Rongcheng Second Ring Company Held by Shudao Expressway Group and SRB Group", the value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. as at 30 September 2022 will be valued to provide value reference opinions for the proposed acquisition of equity interests by Sichuan Expressway Company Limited.

II. Target and scope of valuation: the valuation target will be the value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd.. The valuation scope will be the entire assets and liabilities corresponding to the valuation target, including its current assets, non-current assets, current liabilities and non-current liabilities.

III. Type of value: market value.

IV. Valuation benchmark date: 30 September 2022.

V. Valuation method: the project is valued adopting asset-based approach and income approach.

VI. Valuation conclusion: RMB5,903,000,000, and this valuation adopts the conclusion in income approach.

VII. Validity period for use of the valuation conclusion: the validity period for use of the valuation conclusion will be one year from the valuation benchmark date (i.e. being effective for the period from 30 September 2022 to 29 September 2023, subject to revaluation when the one-year validity period expires).

VIII. Special matters influencing the valuation conclusion:

(I) REPORTS CITED FROM OTHER INSTITUTIONS

1. The Audit Report of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. for 2021 and the Period from January to September 2022 (《四川蓉城第二繞城高速公路開發有限責任公司2021年及2022年1至9月期間》) No. XYZH/2023CDAA7B0011 issued by ShineWing Certified Public Accountants (Special General Partnership);

2. Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway (《成都第二繞城高速公路西段車流量評估及收費收入測算報告》) issued by Chelbi Engineering Consultants, Inc. (華傑工程諮詢有限公司).

(II) INCOMPLETE OR DEFECTIVE TITLE INFORMATION

1. According to the Description on and Undertaking over Premises and Land Use Rights (《關於無產權證房屋和土地使用權的情況說明和承諾》) issued by the Enterprise, the Enterprise has twelve toll station premises and two parking area premises on the western section of the Chengdu Second Ring Expressway for which no certificates of title have been issued (see the table below for details), and the Enterprise has undertaken that the above fourteen premises are all owned by Rongcheng Second Ring and there is no dispute over their title.

List of Premises Without Certificate of
Title for Sichuan Rongcheng Second Ring Expressway Development Co., Ltd.

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
I.	**Shuangliu Jiancha Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
II.	**Xinjin Huayuan Toll Station**				
1	Management Room	Reinforced Concrete	1,466.45	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
III.	**Xinjin Xingyi Toll Station**				
1	Management Room	Reinforced Concrete	2,081.45	3 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
IV.	**Chongzhou Sanjiang Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
V.	**Chongzhou Dahua Toll Station**				
1	Management Room	Reinforced Concrete	1,818	3 Floors	2020.6
2	Toll Shed	Reinforced Concrete			2020.6
3	Power Distribution Room	Reinforced Concrete	106	1 Floor	2020.6
VI.	**Dahua Parking Zone**				
1	Management Room	Reinforced Concrete	822	2 Floors	2014.12
2	Water Pump Room	Reinforced Concrete	82.66	2 Floors	2014.12
VII.	**Hesheng Parking Zone**				
1	Management Room	Reinforced Concrete	822	2 Floors	2014.12
2	Water Pump Room	Reinforced Concrete	82.66	2 Floors	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
VIII.	**Chongzhou Toll Station**				
1	Management Room	Reinforced Concrete	1,470	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	43	Dismantled	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
5	Yangma Management Center Office Building	Reinforced Concrete	4,132	3 Floors	2014.12
6	Traffic Police Road Administration Office Building	Reinforced Concrete	1,470	2 Floors	2014.12
7	Cafeteria	Reinforced Concrete	700	1 Floor	2014.12
8	Dormitory Building	Reinforced Concrete	1,432.9	2 Floors	2017.8
9	Multi-function Room	Reinforced Concrete	469.8	1 Floor	2017.8
10	Gatekeeper Room	Reinforced Concrete	36.5		2017.8
IX.	**Chongzhou Liaojia Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
X.	**Wenjiang Wanchun Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XI.	**Pidu You'ai Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XII.	**Pidu Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XIII.	**Gucheng Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12

No.	Name	Material or Structure	Area	Floor	Completion Year
			(m^2)		
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
5	Gucheng Administration Office Building	Reinforced Concrete	1,469	2 Floors	2017.8
XIV.	**Xindu Qingliu Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water Pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
	Total		**29,714.32**		

This valuation has not taken into consideration the possible costs associated with the subsequent obtaining of real estate title certificates, and the attention should be drawn to the users of the report.

2. As of the valuation benchmark date, the western section project of the Chengdu Second Ring Expressway operated by the Enterprise has been completed, and the completion acceptance has not yet been completed with procedures being underway.

   Among the 26 towns along the western section of the Chengdu Second Ring Expressway that goes through districts and cities and counties under the jurisdiction of Chengdu, except for Xindu (Qingliu Township and Xinfan Township), which has already obtained a real estate title certificate (Chuan (2021) Xindu District Real Estate Title No. 0088320), the remaining 24 towns along the route have not yet applied for real estate title certificates. The asset valuation professionals determined the land ownership based on the "Land Area Settlement Report" (《土地面積結算報告》) provided by the Rongcheng Second Ring, and did not make any judgment on other matters that may exist on the land occupied by the western section of Second Ring Expressway. Meanwhile, this assessment result has not taken into consideration the possible costs associated with the subsequent obtaining of real estate title certificates, and the attention should be drawn to the users of the report.

(III) RESTRICTED VALUATION PROCEDURES:

Nil.

(IV) INCOMPLETE VALUATION INFORMATION:

Nil.

(V) LEGAL, ECONOMIC AND OTHER OUTSTANDING MATTERS AS AT THE VALUATION BENCHMARK DATE:

Nil.

(VI) RELATIONSHIP BETWEEN GUARANTEES, LEASES AND CONTINGENT ASSETS AND LIABILITIES AND THE VALUATION TARGET

1. In 2012, Rongcheng Second Ring signed the RMB-Funded Syndicated Loan Contract for the Western Section Project of Chengdu Second Ring (《成都第二繞城高速公路西段項目人民幣資金銀團貸款合同》) (hereinafter as the "**Original Syndicate Loan Contract**") with ICBC Sichuan Branch, China Development Bank, Bank of Communications Sichuan Branch, Bank of China Sichuan Branch and Agricultural Bank of China Sichuan Branch (hereinafter as the "**Original Syndicate**"). Rongcheng Second Ring made loans of RMB8.692 billion from the Original Syndicate, with loan terms of 20 years commencing from the date of the first drawdown of the loan. Among which, the interest rate for the first two years of the loan is 10% above the corresponding benchmark interest rate, and the interest rate after the third year of the loan is the corresponding benchmark interest rate.

   On 30 November 2020, the board of directors of the Sichuan Railway Industry Investment Group Co. Ltd. (referred to as "**Former Railway Investment Group**" in this report, the same as below) issued the Resolution on the Replacement of the Outstanding Debt of the Five Expressways directly under the Group (《關於集團直屬5條高速公路存量債務置換的決議》), which decided to sign the relevant documents with Original Syndicate with Railway Investment Group as a co-borrower of the five expressway project companies (including Rongcheng Second Ring) and to collect the guarantee fee from the project companies at a rate of 0.7%. At that time, the 5-year loan interest rate of the syndicate was 4.9% per annum.

In 2020, the Former Railway Investment Group, Rongcheng Second Ring and Original Syndicate signed the RMB-Funded Syndicated Loan Contract for the Financing Re-arrangement (Syndicate) for the Western Section Project of Chengdu Second Ring Expressway of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (《四川蓉城第二繞城高速公路開發有限責任公司成都第二繞城高速公路西段項目融資再安排(銀團)貸款人民幣資金銀團貸款合同》) (the "**Syndicate Supplemental Contract**"). The lenders under the Contract are China Development Bank, CCB Sichuan Branch, ICBC Sichuan Branch, Bank of Communications Sichuan Branch, Agricultural Bank of China Sichuan Branch, Bank of China Sichuan Branch and Export–Import Bank of China Sichuan Branch, respectively. Rongcheng Second Ring made loans of RMB9.809 billion from the syndicate for the period from 16 December 2020 to 16 December 2045 at an interest rate of LPR-45BP for the corresponding period. At that time, the 5-year loan interest rate of the syndicate was reduced to 4.2% per annum, and the spread of 0.7% per annum between the loan interest rate and the previous loan interest rate was intended to be charged by the Former Railway Investment Group.

In order to guarantee the performance of the Syndicate Supplemental Contract, the syndicate filed a receivable pledge registration of all the interests and revenues for the Franchise Agreement (《特許權協議》) to which Rongcheng Second Ring is entitled, with a term expiring at 27 January 2046.

As of 30 September 2022, the interest rate of the syndicate loan was 4.2% and Rongcheng Second Ring actually drew down RMB9.109 billion, and the principal has not been repaid to the syndicate. Details of which are as follows:

Financial Institution	**Term**	**Principal balance** *(RMB)*
Bank of China Limited, Sichuan Branch	2021.3.5–2046.3.4	500,000,000.00
ICBC Chengdu High-Tech Industrial Development Zone Sub-branch	2021.3.2–2046.3.1	2,300,000,000.00
China Construction Bank, Chengdu Xinhua Sub-branch	2021.1.22–2046.1.21	200,000,000.00
Agricultural Bank of China Guanghua Science and Technology Park Sub-branch	2021.1.21–2046.1.20	978,000,000.00
Bank of Communications Chengdu Wuhou Sub-branch	2021.8.12–2046.8.11	50,000,000.00
Bank of Communications Chengdu Wuhou Sub-branch	2022.8.12–2046.12.16	50,000,000.00
Bank of Communications Wuhou Sub-branch	2021.1.19–2046.1.18	1,250,000,000.00
Bank of Communications Wuhou Sub-branch	2021.4.16–2046.4.15	100,000,000.00
Bank of Communications Wuhou Sub-branch	2022.3.14–2046.12.16	100,000,000.00
Export–Import Bank of China, Sichuan Branch	2021.1.13–2046.1.12	200,000,000.00
China Development Bank, Sichuan Branch	2021.1.13–2046.1.12	1,380,000,000.00
China Development Bank, Sichuan Branch	2021.2.3–2046.2.2	734,000,000.00
China Development Bank, Sichuan Branch	2021.2.26–2046.2.25	967,000,000.00
China Development Bank, Sichuan Branch	2020.12.16–2045.12.16	300,000,000.00

2. According to the "Ping An – Chengdu Second Ring Debt Investment Plan Investment Contract" signed by Rongcheng Second Ring and Ping An Asset Management Co., Ltd., Ping An Asset Management Co., Ltd. made debt investment on the Chengdu Second Ring Expressway (West Section) project under the debt repayment entity Rongcheng Second Ring, with a planned investment amount of RMB3 billion, a payback period of 10 years and an annual interest rate of 5.145%. In April 2016, the Former Railway Investment Group and Ping An Asset Management Co., Ltd. signed the "Letter of Guarantee for Debt Investment Plan of Ping An – Chengdu Second Ring", and the Former Railway Investment Group made the guarantee for the debt investment matters in the investment contract. As of the valuation benchmark date, the balance of investment involved in the above-mentioned debt investment plan was RMB3 billion.

3. On 15 December 2015, ICBC Leasing Co., Ltd. signed the Financial Leasing Contract with Rongcheng Second Ring (contract number: [2015 ICBC Leasing Equipment II No. 090]), pursuant to which the lessor, ICBC Leasing Co., Ltd. leased the 56 bridges in the west section of Chengdu Second Ring Expressway to Rongcheng Second Ring for a total lease payment of RMB1 billion. The lease term was 10 years starting from 15 December 2015 (estimated), and the lease rate was calculated 15% lower than the PBOC benchmark lending rate for loans of five years or longer. As of the valuation benchmark date, the balance of the contract lease payment was RMB349.4542 million.

   On 15 May 2017, ICBC Leasing Co., Ltd. signed the Financial Leasing Contract with Rongcheng Second Ring (contract number: [2017 ICBC Leasing Traffic Zi No. 007]), pursuant to which the lessor, ICBC Leasing Co., Ltd. leased 17 bridges in the west section of Chengdu Second Ring Expressway to Rongcheng Second Ring for a total lease payment of RMB500 million. The lease term and pre-lease period of this lease schedule was 10 years starting from 15 May 2017 (estimated), and the lease rate was calculated 19.81% lower than the PBOC benchmark lending rate for loans of five years or longer. As of the valuation benchmark date, the balance of the contract lease payment was RMB198.0649 million.

   On 14 July 2020, both parties signed the Supplementary Agreement on Conversion of Pricing Basis to LPR, agreeing that the interest rate execution standard of the financial lease contract signed in 2015 was amended as "the lease interest rate is determined by the loan prime rate (LPR) plus/minus the floating basis points, where the loan prime rate (LPR) is the latest loan prime rate (LPR) for a term of 5 years or more (1 year/5 years or more) promulgated by the National Interbank Funding Centre prior to the determination date of each lease financing rate, plus/minus 48.5 basic points (one basis point is 0.01%) for each lease financing." The interest rate execution standard of the financial leasing contract signed in 2017 is amended as "the lease interest rate is determined by the loan prime rate (LPR) plus/minus the floating basis points, where the loan prime rate (LPR) is the latest loan prime rate (LPR) for a term of 5 years or more (1 year/5 years or more) promulgated by the National Interbank Funding Centre prior to the determination date of each lease financing rate, plus/minus 72 basic points (one basis point is 0.01%) for each lease financing".

4. On 16 December 2016, Rongcheng Second Ring and Sinopec Sales Company Limited Sichuan Petroleum Branch (中國石化銷售有限公司四川石油分公司) signed the Supplementary Agreement on Service Area Operation along Chengdu Second Ring Expressway (Western Section) and reached a lease agreement for Xinjin Huayuan Service Area and Xindu Qingliu Service Area for a lease term of 15 years. The term of operation of Xinjin Huayuan Service Area is calculated from 31 December 2014 and the term of operation of Xindu Qingliu Service Area is calculated from 31 December 2015.

On 19 July 2016, Rongcheng Second Ring leased the property use right and its operation right of Dahua Parking Area (K161+558 for both sides) and Hesheng Parking Area (K179+958 for both sides) (including the outer & inner ring for the station areas) of Chengdu Second Ring Expressway to Chongqing Liangping Zhang Duck Food Company Limited* (重慶市梁平張鴨子食品有限公司) for an operating period of eight years, and both parties signed the Parking Area Lease Operation Contract for Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路西段)沿線停車區租賃經營合同》). On 4 August 2021, the Enterprise signed the Parking Area Sub-lease Contract for Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)沿線停車區轉租合同》) with Chongqing Yuanlu Food Co. Ltd. *(重慶市原滷食品有限公司) (Chongqing Liangping Zhang Duck Food Company Limited) and Chengdu Kuntian Energy Co. Ltd* (成都坤田能源有限公司), pursuant to which, Rongcheng Second Ring agreed to sub-lease the assets involved in the above lease to Chengdu Kuntian Energy Co. Ltd. for the term as per the original contract. The lease conditions are as follows:

No.	**Location**	**Purpose**	**Floor Area for Premises** *(m^2)*	**Land Area Available in Back of Premises** *(m^2)*
1	Chongzhou Dahua Parking Area (inner ring)	For businesses: catering, canteen, water refilling services	169.12	82.96
	Chongzhou Dahua Parking Area (outer ring)	For businesses: catering, canteen, water refilling services	169.12	74.3
2	Wenjiang Hesheng Parking Area (inner ring)	For businesses: catering, canteen, water refilling services	169.12	94.67
	Wenjiang Hesheng Parking Area (outer ring)	For businesses: catering, canteen, water refilling services	169.12	131.76
	Total		**676.48**	**383.69**

On 4 May 2016, the Enterprise and Sichuan Jintong Engineering Testing Inspection & Testing Co., Ltd. (四川金通工程試驗檢測有限公司) signed the Huayuan Toll Station Site Lease Contract for Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)花源收費站場地租賃合同》), leasing part of the management room of Xinjin Huayuan Toll Station in the western section of Chengdu Second Ring Expressway to the other party, with a total of approximately 1,033 m^2 of land for test office building and office vehicle parking. The term of the lease is 10 years from the date of commissioning of the Chengdu Second Ring Expressway (Western Section) after the completion and acceptance of construction.

On 7 April 2021, the Enterprise leased outdoor advertising spaces along the vehicular flyover and service (parking) area of the western section of the Chengdu Second Ring Expressway (a total of 36 spaces) to Sichuan Shide Culture Communication Co., Ltd. (四川仕德文化傳播有限公司). Pursuant to the Lease Contract for Outdoor Advertising Spaces along the Vehicular Flyover and Service (Parking) Area of Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)沿線車行天橋及服務(停車)區戶外廣告位出租合同》), the lease term is eight years.

The impact of the above-mentioned leasing matters on the valuation results has been considered in this valuation, and the forecast of changes in rentals after the expiration of the asset leases is made based on the original contracts combined with market analysis, and the attention should be drawn to the users of the report.

(VII) MATTERS THAT MAY AFFECT THE VALUATION CONCLUSION BETWEEN THE VALUATION BENCHMARK DATE AND THE VALUATION REPORT DATE

1. As the western section of the Chengdu Second Ring passes through six cities, districts and counties, including Chengdu City, Chongzhou City, Wenjiang District and Pidu District, the recognition of the nature of the land occupied by it affects the calculation of real estate tax and land use tax. According to the response letter or reply of Planning and Natural Resources Bureau of each city, district and county provided by the enterprise titled the Letter on Issuance of Certificate of Town Planning Area where Toll Stations are Located (《關於開具收費站所在城鎮規劃區範圍證明的函》) in early November 2022, among the fifteen toll stations, two service areas and two parking areas of the enterprise, Chongzhou Dazhu Toll Station and Xinjin Xinyi Toll Station are located in town planning areas; Tianfu New District Station, Science City and Lizhou Station are owned by local state-owned platform companies or competent department, of which the Rongcheng Second Ring has only the use right, and the corresponding real estate tax and land use tax shall be paid by the property owners on their own. The remaining thirteen toll stations, two service areas and two parking areas directly under the enterprise are located outside the town planning area, therefore, only the above two toll stations located within the town planning area are taken into account in the calculation of real estate tax and land use tax. This valuation has not taken into account the impact of the tax matters to be added due to changes of city zoning for the toll stations, parking areas and service areas along the western section of the Chengdu Second Ring on the valuation results.

2. Pursuant to the Group Fund Loan Contract [2022 Shudao Group Internal Loan No. (14) – Share/Capital] (《集團資金借款合同》[2022蜀高集團內借(14)號－股／資]), in order to address the funding gap of internal operation projects, Sichuan Shudao Expressway Group Co., Ltd. borrowed RMB300 million from Rongcheng Second Ring for a term of one year from 17 June 2022 to 16 June 2023. On 28 December 2022, Sichuan Shudao Expressway Group Co., Ltd. has repaid its loan of RMB200 million to Rongcheng Second Ring. This valuation assumes that the remaining RMB100 million will be repaid on time by Sichuan Shudao Expressway Group Co., Ltd. in accordance with the contract, without considering the impact of deferred repayment on the valuation result.

3. The long-term receivables declared by the enterprise are loans of RMB2.2 billion receivable from the Former Railway Investment Group. According to the Supplementary Agreement to Loan Agreement (《借款合同之補充協議》) provided by the enterprise, the Former Railway Investment Group and the former Sichuan Transportation Investment Group Corporation Limited (四川省交通投資集團有限責任公司) were merged to newly establish Shudao Investment Group Co., Ltd. (蜀道投資集團有限責任公司) (Party B to the Supplementary Agreement), and Shudao Investment Group Co., Ltd. has inherited all rights and obligations of the Former Railway Investment Group since 28 May 2021. The Supplementary Agreement stipulates that "Party B shall repay to Party A all the loan principal and interest in one lump sum no later than 30 June 2023 after the effective date of the Equity Transfer Agreement signed between Sichuan Shudao Expressway Group Co., Ltd. (四川蜀道高速公路集團有限公司), Sichuan Road & Bridge (Group) Corporation Ltd. (四川公路橋樑建設集團有限公司) and Sichuan Expressway Company Limited (hereinafter referred to as "**Sichuan Express**") in relation to the transfer of 100% equity interest in Party A to Sichuan Express."

   This valuation results are made on the premise that the above amounts can be repaid in an accurate and timely manner. If the repayment amount or repayment period changes in the subsequent period, the corresponding valuation results will be adjusted, and the attention should be drawn to the users of the report.

4. According to the Resolution of the Twenty-first (the 120th of total) Meeting of the Board of Directors of Sichuan Railway Industry Investment Group Co., Ltd. in 2020 on the Replacement of the Outstanding Debt of 5 Expressways directly under the Group (《四川省鐵路產業投資集團有限責任公司董事會2020年第二十一次(總第120次)會議關於集直屬5條高速公路存量債務置換的決議》) provided by the enterprise, the Former Railway Investment Group, as a co-borrower of the Rongcheng Second Ring, signed relevant documents with the syndicate and shall charge the project company (Rongcheng Second Ring) a guarantee fee at a rate of 0.7% per annum. According to the decision of the 4th General Manager Office Meeting provided by Shudao Investment Group Co., Ltd., after 30 September 2022, Shudao Investment Group Co., Ltd. would no longer charge the guarantee fee from Rongcheng Second Ring in respect of the guarantee matters signed with the syndicate. This valuation follows the decision of the 4th General Manager Office Meeting and does not predict the guarantee fee in the valuation assessment. If both parties fail to implement the matters as agreed in the meeting minutes at the later stage, the valuation results will be adjusted accordingly. And the attention should be drawn to the users of the report.

(VIII) Defects that may have a significant impact on the valuation conclusion in the economic behavior corresponding to this asset valuation

Nil.

(IX) Other issues to be addressed

1. According to the Continuation of Preferential EIT policies in the Western Region (《關於延續西部大開發企業所得稅政策的公告》) (Announcement No. 23 of 2020 issued by the Ministry of Finance, State Taxation Administration and National Development and Reform Commission), if the Enterprise introduces that it is eligible for the aforementioned preferential EIT policies, the Enterprise may apply for tax deductions at any time. However, due to the loss of the Enterprise in recent years, the procedure for filing tax concession has not yet been implemented. For this valuation, assuming that from the Valuation Benchmark Date to the end of 2030, the Enterprise is entitled to enjoy the 15% preferential EIT policy upon a positive net profit and after making up for the losses incurred in previous years, and from 2031 to the end of the operation period of the project, it will be implemented in accordance with the normal EIT policy of 25%, and the attention should be drawn to the users of the report.

2. According to the Description and Undertaking of Premises and Land Use Rights without Certificate of Title issued by the Enterprise, the Enterprise has eight existing land use rights for the land occupied by the western section of the Chengdu Second Ring Expressway, of which the land in the Xindu section has obtained a title certificate. The land information is as follows:

Title Certificate No.	**Holder of Right**	**Location**	**Purpose**	**Right Nature**	**Land Area** *(m^2)*
Chuan (2021) Xindu District Real Estate No. 0088320	Sichuan Rongcheng Second Ring Expressway Development Co., Ltd	Chengdu Second Ring Expressway K205+400 to K217+900	Land for Highway	Allocation	698,665.82

The remaining land is in the process of real estate registration (the progress is shown in the table below), and the use rights of the above eight pieces of land are owned by the Enterprise. There is no dispute on the ownership of the land. The Enterprise assumes full responsibility for any disputes arising from the land use rights.

Table on the Progress of Land Registration of Land Allocated
in the western section of Chengdu Second Ring Expressway

District, County			**Title Investigation**		**Allocation Decision Letter**		**Real Estate Title Certificate**	
and City	**Town Involved**		**Specific Reason**	**Date**	**Progress**	**Date**	**Progress**	**Date**
Shuangliu District	2 towns	Yongan Town	/	/	/	December 2023	Pending progress	December 2023
		Huanglongxi Town	Shuangliu District is in the process of solving the outstanding issues raised by Dongyue Village	By early November 2023	Pending progress			
Tianfu New District	2 towns	Yongxing Town	/	/	Preparing materials	March 2023	Pending progress	June 2023
		Jiancha Town	/	/				
Xinjin District	4 towns	Huaqiao Town			Submitted materials	February 2023	Pending progress	April 2023
		Puxing Town	/	/				
		Xingyi Town						
		Huayuan Town						

District, County and City		Title Investigation			Allocation Decision Letter		Real Estate Title Certificate	
		Town Involved	Specific Reason	Date	Progress	Date	Progress	Date
Chongzhou City	7 towns	Chongping Town	1. redefined village and township boundaries after village and township adjustments; 2. 6 township rights, Chengdu-Wenjiang-Qionglai boundary	March	Pending progress	April 2023	Pending progress	August 2023
		Chongyang Town						
		Dahua Town						
		Jiangyuan Town						
		Liaojia Town						
		Sanjiang Town						
		Yangma Town						
Wenjiang District	3 towns	Shouan Town		January	Preparing materials	March 2023	Pending progress	April 2023
		Wanchun Town						
		Hesheng Town						
Pidu District	5 towns	Gucheng Town	/	/	Submitted materials	April 2023	Pending progress	June 2023
		Youai Town						
		Sandaoyan Town						
		Ande Town						
		Pitong Town	/					/
Xindu District	2 towns	Qingliu Town		/	Obtained	/	Obtained	
		Xinfan Town						
Pengzhou City	1 town	Mengyang Town	Outstanding problems from construction	August 2023	Pending progress	December 2023	Pending progress	December 2023

3. There are a total of forty-five vehicles in Rongcheng Second Ring, among which, twelve administrative vehicles and twenty-seven engineering vehicles are in normal use, and six engineering vehicles are in a state of pending obsolescence. According to the Cheng Heng Ping Bao Zi (2022) No. 20220232: Motor Vehicle Appraisal and Assessment Report (成衡評報字(2022年)第20220232號《機動車鑒定評估報告書》) provided by Rongcheng Second Ring, on 20 September 2022, Rongcheng Second Ring engaged Chengdu Hengxin Second-hand. Auto Appraisal Co., Ltd. (成都衡信機動車鑒定評估有限公司) to value a total of six engineering vehicles, namely Chuan A6773U, Chuan A6806U, Chuan A6755U, Chuan A6805U, Chuan A7735U, and Chuan A7C2R6, by using the replacement cost method and the current market price method, and concluded that all of six vehicles are "recommended for scrapping". According to the staff of Rongcheng Second Ring, the six vehicles are in the process of going through the company's internal scrapping process, which will then process the vehicles for scrapping. The breakdown of vehicles to be scrapped is as follows:

						Carrying Value	
No.	**License Plate**	**Vehicle Name**	**Specification**	**Purchase Date**	**Usage Date**	**Original Value**	**Net Value**
1	Chuan A6755U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
2	Chuan A6773U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
3	Chuan A6806U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
4	Chuan A6805U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
5	Chuan A7735U	Light Truck	Nissan ZN1033U204	March 2015	March 2015	135,466.00	6,773.30
6	Chuan A7C2R6	Small Passenger Vehicle	Dongfeng ZN6494H2N4	April 2015	April 2015	107,244.44	5,362.22

4. The traffic flow and toll revenue projections in respect of the expressway operating rights involved in this appraisal were obtained from the Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway issued by Chelbi Engineering Consultants, Inc. After the asset valuation professionals' thorough understanding of the model and relevant values and parameters adopted in the report, and conducting a comparison of the historical data on the composition of traffic flow, tolls and the impact of free vehicles with the forecast data, this valuation has directly adopted the predicted traffic flow and toll revenue data in the Report on Forecast of Traffic Flow Assessment and Toll Income Estimation of the Western Section of Chengdu Second Ring Expressway, as there is no reason to doubt the professionalism of the report, and the attention should be drawn to the users of the report.

IX. Valuation report date: The date of this valuation report is 13 February 2023.

The above content is extracted from the text of the asset valuation report. For the details of the valuation and a reasonable understanding of the valuation conclusions, please carefully refer to the text of the asset valuation report. For the users of the asset valuation report, they shall pay attention to the assumptions, restricted conditions, special note explanations and its effects on the valuation conclusion set forth in the asset valuation report.

TEXT OF ASSET VALUATION REPORT

VALUATION PROJECT ON THE VALUE OF THE ENTIRE SHAREHOLDERS' EQUITY INTERESTS OF SICHUAN RONGCHENG SECOND RING EXPRESSWAY DEVELOPMENT CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTERESTS BY SICHUAN EXPRESSWAY COMPANY LIMITED*

North Asia Ping Bao Zi 2023 No. 01–055)

To Sichuan Expressway Company Limited*:
To Sichuan Shudao Expressway Group Co., Ltd.:
To Sichuan Road & Bridge (Group) Corporation Ltd.:

Beijing North Asia Asset Assessment Firm (Special General Partnership) has accepted the entrustment of the Company to assess the market value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. involved in the proposed acquisition of equity interests by Sichuan Expressway Company Limited* as at 30 September 2022 by adopting the asset-based approach and the income approach based on necessary valuation procedures in accordance with laws, administrative regulations and requirements of asset valuation standards, combining with the principles of independence, objectivity and impartiality. The text of asset valuation report is now present as follows:

I. CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT

The clients are Sichuan Expressway Company Limited*, Sichuan Shudao Expressway Group Co., Ltd. and Sichuan Road & Bridge (Group) Corporation Ltd., respectively, while the appraised entity is Sichuan Rongcheng Second Ring Expressway Development Co., Ltd.

(I) Overview of the Client

1. Client I

Name:	Sichuan Expressway Company Limited*
Unified social credit code:	9151000020189926XW
Company type:	joint stock limited company (sino-foreign joint venture and listed)
Business address:	252 Wuhouci Da Jie, Chengdu, Sichuan Province
Legal representative:	Gan Yongyi (甘勇義)
Registered capital:	RMB3,058,060,000
Date of establishment:	19 August 1997
Term of operation:	19 August 1997 to long-term
Scope of business:	investment, design, construction, maintenance, management, technical consultancy of infrastructure including high-grade highways, bridges and tunnels as well as ancillary services; construction and leasing of gas station, advertising place and warehouse equipment matching with high-grade highways; vehicle recovery and cleaning (if it involves state special administrative regulation, then such operation would adhere to the regulation) (where pre-approvals are involved in the business scope, the business is only operated by branches which have already obtained the approvals). (For projects subject to approval pursuant to the laws, operating activities shall commence upon receipt of the approval from relevant authorities.)

2. *Client II*

Name:	Sichuan Shudao Expressway Group Co., Ltd.
Unified social credit code:	91510107MA7EK11X04
Company type:	Limited liability company (wholly owned by a legal person that is not invested or controlled by a natural person)
Business address:	1F, Building 4, No. 41, Duqiao Zhong Jie, Wuhou District, Chengdu
Legal representative:	Chen Guangjun (陳光軍)
Registered capital:	RMB12,000,000,000
Date of establishment:	15 December 2021
Term of operation:	15 December 2021 to long-term
Scope of business:	permitted businesses: road management and maintenance; road base pavement maintenance operations; road cargo transportation (excluding dangerous goods); mineral resources exploration; catering services; accommodation services; finished oil retailing (excluding dangerous chemicals) (For items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by relevant authorities and the specific business items are subject to the approval documents or permits of the relevant departments). General businesses: engaging in investment activities with self-owned funds; operation of road cargo transportation stations; technical services, technology development, technology consultation, technology exchange, technology transfer, technology promotion; engineering management services; energy conservation management services; park management services; commercial complex management services; catering management; campground services; domestic trade agents; domestic freight forwarding agents; sales of metal structures; sale of reinforced steel bar products for construction; sales of cement products; sales of construction materials; sales of non-metallic minerals and products; sales of concrete structural parts; retail of automobile spare parts; sales of daily-use department stores; sales of daily-use chemical products; sales of tires; design and agency of advertisements; production of advertisements; publication of advertisements (Except for the items subject to approval in accordance with the laws, business activities can be carried out independently with the business licence(s) in accordance with the laws.)

3. Client III

Name:	Sichuan Road & Bridge (Group) Corporation Ltd.
Unified social credit code:	9151000020181190XN
Company type:	Limited liability company (wholly owned by a legal person that is not invested or controlled by a natural person)
Business address:	No. 12 Jiuxing Avenue, High-tech Zone, Chengdu
Legal representative:	Wang Zhonglin (王中林)
Registered capital:	RMB6,000,000,000
Date of establishment:	16 April 1998
Term of operation:	16 April 1998 to long-term
Scope of business:	external contracting projects (the content and term of the above items are subject to permit). (the following scope does not include the pre-licensing projects, and the post-licensing projects shall be operated in accordance with the permits or approval documents) highway engineering, bridge engineering, railway engineering, port and waterway engineering, water resource and hydropower engineering, electrical engineering, municipal public works, electrical and mechanical installation works, foundations and ground works, earthworks, ready-mixed commercial concrete, precast concrete components, tunneling works, highway pavement works, highway roadbed works, highway traffic works, pre-stress works, blasting and demolition works, lifting equipment installation works, electrical and mechanical equipment installation works, construction, decoration and renovation works, construction works; project development, project investment (illegal fund raising, absorption of public funds and other financial activities shall be permitted), project management; real estate development, operation; engineering investigation, design, technical consulting; engineering supervision, testing and inspection; engineering machinery rental, repair; construction materials production; loading and unloading services; commodity wholesale and retail; import and export industry; hotel management; catering management; catering services; landscaping and greening projects (For items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by relevant authorities).

(II) Overview of the appraised entity

1. Details of Registration

Name:	Sichuan Rongcheng Second Ring Expressway Development Co., Ltd.
Unified social credit code:	915100005534711955
Type:	other limited liability company
Office address:	No. 12 Jiuxing Avenue, High-tech Zone, Chengdu
Legal representative:	Tian Yi (田義)
Registered capital:	RMB684,210,000
Date of establishment:	20 April 2010
Date of establishment:	20 April 2010 to long-term
Scope of business:	general operating business (the following scope does not include the pre-licensing projects, and the post-licensing projects shall be operated in accordance with the permits or approval documents): expressway, highway, bridge operation, management and maintenance; highway engineering, bridge engineering, engineering consulting, bidding agency; business service business; project investment (illegal fund raising, absorption of public funds and other financial activities shall be permitted); real estate development; leasing industry; wholesale and retail commodities; property management. (For items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by relevant authorities)

2. Company Overview and History

(1) Company Overview

Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. is a limited liability company jointly initiated by the former Sichuan Railway Industry Investment Group Co. Ltd. (which has been reorganized and consolidated with the Sichuan Transportation Investment Group as Shudao Investment Group Co., Ltd. in May 2021) and Sichuan Road & Bridge (Group) Corporation Ltd., and was established on 20 April 2010 with an initial registered capital of RMB684 million. Currently, Sichuan Shudao Expressway

Group Co., Ltd. (四川蜀道高速公路集團有限公司) directly under Shudao Investment Group Co., Ltd. and Road & Bridge Group holds 81% and 19% shares in the project company, respectively. The scope of business is mainly the operation, management and maintenance of expressways and bridges, among others. The Enterprise is mainly responsible for the construction and operation of the western section project of the Chengdu Second Ring Expressway on a "BOT" basis.

As of the Valuation Benchmark Date, Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. has a total of 529 employees who are on the job. There are 74 qualified personnels with professional titles, including 32 professional and technical personnels with intermediate professional titles and above. Among the management, there are 6 senior management employees, 16 middle-level management employees, 64 junior management employees and 10 workforce members.

(2) *History*

Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. is jointly initiated by the former Sichuan Railway Industry Investment Group Co. Ltd. and Sichuan Road & Bridge (Group) Corporation Ltd., and was established on 20 April 2010 with an initial registered capital of RMB650 million contributing by monetary funds. See the table below for shareholding structure:

Table of Shareholders' Capital Contribution

Unit: RMB'0,000

	Subscription		Paid-up			
Shareholder Name	**Contribution Amount for Subscription** *(RMB'0,000)*	**Contribution Date**	**Contribution Amount** *(RMB'0,000)*	**Paid-up Date**	**Contribution Method**	**Shareholding** *(%)*
Sichuan Railway Industry Investment Group Co. Ltd.	52,000	30 April 2010	52,000	14 April 2010	Monetary fund	80
Sichuan Road & Bridge (Group) Corporation Ltd.	13,000	30 April 2010	4,900	15 April 2010	Monetary fund	20
			8,100	16 April 2010		

On 16 October 2014, the shareholders' meeting of Rongcheng Second Ring resolved to increase the company's registered capital from RMB650 million to RMB684.21 million. However, Sichuan Road & Bridge (Group) Corporation Ltd. abstained from this capital increase, and the shareholding structure upon the capital increase is as follows:

Shareholder Name	**Contribution Amount for Subscription** *(RMB'0,000)*	**Contribution Method**	**Proportion of Contribution**	**Capital Availability Date**
Sichuan Railway Industry Investment Group Co. Ltd.	55,421	Monetary fund	81%	20 October 2014
Sichuan Road & Bridge (Group) Corporation Ltd.	13,000	Monetary fund	19%	15 April 2010 16 April 2010

On 20 June 2019, the shareholders' meeting of Rongcheng Second Ring resolved to agree that Sichuan Railway Industry Investment Group Co. Ltd. may transfer its equity interest of RMB554.21 million held in Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. to Sichuan Guangrun Investment Development Group Co., Ltd (四川廣潤投資發展集團有限公司) without consideration. The shareholding structure is as follows:

Shareholder Name	**Contribution Amount for Subscription** *(RMB'0,000)*	**Contribution Method**	**Proportion of Contribution**	**Capital Availability Date**
Sichuan Guangrun Investment Development Group Co., Ltd.	55,421	Monetary fund	81%	20 October 2014
Sichuan Road & Bridge (Group) Corporation Ltd.	13,000	Monetary fund	19%	15 April 2010 16 April 2010

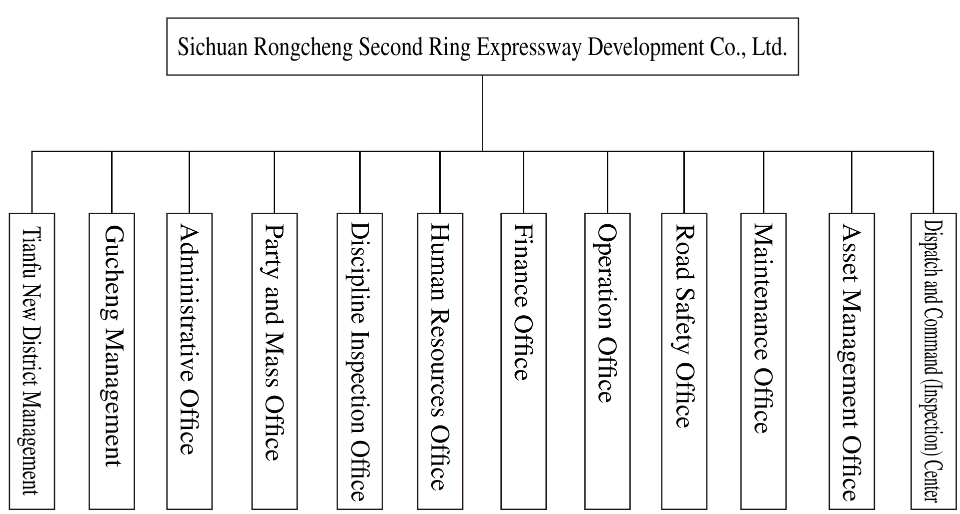
On 22 April 2022, Sichuan Guangrun Investment Development Group Co., Ltd. transferred 81% equity interest (corresponding to the capital contribution) held in Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. to Sichuan Shudao Expressway Group Co., Ltd. The shareholding structure of the Enterprise upon the transfer is as follows:

Shareholder Name	Contribution Amount for Subscription *(RMB'0,000)*	Contribution Method	Proportion of Contribution	Capital Availability Date
Sichuan Shudao Expressway Group Co., Ltd.	55,421	Monetary fund	81%	20 October 2014
Sichuan Road & Bridge (Group) Corporation Ltd.	13,000	Monetary fund	19%	15 April 2010 16 April 2010

Note: Sichuan Shudao Expressway Group Co., Ltd. was formed through the integration of the highway assets of the Former Railway Investment Group on 15 December 2021.

3. *Organizational Structure*

There are 12 functional departments in Rongcheng Second Ring: Tianfu New District Management, Gucheng Management, Dispatch and Command (Inspection) Center, Administrative Office, Party and Mass Office, Discipline Inspection Office, Human Resources Office, Finance Office, Operation Office, Road Safety Office, Maintenance Office and Asset Management Office. The organizational structure is as follows:



4. *Asset, liability, equity and operating results of the Enterprise over the years*

Asset, liability, equity and operating results of the Enterprise over the years

Unit: RMB'0,000

Financial Indicators	31 December 2019	31 December 2020	31 December 2021	30 September 2022
Asset	1,703,694.94	1,650,951.94	1,641,136.64	**1,634,966.11**
Liability	1,365,604.71	1,339,878.88	1,337,927.64	**1,340,952.73**
Shareholders' equity	338,090.23	311,073.06	303,209.00	**294,013.38**

Operating Results	2019	2020	2021	January to September 2022
Operating revenue	66,994.71	61,195.30	81,961.95	**52,855.32**
Total profit	-20,501.93	-29,452.58	-9,184.11	**-10,758.30**
Net profit	-19,732.32	-27,017.17	-7,864.05	**-9,195.62**

Notes:

(1) The financial data for 2019 and 2020 are unaudited provided by the enterprises;

(2) the financial data for 2021 and January to September 2022 were obtained from the Auditing Report of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. for 2021 and the Period from January to September 2022 (No. XYZH/2023CDAA7B0011) issued by ShineWing Certified Public Accountants (Special General Partnership).

(III) RELATIONSHIP BETWEEN THE CLIENT AND THE APPRAISED ENTITY

Client I is the acquirer of the equity interest in this economic act, and Client II and III are the shareholders of the appraised entity.

(IV) OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

Other users of the asset valuation report include: relevant parties of economic behavior, superior competent departments of the appraised entity, state-owned assets regulatory authorities and other users of the asset valuation report as required by laws and regulations.

II. PURPOSE OF VALUATION

According to the Request for Instructions on the Establishment of the Equity Acquisition Project of Rongcheng Second Ring Expressway Development Co., Ltd. and "Approval of Shudao Investment Group Co., Ltd. for the Project Establishment of the Non-public Agreement Transfer of the Equity Interests in Rongcheng Second Ring Company Held by Shudao Expressway Group and SRB Group", the value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. as at 30 September 2022 will be assessed to provide a value reference and opinion for the proposed acquisition of equity interests by Sichuan Expressway Company Limited.

III. TARGET AND SCOPE OF VALUATION

(I) Target and Scope of Valuation

The valuation target of the project is the value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd..

The scope of this asset valuation report is all the assets and liabilities owned by Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. at the Valuation Benchmark Date, which mainly include current assets, non-current assets, current liabilities and non-current liabilities. Based on the financial information provided by the client, including the balance sheet and the Audit Report of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. for 2021 and the period from January to September 2022 (No. XYZH/2023CDAA7B0011) issued by ShineWing Certified Public Accountants (Special General Partnership), the financial data of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. was used by the asset valuation professionals as the reported data for this asset valuation, and the carrying status of the Enterprise is shown in the table below:

Balance Sheet as at 30 September 2022

Amount Unit: RMB

Assets	Audited amount of Benchmark Date	Liabilities and owners' equity	Audited amount of Benchmark Date
Current assets:		**Current Liabilities:**	
Monetary funds	36,963,545.37	Short-term borrowings	–
Trading financial assets	–	Trading financial liabilities	–
Derivative financial assets	–	Derivative financial liabilities	–
Bills receivables	–	Bills payables	–
Accounts receivables	–	Accounts payables	341,558,230.39
Financing receivables	–	Advances received	–
Prepayments	22,910,512.58	Contracted liabilities	2,284,685.48
Other receivables	503,297,557.88	Payroll payables	27,814,963.05
Inventories	–	Tax payables	51,706,487.46
Contracted assets	–	Other payables	238,703,658.65
Held-for-sale assets	–	Held-for-sale liabilities	–
Non-current assets due within one year	–	Non-current liabilities due within one year	483,624,545.95
Other current assets	–	Other current liabilities	–
Total current assets	**543,171,615.83**	**Total current liabilities**	**1,145,692,570.98**
Non-current assets:		**Non-current liabilities:**	
Debt investment	–	Long-term borrowings	11,799,000,000.00
Other debt investment	–	Bonds payable	–
Long-term receivables	2,200,000,000.00	Long-term payable	387,467,601.78
Long-term equity investment	–	Expected liabilities	–
Investment in other equity instruments	–	Deferred income	77,367,137.29
Other non-current financial assets	–	Deferred tax liabilities	–
Investment properties	–	Other non-current liabilities	–
Fixed assets	84,506,121.09	**Total non-current liabilities**	**12,263,834,739.07**
Construction in progress	–	**Total liabilities**	**13,409,527,310.05**
Productive biological assets	–	**Owners' equity:**	
Oil and gas assets	–	Paid-in capital (or share capital)	684,210,000.00
Right-of-use assets	–	Capital reserve	3,996,020,000.00

Assets	Audited amount of Benchmark Date	Liabilities and owners' equity	Audited amount of Benchmark Date
Intangibles	13,457,664,124.01	Less: Treasury shares	–
Development expenses	–	Special reserve	–
Goodwill	–	Surplus reserve	–
Long-term deferred expenses	–	Undistributed profits	-1,740,096,154.95
Deferred income tax assets	64,319,294.17	Difference on translation of foreign currency statements	
Other non-current assets	–	**Total owner's equity**	**2,940,133,845.05**
Total non-current assets	**15,806,489,539.27**		
Total assets	**16,349,661,155.10**	**Total liabilities and owner's equity**	**16,349,661,155.10**

The target and scope of the valuation under the engagement are consistent with those involved in the economic activities.

(II) Major Assets

1. The book value of monetary funds is RMB36,963,545.37, including cash and bank deposits.

2. The carrying balance of prepayments is RMB2,910,512.58, and the provision for impairment is RMB0.00, of which the carrying value is RMB2,910,512.58, totaling 33 items, representing pre-deposit of electricity and service charges, etc.

3. The carrying balance of other receivables is RMB503,317,897.88 and the provision for bad debts is RMB20,340.00, of which the carrying value is RMB503,297,557.88, totaling 42 items, mainly for the reserve, security deposit and social security fund in advance, etc.

4. The carrying balance of long-term receivables is RMB2,200,000,000.00 and the provision for bad debts was RMB0.00, of which the carrying value is RMB2,200,000,000.00, totaling one item, which is a borrowing due from Sichuan Railway Industry Investment Group Co. Ltd.

5. The original carrying value of fixed assets is RMB133,485,445.54 and the net carrying value is RMB84,506,121.09, including structures, machinery and equipment, vehicles, electronic and office equipment, etc.

The original carrying value of the structures is RMB1,082,074.00 and the net carrying value of the structures is RMB1,047,086.94, which are special vehicle parking sheds and outdoor floor hardening at the Pidu Toll Station, totaling one item, and the structures are in normal use as of the Valuation Benchmark Date.

The original carrying value of machinery and equipment is RMB117,007,710.34 and the net carrying value is RMB80,669,803.82, which are stainless steel deep well pumps, fusion fiber machines, ETC handheld antennas, totaling 16 items, and as of the Valuation Benchmark Date, the machinery and equipment are in normal use.

The original carrying value of the vehicles is RMB12,338,220.70 and the net carrying value of the vehicles is RMB1,923,428.63, totaling 45 vehicles, which are mainly special operation vehicles, pickup trucks, small passenger cars and small sedans, etc., among which, 12 administrative vehicles and 27 engineering vehicles are in normal use, and six engineering vehicles are in a state of pending obsolescence. According to the Cheng Heng Ping Bao Zi (2022) No. 20220232: Motor Vehicle Appraisal and Assessment Report (成衡評報字(2022年)第20220232號《機動車鑒定評估報告書》) provided by Rongcheng Second Ring, on 20 September 2022, Rongcheng Second Ring engaged Chengdu Hengxin Second-hand. Auto Appraisal Co., Ltd. (成都衡信機動車鑒定評估有限公司) to value a total of six engineering vehicles, namely Chuan A6773U, Chuan A6806U, Chuan A6755U, Chuan A6805U, Chuan A7735U, and Chuan A7C2R6, by using the replacement cost method and the current market price method, and concluded that all of six vehicles are "recommended for scrapping".

The original carrying value of electronic and office equipment is RMB3,057,440.50 and the net carrying value is RMB865,801.69, totaling 291 items (657 units/sheets/pcs), which were mainly computer hosts, printers, air conditioners, conference tables, sofas, etc. and are stored in the office area of the Enterprise to meet office needs. Some of the equipment has exceeded its economic useful life which cannot be used in idle.

6. The original carrying value of intangible assets is RMB14,809,858,985.57 and the net carrying value is RMB13,457,664,124.01, totaling nine items, which are mainly franchise expressway toll rights for the western section BOT project of Chengdu Second Ring Expressway (toll rights commence from 16 February 2016 and expire on 11 January 2046, with a term of 29 years and 330 days). There are also eight sets of system software intangible assets.

(1) Overview of BOT project franchise expressway toll rights

The western section project of Chengdu Second Ring Expressway is authorized by the People's Government of Sichuan Province and implemented by the Chengdu Municipal People's Government through a corporate tender in accordance with the BOT mode. On 26 May 2010, the Enterprise obtained the Approval of Sichuan Development and Reform Commission on the Western Section Project of Chengdu Second Ring Expressway (Chuan Fa Gai Jiao [2010] No. 351) (《四川省發展和改革委員會關於成都第二繞城高速公路西段項目核准的批覆》(川發改交(2010)351號)), which approved the total estimated investment of RMB13.487 billion.

The main content of the project: the project route originates in the vicinity of Huada Road on the border of Shuangliu, connecting to the end point of the eastern section of Chengdu Second Ring Expressway through Shuangliu, Xinjin, Chongzhou, Wenjiang, Pidu, Xindu and Pengzhou, and ends in the vicinity of Chengwen Railway on the south side of Mengyang Town in Pengzhou City, connecting to the start point of the eastern section of Chengdu Second Ring Expressway.

The total length of the project route is 114.25 kilometers, with a design speed of 100 km/h and a roadbed width of 33.5 meters by adopting a technical standard of 33.5 meters-dual six-lane expressway. The road surface of entire line is asphalt concrete pavement and the vehicle load capacity is classified as First Grade Highway. The bridge width is 2×16.75 meters with general designed flood frequency of 1/100 for large, medium and small bridges and culverts and 1/300 for super-large bridges. The basic seismic intensity is VI degrees. The whole line consists of seven super-large bridges, 12 large bridges and 45 medium bridges, with lengths of 20,060, 4,090 and 2,490 meters, respectively.

The entire route consists of seventeen interchanges on the Chengdu-Zigong-Luzhou Expressway (terminal interchange), Jiancha, Tuanxing Village, Chengdu-Ya'an Expressway (terminal interchange), Huayuan, Jiemian, Dazhu, Dongping, Chengdu-Wenjiang-Qionglai Expressway (terminal interchange), Liaojiachang, Tongping, Qingkang, Chengdu-Dujiangyan Expressway (terminal interchange), Jinggang, Sandaoyan, Chengdu-Pengzhou Expressway (terminal interchange), Qingliu, and a total of four interchanges are reserved for Yongxing, Liaojiayuanzi, Sanjiang, and Xinmin. The necessary traffic engineering and facilities along the entire route will be constructed simultaneously.

Construction unit: Sichuan Rongcheng Second Ring Expressway Development Co., Ltd..

(2) Project construction management

1) Project construction management and administrative approval

Chengdu Municipal People's Government, under the authorisation of the People's Government of Sichuan Province, invited tenders for the investor under the BOT method for the western section project of Chengdu Second Ring Expressway. Sichuan Railway Industry Investment Group Co. Ltd. and Sichuan Highway and Sichuan Road & Bridge (Group) Corporation Ltd. jointly succeeded in the tender for the project, with a toll period of 29 years and 330 days. In April 2010, the investor invested in Rongcheng Second Ring, which was fully responsible for the construction, operation and handover of the project. In May 2010, Rongcheng Second Ring signed a Franchise Agreement with the Chengdu Municipal People's Government.

① Project budget approval

On 10 June 2010, the project obtained the Approval of Sichuan Provincial Department of Transportation on the Preliminary Design of the Western Section Project of Chengdu Second Ring Expressway (Chuan Jiao Circular [2010] No. 412) (《四川省交通運輸廳關於成都第二繞城高速公路西段項目初步設計文件的批覆》(川交函(2010)412號)), which approved the total preliminary design estimate of the project of RMB13,372,000,000. According to the Approval of Sichuan Provincial Department of Transportation on the Budget Adjustment of the Western Section Project of Chengdu Second Ring Expressway (Chuan Jiao Xu Ke Jian [2022] (Wei) Cheng No.1) (《四川省交通運輸廳關於成都第二繞城高速公路西段項目調整概算的批覆》(川交許可建[2022](委)成1號), the project budget of the western section of Chengdu Second Ring Expressway was adjusted to RMB14,604,000,000 with an increase of RMB1,232,000,000.

② Approval of construction land

On 16 March 2010, the construction land of the project obtained the Letter of Reply from the Sichuan Provincial Department of Land and Resources on the Pre-approval of the Land for the Project of Chengdu Second Ring Expressway (Chuan Guo Tu Zi Xin Circular [2010] No. 264) (《四川省國土資源廳關於成都市第二繞城高速公路項目用地預審意見的復函》(川國土資函〔2010〕264號)); on 24 June 2010, the Enterprise obtained the Letter of Reply on the Preliminary Land for the Control Engineering of Construction Project of the Chengdu Second Ring Expressway (West Section) (Chuan Guo Tu Zi Xin Circular [2010] No. 737) (《關於成都第二繞城高速公路(西段)建設項目控制性工程先行用地的復函》(川國土資函〔2010〕737號)) issued by from the Sichuan Provincial Department of Land and Resources. On 29 October 2011, it obtained the Approval from the Ministry of Land and Resources on the Construction Land for the Project of Chengdu Second Ring Expressway (Guo Tu Zi Xin Circular [2011] No. 825) (《國土資源部關於成都第二繞城高速公路工程建設用地的批覆》(國土資函(2011)825號)).

On 11 March 2012, the project obtained the Approval of People's Government of Sichuan Province on the Land for Construction of Chengdu Section for the Project of Chengdu Second Ring Expressway (Chuan Fu Tu (2012) No. 226) (《四川省人民政府關於成都第二繞城高速公路成都段工程建設用地的批覆》(川府土(2012)226號)), which approved 1,143.6112 hectares of land (including the eastern section) for the construction of the Chengdu section of the Chengdu Second Ring Expressway. As of 19 December 2019, 837.8479 hectares (12,567.719 mu) of land were mapped for the western section of the Chengdu Second Ring Expressway, among which: Tianfu New District, Shuangliu District, Xinjin County Chongzhou City,Wenjiang District, Pidu District, Xindu District, Xindu District and Pengzhou City occupied 1,609.484 mu, 757.121 mu, 2,532.226 mu, 2,722.85 mu, 914.354 mu, 2,174.50 mu, 1,432.223 mu and 424.961 mu, respectively.

③ Other approvals

The project has successively obtained approvals from the Department of Land and Resources of Sichuan Province, the Department of Water Resources of Sichuan Province, the Department of Environmental Protection of Sichuan Province and the Sichuan Earthquake Administration in respect of mineral resources, water protection, environmental assessment and seismic safety evaluation of the project.

2) *Acceptance and operation of the project*

The construction of the project commenced on 7 December 2010, and on 8 May 2015, the main part of the project was handed over and accepted for trial operation, and officially commenced operation on 16 February 2016. After the completion of the project, Rongcheng Second Ring organized the design unit, construction unit and supervision unit to carry out the handover acceptance for TJ-A, TJ-B, LM1, LM2, LM3, JD1, JD2, JA1, JA2, JA3, FJ1, FJ2, FJ3, etc., which were assessed to be qualified and passed the handover acceptance test organized by the Bureau of Engineering Quality Supervision of Sichuan Provincial Department of Transportation and the Transportation Construction Quality Supervision Station of Traffic and Transportation Committee of Chengdu Municipality and was concluded as "satisfying the requirements of design documents and relevant standards and specifications, and no serious defects were found in the project appearance". On 17 October 2017, the Letter from Sichuan Water Resources Department on Issuance of Letter of Acceptance of Soil and Water Conservation Facilities for the Western Section Project of Chengdu Second Ring Expressway (Chuan Shui Circular [2017] No. 1497) (《四川省水利廳關於印發成都第二繞城高速公路西段項目水土保持設施驗收鑒定書的函》(川水函[2017] 1497號)) was obtained, which concluded that "the completion and acceptance of soil and water conservation facilities are approved". On 28 September 2018, acceptance and investigation unit such as Sichuan Environmental Sciences Academy and Sic-tech Consulting Co., Ltd. (四川省環科院科技諮詢有限責任公司) was organized together with three invited experts to conduct the acceptance of the completed environmental protection project, which concluded that "the acceptance of environmental protection was agreed".

3) Formal toll approval

On 23 September 2021, the Department of Transportation of Sichuan Province and the Development and Reform Commission of Sichuan Province issued the Approval on the Formal Collection of Vehicle Toll for the Western Section of Chengdu Second Ring Expressway (Chuan Jiao Fa [2021] No. 31) (《關於成都第二繞城高速公路西段正式收取車輛通行費的批覆》(川交發〔2021〕31號)), approving the toll collection period of 29 years and 330 days for the western section of Chengdu Second Ring Expressway, commencing on 16 February 2016 and expiring on 11 January 2046.

(3) Project premises construction and land use rights

The 12 self-built toll stations and two pairs of parking areas of the Rongcheng Second Ring belong to the ancillary facilities of the western section project for Chengdu Second Ring Expressway, all of which are used to ensure the normal road traffic for the western section project of Chengdu Second Ring Expressway, and no real estate registration certificate has been obtained yet, and their areas are based on the as-built drawings, as follows.

List of Premises Without Certificate of Title for Sichuan Rongcheng Second Ring Expressway Development Co., Ltd.

No.	Name	Material or Structure	Area *(m^2)*	Floor	Completion Year
I.	**Shuangliu Jiancha Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
II.	**Xinjin Huayuan Toll Station**				
1	Management Room	Reinforced Concrete	1,466.45	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
III.	**Xinjin Xinyi Toll Station**				
1	Management Room	Reinforced Concrete	2,081.45	3 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
IV.	**Chongzhou Sanjiang Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
V.	**Chongzhou Dahua Toll Station**				
1	Management Room	Reinforced Concrete	1,818	3 Floors	2020.6
2	Toll Shed	Reinforced Concrete			2020.6
3	Power Distribution Room	Reinforced Concrete	106	1 Floor	2020.6

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
VI.	**Dahua Parking Zone**				
1	Management Room	Reinforced Concrete	822	2 Floors	2014.12
2	Water pump Room	Reinforced Concrete	82.66	2 Floors	2014.12
VII.	**Hesheng Parking Zone**	**Reinforced Concrete**			
1	Management Room	Reinforced Concrete	822	2 Floors	2014.12
2	Water pump Room	Reinforced Concrete	82.66	2 Floors	2014.12
VIII.	**Chongzhou Toll Station**				
1	Management Room	Reinforced Concrete	1,470	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	43	Dismantled	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
5	Yangma Management Center Office Building	Reinforced Concrete	4,132	3 Floors	2014.12
6	Traffic Police Road Administration Office Building	Reinforced Concrete	1,470	2 Floors	2014.12
7	Cafeteria	Reinforced Concrete	700	1 Floor	2014.12
8	Dormitory Building	Reinforced Concrete	1,432.9	2 Floors	2017.8
9	Multi-function Room	Reinforced Concrete	469.8	1 Floor	2017.8
10	Gatekeeper Room	Reinforced Concrete	36.5		2017.8

No.	Name	Material or Structure	Area (m²)	Floor	Completion Year
IX.	**Chongzhou Liaojia Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
X.	**Wenjiang Wanchun Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XI.	**Pidu You'ai Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
XII.	**Pidu Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XIII.	**Gucheng Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
5	Gucheng Administration Office Building	Reinforced Concrete	1,469	2 Floors	2017.8
XIV.	**Xindu Qingliu Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
	Total		**29,714.32**		

Among which, there is a leasing relationship between part of the management room (1,033 m^2) of Xinjin Huayuan Toll Station and the above-ground premises of two parking areas in Dazhu and Hesheng.

There are eight existing land use rights for the land occupied by the western section of the Chengdu Second Ring Expressway, of which the land in the Xindu section has obtained a title certificate. The land information is as follows:

Title Certificate No.	Holder of Right	Location	Purpose	Right Nature	Land Area (m^2)
Chuan (2021) Xindu District Real Estate No. 0088320	Sichuan Rongcheng Second Ring Expressway Development Co., Ltd	Chengdu Second Ring Expressway K205+400 to K217+900	Land for Highway	Allocation	698,665.82

The remaining land is in the process of real estate registration, and the progress is shown in the table below:

Table on the Progress of Land Registration of Land Allocated in the western section of Chengdu Second Ring Expressway

District, County and City		Title Investigation			Allocation Decision Letter		Real Estate Title Certificate	
		Town Involved	Specific Reason	Date	Progress	Date	Progres	Date
Shuangliu District	2 towns	Yongan Town	/	/	/	December 2023	Pending progress	December 2023
		Huanglongxi Town	Shuangliu District is in the process of solving the outstanding issues raised by Dongyue Village	By early November 2023	Pending progress			
Tianfu New District	2 towns	Yongxing Town	/	/	Preparing materials	March 2023	Pending progress	June 2023
		Jiancha Town	/	/				
Xinjin District	4 towns	Huaqiao Town	/	/	Submitted materials	February 2023	Pending progress	April 2023
		Puxing Town						
		Xingyi Town						
		Huayuan Town						

District, County and City		Title Investigation			Allocation Decision Letter		Real Estate Title Certificate	
		Town Involved	Specific Reason	Date	Progress	Date	Progres	Date
Chongzhou City	7 towns	Chongping Town	1. redefined village and township boundaries after village and township adjustments; 2. 6 township rights, Chengdu-Wenjiang-Qionglai boundary	March	Pending progress	April 2023	Pending progres	August 2023
		Chongyang Town						
		Dahua Town						
		Jiangyuan Town						
		Liaojia Town						
		Sanjiang Town						
		Yangma Town						
Wenjiang District	3 towns	Shouan Town		January	Preparing materials	March 2023	Pending progress	April 2023
		Wanchun Town						
		Hesheng Town						
Pidu District	5 towns	Gucheng Town	/	/	Submitted materials	April 2023	Pending progres	June 2023
		Youai Town						
		Sandaoyan Town						
		Ande Town						
		Pitong Town						
Xindu District	2 towns	Qingliu Town	/	/	Obtained	/	Obtained	/
		Xinfan Town						
Pengzhou City	1 town	Mengyang Town	Outstanding problems from construction	August 2023	Pending progress	December 2023	Pending progress	December 2023

According to the Description and Undertaking of Premises and Land Use Rights without Certificate of Title issued by the Enterprise, the use right of fourteen premises and eight pieces of land in above uncertified land use rights and premises are owned by Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. There is no dispute on the title rights. In case of any dispute arising from the property rights of the premises, the Enterprise shall assume all responsibilities.

(4) Project pledges

In 2012, Rongcheng Second Ring signed the RMB-Funded Syndicated Loan Contract for the Western Section Project of Chengdu Second Ring (《成都第二繞城高速公路西段項目人民幣資金銀團貸款合同》) (hereinafter as the "Original Syndicate Loan Contract") with ICBC Sichuan Branch, China Development Bank, Bank of Communications Sichuan Branch, Bank of China Sichuan Branch and Agricultural Bank of China Sichuan Branch (hereinafter as the "Original Syndicate"). Rongcheng Second Ring made loans of RMB8.692 billion from the Original Syndicate, with loan terms of 20 years commencing from the date of the first drawdown of the loan. Among which, the interest rate for the first two years of the loan is 10% above the corresponding benchmark interest rate, and the interest rate after the third year of the loan is the corresponding benchmark interest rate.

On 30 November 2020, the board of directors of the Former Railway Investment Group issued the Resolution on the Replacement of the Outstanding Debt of the Five Expressways directly under the Group (《關於集團直屬5條高速公路存量債務置換的決議》), which decided to sign the relevant documents with Original Syndicate with Former Railway Investment Group as a co-borrower of the five expressway project companies (including Rongcheng Second Ring) and to collect the guarantee fee from the project companies at a rate of 0.7%. At that time, the 5-year loan interest rate of the syndicate was 4.9% per annum.

In 2020, the Former Railway Investment Group, Rongcheng Second Ring and Original Syndicate signed the RMB-Funded Syndicated Loan Contract for the Financing Re-arrangement (Syndicate) for the Western Section Project of Chengdu Second Ring Expressway of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (《四川蓉城第二繞城高速公路開發有限責任公司成都第二繞城高速公路西段項目融資再安排銀團貸款人民幣資金銀團貸款合同》) (the "Syndicate Supplemental Contract"). The lenders under the Contract are China Development Bank, CCB Sichuan Branch, ICBC Sichuan Branch, Bank of Communications Sichuan Branch, Agricultural Bank of China Sichuan Branch, Bank of China Sichuan Branch and Export–Import Bank of China Sichuan Branch, respectively. Rongcheng Second Ring made loans of RMB9.809 billion from the syndicate for the period from 16 December 2020 to 16 December 2045 at an interest rate of LPR-45BP for the corresponding period. At that time, the 5-year loan interest rate of the syndicate was reduced to 4.2% per annum, and the spread of 0.7% per annum between the loan interest rate and the previous loan interest rate was intended to be charged by the Former Railway Investment Group.

In order to guarantee the performance of the Syndicate Supplemental Contract, the syndicate filed a receivable pledge registration of all the interests and revenues for the Franchise Agreement (《特許權協議》) to which Rongcheng Second Ring is entitled, with a term expiring at 27 January 2046.

As of 30 September 2022, the interest rate of the syndicate loan was 4.2% and Rongcheng Second Ring had an outstanding principal amount of RMB9.109 billion not yet paid to the syndicate. Details of which are as follows:

Financial Institution	**Term**	**Principal balance** *(RMB)*
Bank of China Limited, Sichuan Branch	2021.3.5–2046.3.4	500,000,000.00
ICBC Chengdu High-Tech Industrial Development Zone Sub-branch	2021.3.2–2046.3.1	2,300,000,000.00
China Construction Bank, Chengdu Xinhua Sub-branch	2021.1.22–2046.1.21	200,000,000.00
Agricultural Bank of China Guanghua Science and Technology Park Sub-branch	2021.1.21–2046.1.20	978,000,000.00
Bank of Communications Chengdu Wuhou Sub-branch	2021.8.12–2046.8.11	50,000,000.00
Bank of Communications Chengdu Wuhou Sub-branch	2022.8.12–2046.12.16	50,000,000.00
Bank of Communications Wuhou Sub-branch	2021.1.19–2046.1.18	1,250,000,000.00
Bank of Communications Wuhou Sub-branch	2021.4.16–2046.4.15	100,000,000.00
Bank of Communications Wuhou Sub-branch	2022.3.14–2046.12.16	100,000,000.00
Export–Import Bank of China, Sichuan Branch	2021.1.13–2046.1.12	200,000,000.00
China Development Bank, Sichuan Branch	2021.1.13–2046.1.12	1,380,000,000.00
China Development Bank, Sichuan Branch	2021.2.3–2046.2.2	734,000,000.00
China Development Bank, Sichuan Branch	2021.2.26–2046.2.25	967,000,000.00
China Development Bank, Sichuan Branch	2020.12.16–2045.12.16	300,000,000.00
Total		**9,109,000,000.00**

7. The book balance of deferred income tax assets is RMB64,319,294.17, which is mainly the deferred income tax assets generated by losses in previous years.

(III) Intangible Assets Accounted for or Not Accounted for as Declared by the Enterprise

There are nine intangible assets recorded in the books of the Enterprise, with an original carrying value of RMB14,809,858,985.57 and a net carrying value of RMB13,457,664,124.01. The nine intangible assets include the franchise expressway toll collection rights of the western section BOT project of Chengdu Second Ring Expressway held by the Enterprise (toll collection rights commenced from 16 February 2016 and expired at 11 January 2046, with a term of 29 years and 330 days). In addition to the franchise rights of the western section project of Chengdu Second Ring Expressway, the other intangible assets are mainly commissioned development software, high-speed monitoring and management system, video cloud network engineering and other systems or software, with a total of eight sets, which were acquired and used from 2019 to 2021.

(IV) Types and number of off-balance sheet assets declared by the Enterprise

None.

(V) Reference to the assets involved in the conclusions of the report issued by other institution

1. The Audit Report of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. for 2021 and the Period from January to September 2022 (No. XYZH/2023CDAA7B0011) issued by ShineWing Certified Public Accountants (Special General Partnership);

2. Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway issued by Chelbi Engineering Consultants, Inc.

IV. TYPE OF VALUE

According to requirements for realizing the valuation target, combining with restrictions of its own functions, usage and utilization status of the valuation target, the market value approach was adopted for this asset valuation.

The market value refers to the estimated value amount of the valuation target on the Valuation Benchmark Date in the course of a normal and fair trade acting in a reasonable manner both by voluntary buyers and voluntary sellers without coercion.

V. VALUATION BENCHMARK DATE

(I) The Valuation Benchmark Date of this project is 30 September 2022.

(II) The Valuation Benchmark Date is determined by the client under the principle of the Valuation Benchmark Date approximating with the realization date of the economic acts via the asset valuation in possible manner.

(III) During the asset valuation, definition of valuation scope, selection of valuation parameters and determination of appraised value are determined based on the enterprise's internal financial statements, external economic environment and market conditions on the Valuation Benchmark Date. All valuing standards in the report are the effective price standards on the Valuation Benchmark Date.

VI. BASIS FOR VALUATION

(I) Basis of acts

1. Request for Instructions on the Establishment of the Equity Acquisition Project of Rongcheng Second Ring Expressway Development Co., Ltd. (《關於蓉城第二繞城高速公路開發有限責任公司股權收購項目立項的請示》);

2. Approval of Shudao Investment Group Co., Ltd. for the Project Establishment of the Non-public Agreement Transfer of the Equity Interests in Rongcheng Second Ring Company Held by Shudao Expressway Group and SRB Group (《蜀道投資集團有限責任公司關於同意蜀道高速集團、路橋集團非公開協議轉讓所持蓉城二繞公司股權項目立項的批覆》);

3. Asset valuation engagement contract.

(II) Basis of laws and regulations

1. The Assets Appraisal Law of the People's Republic of China (《中華人民共和國資產評估法》) (Presidential order of People's Republic of China (No. 46));

2. The Company Law of the People's Republic of China (《中華人民共和國公司法》) (which amendments were approved at the 6th Session of the Standing Committee of 13th National People's Congress on 26 October 2018);

3. The Interim Measures for Assessment and Administration on State-owned Assets of Enterprises (《企業國有資產評估管理暫行辦法》) (Ordinance No. 12 of SASAC of the State Council in 2005);

4. Notice on Enhancement of Assessment and Administration on State-owned Assets of Enterprises and Relevant Issues (《關於加強企業國有資產評估管理工作有關問題的通知》) (Guo Zi Fa Chan Quan [2006] No. 274)；

5. Guidelines on Registration on State-owned Assets Assessment Projects of Enterprises (《企業國有資產評估項目備案工作指引》) (Guo Zi Fa Chan Quan [2013] No. 64);

6. Provisional Regulations for Value-added Taxes of the People's Republic of China (《中華人民共和國增值稅暫行條例》) (Ordinance No. 691 of State Council);

7. Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission (《財政部、稅務總局、國家發展改革委關於延續西部大開發企業所得稅政策的公告》) (MOF Notice 2020 No. 23);

8. Circular of the Ministry of Finance and the State Administration of Taxation on Several Issues Concerning the Implementation of VAT Transformation Reform in China (《財政部國家稅務總局關於全國實施增值稅轉型改革若干問題的通知》) (Cai Shui [2008] No. 170);

9. Circular of the Ministry of Finance and the State Administration of Taxation on Launching the Pilot Program of Reforming from Business Tax to VAT in an All-round Way (《財政部國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36);

10. Announcement on Policies Concerning Deepening Value Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (Announcement No. 39 of 2019 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs);

11. Regulations on Compulsory Scrapping Standards of Motor Vehicles (《機動車強制報廢標準規定》) (Order No. 12 of 2012 of the Ministry of Commerce, Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection);

12. Regulations on the Administration of Toll Roads (《收費公路管理條例》) (promulgated by Decree No. 417 of the State Council of the People's Republic of China on 13 September 2004, as amended and implemented on 1 November 2021);

13. Measures for the Transfer of Rights and Interests in Toll Roads (《收費公路權益轉讓辦法》) (Order No. 11 in 2008 of the Ministry of Transport of the People's Republic of China, the National Development and Reform Commission of the People's Republic of China and the Ministry of Finance of the People's Republic of China);

14. Guidance on Deepening Market-oriented Reform of Expressways (《關於深化高速公路市場化改革的指導意見》) by the Office of the Sichuan Provincial Government (Chuan Ban Fa [2022] No. 58)；

15. Other relevant laws, regulations or rules.

(III) Basis of valuation standards

1. Basic for Asset Valuation Standards (Cai Zi [2017] No. 43);

2. Professional Code of Conduct Principle for Asset Valuation Standards (Zhong Ping Xie [2017] No. 30);

3. Practicing Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Practicing Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Practicing Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

6. Practicing Guidelines for Asset Valuation –Use of Expert Work and Related Reports (Zhong Ping Xie [2017] No. 35);

7. Practicing Guidelines for Asset Valuation – Asset Valuation Archives (Zhong Ping Xie [2018] No. 37);

8. Practicing Guidelines for Asset Valuation–Enterprise Value (Zhong Ping Xie [2018] No. 38);

9. Practicing Guidelines for Asset Valuation-Intangible Asset (Zhong Ping Xie [2017] No. 37);

10. Practicing Guidelines for Asset Valuation-Real Estate (Zhong Ping Xie [2017] No. 38);

11. Practicing Guidelines for Asset Valuation-Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

12. Assets Valuation Practicing Standards – Assets Valuation Method (Zhong Ping Xie [2019] No. 35);

13. Administrative Measures of the China Appraisal Society for Asset Valuation Reports (Zhong Ping Xie [2021] No. 30);

14. Guidelines on Valuation Report of State-owned Assets (Zhong Ping Xie [2017] No. 42);

15. Guidelines for Valuation of Intellectual Property Rights (Zhong Ping Xie [2017] No. 44);

16. Quality Control Guidelines for the Business of Assets Valuation Agencies (Zhong Ping Xie [2017] No. 46);

17. Guidance on Types of Assets Valuation (Zhong Ping Xie [2017] No. 47);

18. Guidance on Legal Ownership of Asset Target of Valuation (Zhong Ping Xie [2017] No. 48).

(IV) Basis of property rights

1. Contract and invoice;

2. Vehicle travel license, vehicle registration certificate;

3. Land use right approval, land use right certificate;

4. Franchise agreement;

5. Other related property certificate information provided by the appraised entity.

(V) Basis of pricing

1. The Manual of Common Data and Parameters in Asset Valuation Reports;

2. Financial statements and audit reports of previous years provided by the enterprise;

3. Other relevant valuation information recorded and collected by the valuation personnel during on-site survey;

4. Relevant inquiry information and parameters collected by the evaluation institution;

5. Other valuation related information provided by the appraised entity.

(VI) Other references

1. The Audit Report of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. for 2021 and the Period from January to September 2022 (No. XYZH/2023CDAA7B0011) issued by ShineWing Certified Public Accountants (Special General Partnership);

2. Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway issued by Chelbi Engineering Consultants, Inc.;

3. The Asset Valuation Application provided by the appraised entity.

VII. VALUATION APPROACHES

(I) Selection of valuation approaches

According to the requirement of assets valuation standards, three approaches, namely income approach, market approach and asset-based approach, can be adopted for valuation of enterprise value.

The income approach in valuation of enterprise value refers to the valuation approach that the expected income of the enterprise evaluated will be capitalized or discounted to determine the value of the valuation target. The specific measures commonly used in income approach include dividend discount and cash flow discount.

The market approach refers to the valuation approach which compares the valuation target with comparable listed companies or comparable transaction cases so as to determine the value of the valuation target. The two specific measures commonly used in market approach include comparison with listed companies and comparison with transaction cases.

The asset-based approach refers to the valuation approach to determine the value of the valuation target by reasonably assessing the value of the on-balance sheet and recognizable off-balance sheet assets and liabilities of an enterprise based on the balance sheet of the enterprise evaluated as at the valuation benchmark date.

According to the purpose and target of this valuation, type of value, information collection and other relevant conditions, and pursuant to the conditions applicable to the three basic valuation approaches, the valuation approaches which have been adopted for this asset valuation are: asset-based approach and income approach. The reasons for such selection are as follows:

The asset-based approach reflects the value of assets from the perspective of asset re-acquisition, which means that the approach reflects the value of assets by deducting depreciation from the replacement cost of assets. Preconditions include: firstly, the appraised assets are in the state of continuing use or are supposed to be in the state of continuing use; secondly, historical information is available. The valued assets under this asset valuation meet such conditions.

The market approach uses references in the real market to evaluate the prevailing fair market value of the valuation target, which has the characteristics of direct valuation perspective and valuation channel, intuitive valuation process, valuation data taken directly from the market and persuasive valuation results. As the west section of Chengdu Second Ring Expressway, being operated by the appraised entity, has just operated for a short period of time and is currently in the development stage, the appraised entity runs at a loss, which makes us unable to identify enough comparable listed companies with similar operating conditions, the same business nature and of comparable size as the Enterprise to select appropriate value ratios; and at the same time unable to obtain sufficient information on cases of sales, acquisitions and mergers of comparable enterprises. Therefore, the market approach is not appropriate for this asset appraisal.

The income approach is to obtain the current value of the target enterprise by anticipating the future revenues that the target enterprise is able to generate and discounting these revenues based on the risks involved in obtaining these revenues and the required rate of return. However, the following three conditions shall be met: ① the enterprise has sustainable profitability; ② a reasonable forecast of the Enterprise's future revenues; and ③ a reasonable estimation of the rate of return corresponding to the risk procedure of the Enterprise's future revenues. The current traffic flow of the western section of the Chengdu Second Ring Expressway operated by the Enterprise is at a stable and increasing stage, and there is a predictable growth in its future traffic flow, so there is a reliable forecast for its future income, and therefore the income method can be used for the assessment.

(II) Introduction of asset-based approach

The asset-based approach, which is also called the cost-plus approach, is to judge the value of the overall assets on the basis of the amount of investment required to rebuild an enterprise or an independent profit entity similar to the valuation target on the valuation benchmark date, which specifically refers to the approach that arrives at the enterprise value by summing up the valuation value of enterprise's various elements of assets minus the appraised value of its liabilities.

1. Current assets

The valuation scope of the current assets includes monetary funds, prepayment and other receivables.

(1) Monetary funds

The monetary funds included in the valuation scope are cash and bank deposits.

In the case of cash, the asset valuation professionals conduct verification based on the location of the cash at the time of their on-site work, and the cashier of the enterprise conducts stock count on a random basis without prior notification while the head of finance and the asset valuation professionals are on site to supervise the stock count. Afterwards, the cash journals provided by the cashier are checked and, once the figures match, the cashier fills in the debit and credit data recorded in the accounts between the benchmark date and the date of the inventory count to carry out the projection. The asset valuation professionals then check to confirm whether the amount is consistent with the amount declared on the benchmark date of the appraisal and take the confirmed book value as the appraised value.

In the case of bank deposits, the asset valuation professionals verify the bank deposit balances and bank deposits owned by the Enterprise in accordance with the bank statements provided by the depository bank of the company or the letters of enquiry received. For the outstanding items between the bank statements and the bank deposit journals of the company, the bank deposit balance reconciliation statement will be prepared by the finance staff of the company after understanding and verifying each item, and the book value of the RMB accounts will be taken as the appraised value after determining that the amounts of the financial accounts of the company and that of the depository bank accounts were consistent.

(2) Prepayment

For the valuation of prepayments, the asset valuation professionals first checked the declaration forms as well as the general ledger and detailed accounts and inspect the original certificates to verify the correctness of the amounts stated in the declaration forms. On the basis of verifying the correctness of the prepayments, based on the contents, date of occurrence and amount of the customer's business as set out in the breakdown of prepayments declared by the appraised entity, a conversation was conducted with the financial officers and relevant personnel of the Enterprise. Upon a detailed introduction of the actual situation of the debtor unit by the finance staff and relevant staff, the asset valuation professionals specifically analyzed the reasons for the formation of the prepayment and determined the value of the assessment based on the value of the corresponding assets or rights that are recoverable in accordance with the requirements of the relevant regulations and norms on asset valuation.

(3) Other receivables

The asset valuation professionals checked the amounts in the breakdown, the ledger and the accounting statements, and verified the amounts through correspondence and verification. On the basis of the verification, and with the aid of historical information and on-site investigation, a special analysis was made of the amount, the date and reasons for the arrears, the status of recovery, the arrears' capital, credit and the current state of business management, etc. Based on the specific circumstances, the individual identification method and the ageing analysis method were adopted to estimate the risk loss assessment.

Where there is sufficient reason to believe that the amount will be fully recovered, the risk loss is assessed at 0%; where there is conclusive evidence that the amount will not be recovered or aged out, the risk loss is assessed at 100%; where it is probable that part of the amount will not be recovered and it is difficult to ascertain the recoverable amount, the risk loss is estimated based on the ageing and historical recovery analysis with reference to the method of calculating bad debt provision based on the Financial Accounting Standards. Where there are reasonable grounds for believing that all amounts such as those of transactions with related parties will be recovered, the risk loss is assessed at 0%. The balance of the verified carrying value less the appraised risk loss was determined as the appraised value and the provision for bad debts was assessed as nil.

2. Non-current asset

The non-current assets included in this valuation are the long-term receivables, fixed assets held for disposal and the expressway franchise right asset group for BOT projects.

(1) Long-term receivables

For long-term receivables, we have checked whether the breakdown is consistent with the general ledger, the financial statements and the balance of the valuation table, examined the amount, the date of occurrence, the business content and other accounting records according to the valuation table by analyzing the ageing therein. For amounts that are relatively large or unusual, correspondence checks are performed, and for amounts that are not replied to, alternative procedures are performed (obtaining relevant certificates for amounts that are subsequently recovered or relevant certificates at the date of the business occurrence), and cross-checking of receivables from related units is conducted to verify the authenticity and completeness of the receivables, and to verify whether the amounts in the result accounts, statements and bills are consistent or not.

Based on the verification of the above receivables, the asset valuation professionals, with the help of historical data and on-site investigation, specifically analyze the amount of arrears, the time and reason of arrears, the recovery of funds, the debtor's funds, credit, and the status of operation and management, and adopt the individual identification and aging analysis method to estimate the risk loss. If there is sufficient reason to believe that all the transaction amount of related enterprises can be recovered, the risk loss is assessed as 0; where there is conclusive evidence of unrecoverable amount or where the account has become overdue upon implementing collection efforts, the risk of loss is assessed at 100%; for the amount that is not expected to be recovered in full but there is no conclusive evidence to prove that it cannot be recovered or cannot be recovered in full, on the basis of analyzing the business content one by one and referring to the method used by the Enterprise to calculate bad debt provision, a certain proportion of risk loss is determined by aging analysis, and the assessed value is determined by deducting the risk loss from the book balance. The debt provision of the Enterprise is assessed as zero.

(2) Fixed assets held for disposal

Fixed assets held for disposal include vehicles held for disposal and electronic equipment held for disposal. For the aforementioned, the main valuation methods are the market method, the income method and the cost method, respectively.

The market method is adopted for the well-developed markets and the "Method" is used where there is a secondary market for similar assets or where there are more examples of transactions, which is a simpler method of obtaining asset values. The market method is available to choose due to the fact that the recycling transaction market is active and transparent for the vehicles to be scrapped and equipment in the same condition as valuation subject, which can be quoted for price in the market.

The income method is used by discounting the future net profit or net cash flow generated by the appraised subject to their present value at a certain discount rate as the value for the assets under appraisal. The income method is not used for vehicles and equipment awaiting scrapping as there is no expected return.

Cost method is a method based on the sum of necessary costs and expenses and payable tax for re-acquiring, re-constructing and reestablishing the valuation subjects into a brand new status, less physical depreciation, functional depreciation and economic depreciation of the valuation subjects to obtain the values of the valuation subjects. The cost method is not appropriate for the vehicles and equipment awaiting scrapping.

In this case, the appraisal price for vehicles and equipment awaiting scrapping was based on the recovery price of similar references in the recycling market.

(3) Asset groups of expressway franchise toll rights for BOT projects

An asset group is the smallest group of assets that can be identified by the Enterprise and the cash flows generated therein shall be independent of the cash flows generated by other assets or asset groups. The identification of an asset group shall be based on whether the major cash inflows generated by the asset group are independent of other assets. Meanwhile, in identifying an asset group, consideration shall be given to the manner in which the management of the Enterprise manages its production and operation activities (e.g. whether by production line, type of business or by region or area, etc.) and the manner in which decisions on the continued use or disposal of assets are made, etc.

The asset group under appraisal mainly includes fixed assets, intangible assets (expressway franchise toll right and software systems) that are still available for use in connection with the project. The carrying value of the above assets amounted to RMB13,542,114,133.18 (excluding the book value of vehicles and electronic equipment to be disposed of). Details are as follows:

Project	**Carrying Value**
Fixed asset	**84,450,009.17**
Including: Structures and other ancillary facilities	1,047,086.94
Machinery and equipment	80,669,803.82
Vehicles (excluding the book value of vehicles to be disposed of)	1,889,570.73
Electronic equipment (excluding the book value of electronic equipment to be disposed of)	843,547.69
Intangible assets	**13,457,664,124.01**
Including: expressway franchise toll right	13,457,664,124.01
Software and systems	3,161,470.80
Total	**13,542,114,133.18**

The income method is a method of estimating the expected future income of the asset under appraisal, converting it to its present value at an appropriate discount rate and using the present value of the income as the value of the asset under appraisal. For this valuation, the discounting cash flow model was used.

① Calculation formula

$$p = \sum_{i=0.13}^{n} \left[R_i \times (1+r)^{-i} \right]$$

In this formula:
P: Asset group value of expressway franchise toll right
R_i: Net cash flow generated from intangible assets
i: Revenue period (e.g. October 2022–11 January 2046)
r: discounting rate

② Net cash flow generated from intangible assets

Net cash flow generated from intangible assets=earnings before interest, tax, depreciation and amortization (EBITDA)-capital expenditure-change in net working capital

③ Revenue period

According to the Department of Transportation of Sichuan Province and the Development and Reform Commission of Sichuan Province issued the Approval on the Formal Collection of Vehicle Toll for the Western Section of Chengdu Second Ring Expressway (Chuan Jiao Fa [2021] No. 31) and the Franchise Agreement signed between the Chengdu Municipal People's Government and Sichuan Rongcheng Second Ring Expressway Development Co., Ltd., the Enterprise owns the toll right of the western section of Chengdu Second Ring Expressway toll right, which commences from 16 February 2016 and expire on 11 January 2046, with a term of 29 years and 330 days. After the expiration of the toll rights, the Enterprise will hand over the western section of the Chengdu Second Ring Expressway to the government without compensation. Accordingly, the revenue period of this valuation will end on 11 January 2046 as agreed in the above agreement.

④ Discount rate (r)

Following the principle of aligning the amount of revenue with the discount rate calibre, the weighted average cost of capital before tax (WACCBT) was selected as the discount rate for this valuation.

Formula:

$$WACCBT = \frac{E}{(E+D)}\frac{R_e}{(1-T)} + \frac{D}{(E+D)}R_d$$

In this formula: R_e：Cost of equity capital

R_d: Cost of debt capital

T: income tax rate

E/(D+E): Equity to total capital ratio

D/(D+E): Debts to total capital ratio

Including: $R_e = R_f + \beta \times ERP + R_s$

R_f: risk free rate of return

β : Risk factor

ERP: Determination of excess return on market risk

R_s: Excess return on firm-specific risk

⑤ Appraised value

Appraised value of expressway toll right asset group = present value of net cash flow – working capital on the benchmark date

(4) Deferred income tax assets

The deferred income tax assets appraised in this valuation are deferred income tax assets arising from compensable losses of prior years. For deferred income tax assets arising from compensable losses, the appraised value of the deferred income tax assets is calculated and determined on the basis of the portion of compensable losses of prior years that may be made up for by future profits and the corresponding income tax rate.

3. Liabilities

The appraisal of the liabilities of an enterprise is mainly a review and verification in which the asset appraisal professionals verify the relevant documents, contracts, account book and relevant vouchers, and after confirming their authenticity, then determine the appraised value based on the verified book value or on the actual liabilities to be borne by it.

(III) Introduction to the income method

The income method in enterprise value valuation refers to the valuation method of capitalizing or discounting expected earnings to determine the value of the subject of valuation. Asset valuation professionals shall properly consider the application of the income method in the light of the historical operating conditions of the appraised entity, the forecast of future earnings and the adequacy of the appraisal information obtained.

Specific methods commonly used in the income method include the dividend discounting method and the cash flow discounting method.

The dividend discount method is a specific method of discounting expected dividends to determine the value of the appraisal subject and is usually applicable to the valuation of partial equity interests of shareholders with no control right; the cash flow discount method usually includes the discounted free cash flow of the Enterprise, industry where the Enterprise operates, business model, capital structure and development trend of the appraisal entity, etc., and the appropriate selection of the cash flow discount model.

The valuation approach for the income method is specified as follows:

1. Valuation concept

The basic principle of the income method is that the amount of money that a purchaser of an asset is willing to pay to purchase the asset will not exceed the discounted value of the expected future earnings that the asset will generate. In this valuation, the estimation of the value of entire shareholders' equity of Rongcheng Second Ring was achieved by discounting the future net cash flow of the Enterprise, i.e. with the basis of the free net cash flow of the Enterprise's equity generated in future years, the value of entire shareholders' equity is arrived at by discounting at an appropriate discount rate and then summing up to arrive at the value of operating assets, plus the value of the premium assets and the value of non-operating assets.

The specific valuation concept are as follows:

(1) For the assets and principal activities included in the scope of the financial statements, the expected return (net free cash flow of equity) is estimated in accordance with the trend of changes in historical operating conditions and types of business products in recent years and the development plan of the Enterprise in the future, and is discounted to obtain the value of operating assets;

(2) To separately estimate and add back the value of surplus or non-operating assets (liabilities) that are included in the scope of the financial statements but are not considered in the estimation of expected income (net cash flows).

2. Valuation model

The future income discounting method used in the valuation is to quantify the free cash flow of equity as the indicator of expected income of the Enterprise. The calculation formula is as follows:

$$P = \sum_{i=0.13}^{n} Ai/(1+r)^i + Rn/(1+r)^n + N$$

Including: P refers to the value of entire shareholders' equity
Ai refers to the net cash flow for i period of the definite forecast period
Rn is the recovery value of assets at the end of the forecast period
r is the capitalization rate (discount rate)
n is the forecast period
i refers to the i year of forecast period
N is the appraised value of non-operating assets and surplus assets

(1) Net cash flow

Future net income for this valuation is based on the free cash flow of equity generated by the Enterprise in future years. The free cash flow of equity is defined as the cash flow attributable to shareholders, being the cash flow remaining after deducting capital expenditure for maintaining existing production and building new assets required for future growth, changes in working capital and debt cash flows and is calculated as follows:

Free cash flow of equity = net profit after tax + depreciation and amortization – capital expenditure – changes in working capital – repayment of principal of interest bearing debt + new borrowings of interest bearing debt + recovery of assets at the end of the period

(2) Revenue period

According to the Department of Transportation of Sichuan Province and the Development and Reform Commission of Sichuan Province issued the Approval on the Formal Collection of Vehicle Toll for the Western Section of Chengdu Second Ring Expressway (Chuan Jiao Fa [2021] No. 31) and the Franchise Agreement signed between the Chengdu Municipal People's Government and Sichuan Rongcheng Second Ring Expressway Development Co., Ltd., the Enterprise owns the toll right of the western section of Chengdu Second Ring Expressway toll right, which commences from 16 February 2016 and expire on 11 January 2046, with a term of 29 years and 330 days. Accordingly, the revenue period of this valuation will end on 11 January 2046 as agreed in the above agreement.

(3) Discount rate

In accordance with the principle of consistency between the amount of revenue and the discount rate calibre, the amount of revenue calibre for this valuation is the free net cash flow of equity and its discount rate (i.e. the cost of equity capital, is derived in accordance with the CAPM model commonly used internationally) is calculated as follows, namely:

$$K_e = R_{f1} + \left[E\left(R_m\right) - R_{f2} \right] \times \beta + R_c$$

In the formula:
R_{f1}: Risk-free rate of return
$E(R_m)$: Expected return on the entire portfolio of market securities
$E(R_m)$-Rf_2：Excess risk return rate in the equity market
β : Beta factor
R_c: Specific risk adjustment factor of the Enterprise

(4) Value of surplus assets

Surplus assets are those of that are not directly related to the operation of the Enterprise and are in excess of what is required for the operation of the Enterprise, the value of which is determined by the verified book value.

(5) Value of non-operating assets

Non-operating assets are those of that are not directly related to the income of the Enterprise which do not generate profit. Those assets do not generate profit. The value thereof is determined by either the cost method or the market method, depending on the specific circumstances of the asset.

(IV) Approach to determining valuation results

The preliminary conclusions drawn by two valuation methods are compared and analyzed, and form a final valuation conclusion after comprehensively considering the rationality of different valuation approaches and preliminary value conclusions, and the quality and quantity of the information used.

The valuation result of the income method was finally adopted.

VIII. IMPLEMENTATION AND STATUS OF VALUATION PROCEDURES

The whole assessment was carried out in four stages.

(I) Preliminary preparation and acceptance of engagement

The Company shall first understand the project's client, the appraised entity and other users of asset valuation report other than the client, the valuation purpose, the valuation subject and scope, the type of value, the Valuation Benchmark Date, the scope of use of the asset valuation report, the deadline and manner of submission of the asset valuation report, the appraisal service fee and payment method, as well as important matters that need to be clarified such as cooperation and assistance between the client, other relevant parties and the asset appraisal institution and its asset appraisal professionals. After clarifying the basic business matters and conducting comprehensive analysis and evaluation of professional competence, independence and business risks, an asset valuation engagement contract shall be signed with the client. After listening to the introduction of the relevant personnel of the appraised entity on the situation of the Enterprise and the history and current status of the assessed assets, the asset valuation plan shall be prepared and the asset valuation project team shall be formed in accordance with the specific circumstances of the asset valuation business.

(II) On-site investigation and collection of information

The client, property owner and other relevant parties are instructed to check assets and prepare detailed information concerning the object and scope of appraisal.

The asset appraisal professionals arrived on-site on 3 November 2022, and by combining with the asset and liability inventory and appraisal schedules filled in by the appraised units, the asset appraisal professionals conducted on-site investigation on the valuation target and the assets and liabilities involved through questioning, correspondence, verification, monitoring, investigation, inspection and other methods. The information required for the asset valuation business was collected according to the specific conditions of the asset valuation business, and the asset valuation information collected and used was verified through observation, questioning, written review, field investigation, enquiry, correspondence, review and other methods. We understood the current status of the valuation target through on-site investigation of the valuation target and valuation information collected, and paid attention to the legal ownership of the valuation target and the assets involved. Project team closed on-site work on 23 November 2022.

(III) Collection of valuation information, assessment and estimation

Asset valuation professionals conduct independent market research based on the specific conditions of the asset valuation business, collect relevant information, and conduct necessary screening, analysis, summarization and compilation of the valuation information collected to form the basis for assessment and estimation and the preparation of the asset valuation report. The applicability of the three basic approaches, namely market approach, income approach and cost approach shall be analyzed to select the valuation approach pursuant to the purpose of valuation, the target of valuation, the type of value and the information collected; Based on the valuation approach adopted, the asset valuation project group selects the corresponding formula and parameters for analysis, calculation and judgement to form the estimation results.

(IV) Formation of conclusion and submission of report

Asset valuation professionals conduct comprehensive analysis on the calculation results formed to form the valuation conclusion, and prepare the preliminary asset valuation report after the assessment and estimation form the valuation conclusion. The preliminary asset appraisal report shall then be subject to internal audit in accordance with laws, administrative regulations, asset appraisal standards and the internal quality control system of the asset appraisal institution. Without prejudice to the independent judgment on the appraisal conclusion, and after necessary communication with the client or other relevant parties agreed by the client regarding the relevant contents of the asset valuation report, the formal asset valuation report shall be issued and submitted to the client.

IX. VALUATION ASSUMPTIONS

Due to the changes in the operating environment of the Enterprise and the changing factors affecting the value of assets, it is necessary to establish some assumptions in order to appraise the value of assets by asset valuers and fully support our valuation conclusion. This asset valuation is based on the following premises and assumptions:

(I) General assumptions

1. Assumption of business continuity

The assumption of business continuity is to assume that the business operation of the appraised enterprise is legal, and there will be no unpredictable factors leading to its unsustainable business operation. The current use of the appraised assets shall remain unchanged, and the assets shall continue to be utilized;

2. Assumptions regarding transaction

The assumptions regarding transaction assume that all assets to be appraised are already in the process of trading, and the asset valuation professionals evaluate the assets according to the simulated market such as the trading conditions of the assets to be appraised. The assumptions regarding transaction is a basic premise for asset valuation.

3. Open market assumption

The open market assumption assumes that assets traded in the market, or assets to be traded in the market, have equal status with each other, and each has the opportunity and time to obtain sufficient market information so as to make a rational judgment on the function, purpose and transaction price of the assets. The open market assumption is based on the fact that assets can be traded openly in the market.

(II) Special assumptions

1. Assuming that there is no significant change in the national macro-economic situation and the relevant prevailing laws, regulations and policies, and there is no significant change in the political, economic and social environment of the region of both parties to the transaction.

2. Assuming that the appraised entity could maintain a stable development situation in the industry, and the industry policy, management system and related regulations have no significant changes.

3. Assuming that there is no significant change in the state related credit rates, exchange rates, tax benchmarks and tax rates, policy levy fees and so on.

4. Assuming that there is no other force majeure factors and unforeseen factors, resulting in significant adverse impact on the Enterprise.

5. Assuming that the operation of the appraised entity can be continuously operated according to its current situation, and that its operating conditions will not change significantly during the foreseeable period of operation.

6. Assuming that the future management personnel of the Enterprise are of due diligence, and the Enterprise continues to maintain the existing management mode for continuous operation.

7. Assuming that the Enterprise will be able to enjoy the preferential income tax policy of China Western Development before 2030.

8. Assuming that the forecast annual cash flow of the Enterprise is even inflow or outflow during the year.

9. The assumption of the continued use of assets, that is, the assets of valuation are legally, effectively and continuously used in accordance with their current use and the use of the manner, scope, frequency, environment and other conditions, and within the foreseeable period of usage, there are no major changes.

10. Assuming that the general information relating to the operation of the Enterprise, property rights information, policy documents and other related materials provided by the client and the appraised entity remain true and valid.

11. Assuming that the purchase, acquisition and construction of the assets involved in the valuation target are in accordance with the relevant laws and regulations of the PRC.

12. Assuming that the relevant approval documents required for the normal operation of the Enterprise can be obtained in a timely manner.

X. SELECTION OF IMPORTANT PARAMETERS IN PROJECTION AND CALCULATION IN VALUATION PROCESS

1. Revenue

(1) Toll revenue

We have referred to the Traffic Study Report of Chelbi Engineering Consultants, Inc. to project the forecast toll revenue of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd., as follows.

Projection table of vehicle toll revenue (including tax) among collection period

(unit: RMB ten thousand)

Year	Total	Year	Total
2022	16,122	2035	209,196
2023	90,022	2036	219,793
2024	97,873	2037	232,920
2025	106,403	2038	246,985
2026	111,899	2039	262,062
2027	120,546	2040	278,231
2028	129,945	2041	291,254
2029	140,175	2042	305,059
2030	151,323	2043	319,695
2031	158,897	2044	335,213
2032	170,014	2045	351,669
2033	182,043	2046	11,124
2034	195,071		

(2) Other business revenue

Other business revenue includes revenue from real estate leasing, obstacle clearance, road property compensation and other revenues. Leasing revenue is mainly rentals from service areas and parking areas. Obstacle clearance revenue is generated from vehicles such as tow trucks required for traffic accidents on the road. Road-property damage compensation consists of compensation for road damage caused by traffic accidents on the road. The projection is made with reference to historical data.

(3) Non-operating income and other income

Non-operating income is mainly from deferred income which is compensation for land occupation in the Third Vertical Project. Other income is the subsidies for withdrawal of provincial boundary toll stations. The projection is made with reference to historical data.

2. Cost of Revenue

The cost of revenue mainly consists of road operation costs, including depreciation of fixed assets and amortization of intangible assets such as operating rights, maintenance operation expenses, and special maintenance expenses, equipment and facility maintenance costs, collection costs which mainly comprise frontline personnel expenses and disbursement and clearing service fees. Other operation costs are mainly road property compensation and maintenance expenses. The projection is made with reference to historical data.

3. Surcharge Taxes

Revenue from vehicle tolls, obstacle clearance and road property damage compensation is subject to value-added tax at 3%, city maintenance and construction tax at 7%, education surcharge at 3% and local education surcharge at 2%. The projection is made in accordance with the applicable tax policy of Rongcheng Second Ring.

4. Administrative expenses

Administrative expenses are mainly employee salaries, office expenses, travel expenses, property management utilities, leasing expenses, vehicle usage expenses, depreciation expenses, party and group expenses and other expenses. The projection is made with reference to historical data.

5. Finance expenses

The finance expenses of the enterprise are mainly interest expenses, interest income from deposits, etc. The projection is made based on the repayment plan in accordance with the loan contract, the latest effective bank quoted interest rate, and in conjunction with the interest rate fluctuation policy agreed in Rongcheng Second Ring's loan contract.

6. Income tax

In the valuation, from the valuation date to the end of 2030, Rongcheng Second Ring will be subject to the concessionary corporate income tax rate of 15% according to the Continuation of Preferential EIT policies in the Western Region after its net profit turns positive and the losses of previous years are made up. From 2031 to the end of the concession period, the statutory corporate income tax policy of 25% will be applicable.

7. Depreciation and amortization

The fixed assets of Rongcheng Second Ring mainly include structures, machinery and equipment, transportation equipment, electronic equipment and office equipment, etc. Intangible assets are assets such as software and operating right. In this valuation, the depreciation and amortization of fixed assets and intangible assets for the future revenue period were estimated based on the original book value of the audited fixed assets and intangible assets as of the Valuation Benchmark Date, taking into account future new fixed assets addition, residual value, and respective useful lives, etc. in accordance with the depreciation and amortization policies implemented by Rongcheng Second Ring.

8. New debts and forecast of debt repayment

New borrowings, repayment of principal amount of borrowings and interest on borrowings were determined by Rongcheng Second Ring based on future repayment schedule.

The repayment of related parties as scheduled shall be made to Rongcheng Second Ring from Shudao Investment Group Co., Ltd ("**SIG**") and Sichuan Shudao Expressway Group Co., Ltd ("**SSEG**").

9. Future net cash flow

Based on the above calculation, the future net cash flows of Rongcheng Second Ring are shown in the following table.

Forecasted Net Cash Flow

(Unit: RMB ten thousand)

				Forecast					
Item	**Oct to Dec 2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Revenue	17,644.07	88,933.56	96,627.12	104,989.75	110,400.07	118,885.64	128,105.99	138,139.23	149,071.01
Cost of Revenue	7,524.31	37,527.88	39,986.75	42,641.62	44,399.65	47,088.26	49,992.11	53,134.96	60,539.92
Gross Profit	10,119.75	51,405.68	56,640.37	62,348.14	66,000.41	71,797.38	78,113.89	85,004.27	88,531.10
Tax Surcharges	92.40	390.37	378.56	408.82	428.47	459.21	492.59	528.91	568.47
Management Expense	608.74	2,722.08	2,777.98	2,831.93	2,886.96	2,943.09	3,000.33	3,058.73	3,118.30
Finance Expense	10,528.65	46,540.18	48,894.67	43,944.74	37,964.77	34,681.01	33,547.93	32,033.64	30,636.42
Other Income	66.47	265.89	265.89	265.89	265.89	265.89	–	–	–
Operating profit	-1,043.56	2,018.94	4,855.06	15,428.54	24,986.10	33,979.96	41,073.03	49,382.99	54,207.91
Non-operating Income	67.94	271.75	271.75	271.75	271.75	271.75	271.75	271.75	271.75
EBT	-975.63	2,290.69	5,126.80	15,700.29	25,257.85	34,251.71	41,344.78	49,654.74	54,479.65
Tax	–	–	–	–	680.88	5,138.38	6,202.35	7,448.86	8,172.61
Net Profit	-975.63	2,290.69	5,126.80	15,700.29	24,576.97	29,113.33	35,142.43	42,205.88	46,307.05
Add: Depreciation and amortisation	4,806.14	27,809.75	30,037.09	32,452.68	33,985.81	36,426.83	39,074.66	41,952.54	49,082.96
Add: repayment by SIG and SSEG	20,000.00	230,000.00	–	–	–	–	–	–	–
Less: decrease of borrowings	500.00	47,975.89	77,987.49	109,072.02	131,216.50	23,000.00	36,000.00	35,500.00	36,000.00
Cash Flow	23,330.51	212,124.55	-42,823.60	-60,919.05	-72,653.72	42,540.16	38,217.09	48,658.42	59,390.01

Forecasted Net Cash Flow

(Unit: RMB ten thousand)

Item	Forecast 2031	2032	2033	2034	2035	2036	2037	2038	2039
Revenue	156,531.43	167,450.74	179,263.88	192,054.43	205,920.01	216,303.81	229,150.13	242,910.75	257,659.66
Cost of Revenue	62,887.18	66,268.88	69,909.57	73,834.84	78,072.71	81,254.81	85,158.92	89,326.87	93,779.21
Gross Profit	93,644.25	101,181.86	109,354.31	118,219.58	127,847.30	135,049.00	143,991.21	153,583.88	163,880.44
Tax Surcharges	595.59	635.17	677.98	724.33	774.56	812.27	858.87	908.77	962.25
Management Expense	3,179.06	3,241.04	3,304.25	3,368.72	3,434.49	3,501.57	3,570.01	3,639.79	3,710.98
Finance Expense	29,213.78	28,108.64	26,826.89	25,250.49	23,519.28	21,756.52	19,488.75	17,065.68	14,484.75
Other Income	–	–	–	–	–	–	–	–	–
Operating profit	60,655.82	69,197.00	78,545.20	88,876.04	100,118.97	108,978.64	120,073.59	131,969.64	144,722.46
Non-operating Income	271.75	271.75	271.75	271.75	271.75	271.75	271.75	271.75	271.75
EBT	60,927.57	69,468.75	78,816.95	89,147.79	100,390.72	109,250.39	120,345.34	132,241.39	144,994.21
Tax	15,233.02	17,368.33	19,705.41	22,288.14	25,098.90	27,313.84	30,087.60	33,061.64	36,249.87
Net Profit	45,694.55	52,100.42	59,111.54	66,859.65	75,291.82	81,936.55	90,257.74	99,179.75	108,744.34
Add: Depreciation and amortisation	51,172.89	54,271.85	57,620.00	61,242.36	65,166.25	68,073.11	71,687.48	75,557.25	79,702.61
Add: repayment by SIG and SSEG	–	–	–	–	–	–	–	–	–
Less: decrease of borrowings	32,500.00	29,000.00	36,000.00	43,000.00	45,000.00	52,000.00	60,000.00	64,000.00	68,000.00
Cash Flow	64,367.44	77,372.27	80,731.54	85,102.01	95,458.07	98,009.66	101,945.22	110,737.00	120,446.95

Forecasted Net Cash Flow

(Unit: RMB ten thousand)

	Forecast						
Items	**2040**	**2041**	**2042**	**2043**	**2044**	**2045**	**Jan 2046**
Revenue	273,474.10	286,240.37	299,771.76	314,115.56	329,324.10	345,448.72	10,925.91
Cost of Revenue	94,538.14	106,338.10	110,407.03	114,710.17	119,261.15	124,076.53	3,840.01
Gross Profit	178,935.96	179,902.27	189,364.73	199,405.38	210,062.95	221,372.19	7,085.90
Tax Surcharges	1,019.58	1,065.96	1,115.12	1,167.22	1,222.46	1,281.02	40.46
Management Expense	3,783.59	3,857.65	3,933.21	4,010.26	4,088.85	4,169.02	125.65
Finance Expense	11,782.06	8,856.08	5,813.25	2,695.69	654.03	-604.59	-19.12
Other Income	–	–	–	–	–	–	–
Operating profit	162,350.73	166,122.57	178,503.15	191,532.22	204,097.61	216,526.74	6,938.92
Non-operating Income	271.75	271.75	271.75	271.75	271.75	271.75	22.65
EBT	162,622.48	166,394.32	178,774.90	191,803.96	204,369.36	216,798.49	6,961.56
Tax	40,656.96	41,599.95	44,695.12	47,952.42	51,093.79	54,201.11	1,740.44
Net Profit	121,965.51	124,794.37	134,079.77	143,851.55	153,275.57	162,597.38	5,221.13
Add: Depreciation and amortisation	80,145.36	91,636.30	95,387.98	99,365.39	103,581.82	108,053.54	3,355.08
Add: repayment by SIG and SSEG	–	–	–	–	–	–	–
Less: decrease of borrowings	72,000.00	76,000.00	79,000.00	76,500.00	35,400.00	–	–
Cash Flow	130,110.87	140,430.67	150,467.75	166,716.94	221,457.39	270,650.92	8,576.21

10. Calculation and selection of discount rate

Discount rate adopts the capital asset pricing model (CAPM), whose formula is:

$Ke = R_{f1}+[E(R_m)-R_{f2}] \times \beta + R_c$

The specific calculation steps are as follows:

Step 1: Determine the risk-free rate of return R_{f1}

The yield of national bond is generally considered to be risk-free, because the risk of holding the debt that cannot be cashed at maturity is very small and can be ignored. 3.74% (median) of the yield to maturity of the national debt with the maturity date more than 10 years from the benchmark date of the assessment is selected as the risk-free yield.

Step 2: Determine the market risk premium

Market risk premium refers to the yield difference between equity and risk-free assets. It usually refers to the part of the average yield of the constituent stocks of the typical index of the securities market that exceeds the average risk-free yield (usually refers to the yield of long-term government bonds). The CSI 300 index and its 300 constituent stocks are considered proxy for the Chinese stock market. In this appraisal, the appraisers have calculated and analyzed the average return of the 300 constituent stocks of Shanghai and Shenzhen in China with the help of the WIND database. The calculation result is that the average market return (logarithmic rate of return) for 17 years (2005–2021) is 11.66%, and the corresponding average risk-free return (R_{f2}) for 17 years (2005–2021) is 3.97%, so the market risk premium ($E(R_m) - R_{f2}$) in this appraisal is 7.69%.

Step 3: Determine the risk coefficient of the comparable company relative to the stock market β (Beta).

β is considered a measure of a company's relative risk. If you invest in a company in the stock market, a β value of 1.1 means that its stock risk is 10% higher than the average risk of the whole stock market. On the other hand, a β of 0.9 indicates that a company's stock is 10% less risky than the average stock market. Because investors expect high returns for high risk, β is very helpful for investors in gauging the relative risk of investing in a particular stock.

At present, WIND is an institution engaged in the study of β and provides relevant β value. For this valuation, we selected the β value calculated by the β calculator published by WIND. Levered beta is raw beta reflecting the leverage of the respective company, we use the following formula to unlever the beta for our estimation of unlevered beta for Rongcheng Second Ring.

Levered Beta＝Unlevered Beta × [1+(1-T) × D/E]

Where: D: debt value;
E: equity value;
T: Applicable income tax rate

See the following table for the comparable company β including capital structure factors:

Beta value of comparable listed companies with capital structure factors

No.	Company name	Ticker	Debt (RMB ten thousand)	Debt ratio	Equity (RMB ten thousand)	E/((D+E)	Levered β	Unlevered β	Income tax rate (T)
1	Jilin Expressway Co., Ltd.	601518.SH	82,064.7423	19.00%	349,752.34	81.00%	0.3549	0.3018	25%
2	Hubei Chutian Smart Communication Co., Ltd.	600035.SH	669,164.8894	56.65%	512,016.86	43.35%	0.3102	0.1567	25%
3	Hubei Chutian Smart Communication Co., Ltd.	600020.SH	3,422,049.6436	84.09%	647,243.09	15.91%	0.4386	0.0883	25%
4	Anhui Expressway Co., Ltd.	600012.SH	671,781.4403	40.18%	999,958.28	59.82%	0.5347	0.3555	25%
5	Fujian Expressway Development Co., Ltd	600033.SH	334,762.8589	30.96%	746,476.80	69.04%	0.2869	0.2147	25%
6	Guangxi Wuzhou Communications Co., Ltd.	600368.SH	294,462.3529	42.98%	390,594.33	57.02%	0.4405	0.2814	25%
7	Jiangxi Ganyue Expressway Co., Ltd.	600269.SH	1,252,864.6772	62.35%	756,671.87	37.65%	0.3648	0.1627	25%
8	Shanxi Road & Bridge Co., Ltd.	000755.SZ	758,315.8889	50.04%	757,132.06	49.96%	0.3188	0.1821	25%

The average comparable listed companies beta factor adjusted for capital structure (Unlevered β)＝0.2963

Step 4: Determine the target capital structure ratio of the valuation target

We take the value of Rongcheng Second Ring's own liabilities and shareholders' total equity in the forecast period and calculated enterprise's own capital structure as the target capital structure.

Step 5: Estimate the Levered Beta of the assessed company under the above determined capital structure ratio

We substitute the determined capital structure ratio of Rongcheng Second Ring into the following formula to calculate the Levered Beta of Rongcheng Second Ring:

$$\text{Levered Beta} = \text{Unlevered Beta} \times [1+(1-T) \times D/E]$$

Where: D: debt value;

E: equity value;

T: Applicable income tax rate (15% for 2030 and before, 25% for 2031 and after).

Step 6: Estimate firm specific risk rate R_c

Determination of specific risk rate of return: The CAPM is used to estimate the portfolio return of a portfolio. It is generally believed that the investment risk of a single company is higher than the risk of a portfolio. Therefore, when considering the investment return of a single company or stock, the excess return generated by the specific risk of the company should be taken into account.

As companies selected for the calculation of the risk coefficient are listed companies, the corresponding securities or capital can be circulated in the capital market. The assets included in this valuation are non-listed assets. Compared with similar listed companies, the equity risk of such assets is greater than that of comparable listed companies.

The determination of enterprise-specific risk adjustment coefficient needs to focus on the following factors: (1) enterprise size; (2) historical financial performance; (3) financial risks; (4) geography footprint of business, products and service provided; (5) enterprise internal management and control mechanism; (6) experience and qualifications of management personnel; and (7) reliance on major customers and suppliers. The valuer's evaluation is based on the above factors in accordance to their internal scoring system, the applicable specific risk premium is 1.5%.

Step 7: Calculate the current rate of return on equity

By substituting the appropriate data into the CAPM formula and adopting the iterative calculation method, we can calculate the expected rate of return on equity of Rongcheng Second Ring, and the discount rate of Rongcheng Second Ring are as follows based on changing capital structure:

Forecast period	Oct to Dec 2022	2023	2024	2025	2026	2027	2028	2029	2030
Discount rate	11.67%	11.51%	11.26%	10.90%	10.47%	10.39%	10.27%	10.16%	10.04%

Forecast period	2031	2032	2033	2034	2035	2036	2037	2038	2039
Discount rate	9.65%	9.56%	9.46%	9.34%	9.21%	9.06%	8.88%	8.70%	8.50%

Forecast period	2040	2041	2042	2043	2044	2045	Jan 2046
Discount rate	8.29%	8.07%	7.84%	7.62%	7.52%	7.52%	7.52%

XI. VALUATION CONCLUSION

Up to the Valuation Benchmark Date of 30 September 2022, the asset valuation conclusion of the value of the entire shareholders' equity interests of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. are as follows:

(I) Valuation conclusion

1. Valuation conclusion under the asset-based approach:

As at the Valuation Benchmark Date of 30 September 2022, under the going concern, this valuation concluded that the book value of total assets of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. was RMB16,349,661,100, the book value of total liabilities was RMB13,409,527,300, and the book value of net assets was RMB2,940,133,800. Based on the asset-based approach valuation, the appraised value of the total assets of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. amounted to RMB17,443,500,200, representing an increase of RMB1,093,839,100 and an appreciation rate of 6.69%; the appraised value of the total liabilities was RMB13,343,765,300, representing a decrease of RMB65,762,000; the appraised value of the net assets was RMB4,099,734,900, representing an increase of RMB1,159,601,100 and an appreciation rate of 39.44%. Details are as follows:

Summary of Asset Valuation Result

Unit: RMB 0'000

Item		Book value A	Appraised value B	Change C=B-A	Appreciation (depreciation) rate % D=C/A × 100%
Current assets	1	54,317.16	54,317.16	–	–
Non-current assets	2	1,580,648.95	1,690,032.86	109,383.91	6.92
Including: long-term equity investments	3	–	–	–	
Investment properties	4	–	–	–	
Fixed assets	5	8,450.61	0.93	-8,449.68	-99.99
Construction in progress	6	–	–	–	
Oil and gas assets	7	–	–	–	
Intangibles	8	1,345,766.41	1,463,600.00	117,833.59	8.76
Including: land use right	9	–	–	–	
Long-term deferred expenses	10	–	–	–	
Deferred income tax assets	11	6,431.93	6,431.93	–	–
Other non-current assets	12	–	–	–	
Total assets	**13**	**1,634,966.11**	**1,744,350.02**	**109,383.91**	**6.69**
Current liabilities	14	114,569.26	114,569.26	–	–
Non-current liabilities	15	1,226,383.47	1,219,807.27	-6,576.20	-0.54
Total liabilities	**16**	**1,340,952.73**	**1,334,376.53**	**-6,576.20**	**-0.49**
Net assets	**17**	**294,013.38**	**409,973.49**	**115,960.11**	**39.44**

See the valuation breakdown for details of the valuation conclusions.

2. Valuation conclusion under the income approach

As of Valuation Benchmark Date of 30 September 2022, under the premise of on-going operation, the appraisal result of the value of the entire shareholders' equity of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. under the income approach was RMB5,903,000,000, representing an increase of of RMB2,962,866,200 or an appreciation rate of 100.77%.

3. Sensitivity analysis of income approach

(1) Change in revenue

In the income approach calculation, considering the linkage between revenue and costs, expenses and taxes, the change between revenue and the value is analyzed in the following table.

Change in revenue *(%)*	**Value** *(RMB ten thousand)*	**Change in value** *(%)*
-4.0%	531,500.00	-9.96%
-3.0%	546,300.00	-7.45%
-2.0%	561,200.00	-4.93%
-1.0%	576,000.00	-2.42%
0.0%	590,300.00	0.00%
1.0%	604,700.00	2.44%
2.0%	619,000.00	4.86%
3.0%	633,500.00	7.32%
4.0%	648,000.00	9.77%

Based on the above analysis, we can find that revenue is positively correlated with changes in value, with each 1% change in revenue resulting in approximately 2.50% change in value in the same direction.

(2) Change in discount rate

Based on the income approach calculation, the changes in discount rate and the changes in value are shown as the table below.

Change in discount rate *(%)*	**Value** *(RMB ten thousand)*	**Change in value** *(%)*
-2.0%	794,700.00	34.63%
-1.5%	736,700.00	24.80%
-1.0%	683,400.00	15.77%
-0.5%	635,000.00	7.57%
0.0%	590,300.00	0.00%
0.5%	549,400.00	-6.93%
1.0%	511,700.00	-13.32%
1.5%	477,000.00	-19.19%
2.0%	445,300.00	-24.56%

Based on the above analysis, a change in the discount rate is negatively correlated with the value. A combined change of -0.5% in the discount rate would result in a change of approximately 7% to 8% in the assessed value; a combined change of 0.5% in the discount rate would result in a change of approximately -6% to -7% in the assessed value.

(II) Analysis and comparison of the results of the two appraisal methods and determination of the appraisal conclusion

1. Analysis of the reasons for the appreciation/depreciation in valuation under the asset-based method

The reasons for the changes in the appraisal results of items of assets and the original carrying amounts after the valuation are analyzed as follows:

The impairment of fixed assets arose mainly from the fact that the fixed assets were bundled and valued together with the expressway franchise rights without separate valuation.

The intangible assets appreciated by RMB1,175,335,900, or an appreciation rate of 8.76%, mainly due to the appreciation of the valuation in expressway toll franchise rights.

The non-current liabilities impaired by RMB65,762,000, with an impairment rate of 0.54%, mainly due to the compensation for land occupation of the land for the construction of the interchange system of the Third Vertical Project and the Second Ring Expressway in Tianfu New District and the subsidy for the cancellation of expressway province boundary toll station. It was verified that the above compensation and subsidy were all relevant expenses actually received by the enterprise in previous years, which would be amortized in subsequent years and did not need to be returned, therefore, only income tax was retained in the appraised value, resulting in impairment.

2. Comparison of the valuation results under the asset-based method and the income approach and analysis of the reasons for the shortfall

A comparison of the valuation results under the asset-based method and the income approach is shown as follows:

Table of comparison of the valuation results under asset-based method and income method

Unit: RMB'0,000

Item	Valuation under asset-based method	Valuation under income method	Shortfall	Shortfall
	A	B	C=B-A	D=(B-A)/ A×100%
Valuation of entire shareholders' equity	409,973.49	590,300.00	180,326.51	43.98

3. Analysis of the selection of the valuation results of the income method as the valuation conclusion

Through the analysis of the results of the two valuation methods, we finally adopted the valuation conclusion using the income method for the following reasons:

(1) The two valuation methods consider different perspectives. The asset-based method refers to the appraisal idea of determining the value of the appraisal subject on the basis of a reasonable assessment of the value of various assets and liabilities of the Enterprise, and estimates the enterprise value from the perspective of the value of various assets currently owned by the Enterprise; the income method refers to the appraisal idea of determining the value of the appraisal subject by capitalizing or discounting the expected income of appraised enterprise, and estimates the enterprise value from the perspective of the expected income of the Enterprise, reflecting the comprehensive profitability of the various assets of the Enterprise.

(2) As it is clear from the international practice of the industry and industry regulations such as the Regulations on the Administration of Toll Roads of the PRC that the revenue method shall be adopted for the valuation of expressways, and taking into account that Rongcheng Second Ring was mainly established to operate the western section of the Chengdu Second Ring Expressway and its main business revenue is toll fees. With the expected stable growth in traffic flow, it is expected that the scale of revenue and income of the Enterprise will continue to grow in the future. Therefore, the asset valuation professionals are of the view that the asset-based method cannot estimate the enterprise value of the appraised entity from the perspective of future revenue. The income method valuation conclusion, on the other hand, reflects more comprehensively and accurately the market value of the entire shareholders' equity interest of Rongcheng Second Ring as at the Valuation Benchmark Date. Therefore, the income method valuation results are adopted as the final conclusion of the valuation.

After a comprehensive analysis coupled with the purpose of this valuation, the valuation results of the income method were finally adopted in this valuation.

(III) Valuation conclusion of this valuation items

In accordance with the relevant laws and regulations of the PRC in relation to asset valuation, under the principles of independence, objectivity and impartiality and subject to the necessary valuation procedures, Beijing North Asia Asset Assessment Firm (Special General Partnership) conducted an valuation of the value of the entire shareholders' equity of Rongcheng Second Ring as at the Valuation Benchmark Date and adopted the asset-based method and the income method as the valuation methods, respectively. After analyzing the valuation results of the two methods, the valuation result of the income method was finally adopted, i.e. the value of the entire shareholders' equity of Rongcheng Second Ring was RMB5,903,000,000 (in words: RENMINBI FIVE BILLION AND NINE HUNDRED AND THREE MILLION ONLY).

(IV) Conditions for the establishment of the valuation conclusion

1. The valuation conclusion is arrived at in accordance with the aforesaid valuation principles, bases, premises, methods and procedures, and serves the purpose of this valuation only; the valuation conclusion is a reflection of the fair value of the assets and liabilities of Rongcheng Second Ring as at the Valuation Benchmark Date and is only established under the conditions that the aforesaid valuation principles, bases and assumptions and premises exist.

2. In arriving at the valuation conclusions, the asset valuation professionals have neither considered the impact on the valuation price of the additional price that is possibly payable by special counterparties, nor have they considered the impact of significant changes in national macroeconomic policies and the occurrence of natural forces or other force majeure.

3. The information provided by the client and the appraised entity in relation to the valuation, such as conduct documents, business licenses, title certificates, financial statements, revenue forecast information and accounting certificates, is true and complete.

4. The valuation conclusions are issued by our agency and are subject to the standard of practice and competence of the asset valuation professionals of our agency.

(V) Consideration of premium (or discount) on the value of entire shareholders' equity and discount on liquidity

Due to restrictions of objective conditions, the impact of possible premiums arising from the possession of control or possible discounts arising from the lack of control on the value of the appraised objects has not been considered in this asset valuation.

The practicing asset valuers in this project are aware that the equity liquidity may have a significant impact on the value of the subject of the valuation. Due to the lack of access to information on the industry and relevant property rights transactions and the lack of a basis for analysis on the liquidity, the impact of the asset liquidity on the value of the subject of valuation has not been considered in this valuation.

The above valuation conclusions are valid for one year from the Valuation Benchmark Date.

XII. NOTES ON SPECIAL ISSUES

Users of this asset valuation report shall pay attention to the impact of special issues on the valuation conclusion.

(1) Reference to reports issued by other institutions

1. The Audit Report of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. for 2021 and the Period from January to September 2022 (No. XYZH/2023CDAA7B0011) issued by ShineWing Certified Public Accountants (Special General Partnership);

2. Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway issued by Chelbi Engineering Consultants, Inc.

(2) Incomplete or defective title information

1. According to the "Description and Undertaking of Premises and Land Use Rights without Certificate of Title" (《關於無產權證房屋和土地使用權的情況說明和承諾》) issued by the Enterprise, the Enterprise has 12 toll station premises and two parking area premises on the western section of the Chengdu Second Ring Expressway for which no certificate of title has been issued (see the table below), and the Enterprise has undertaken that the above 14 premises are all owned by Rongcheng Second Ring and there is no dispute on the title.

List of Premises Without Certificate of Title for Sichuan Rongcheng Second Ring Expressway Development Co., Ltd.

No.	Name	Material or Structure	Area *(m^2)*	Floor	Completion Year
I.	**Shuangliu Jiancha Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
II.	**Xinjin Huayuan Toll Station**				
1	Management Room	Reinforced Concrete	1,466.45	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
III.	**Xinjin Xinyi Toll Station**				
1	Management Room	Reinforced Concrete	2,081.45	3 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
IV.	**Chongzhou Sanjiang Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
V.	**Chongzhou Dahua Toll Station**				
1	Management Room	Reinforced Concrete	1,818	3 Floors	2020.6
2	Toll Shed	Reinforced Concrete			2020.6
3	Power Distribution Room	Reinforced Concrete	106	1 Floor	2020.6
VI.	**Dahua Parking Zone**				
1	Management Room	Reinforced Concrete	822	2 Floors	2014.12
2	Water pump Room	Reinforced Concrete	82.66	2 Floors	2014.12
VII.	**Hesheng Parking Zone**	**Reinforced Concrete**			
1	Management Room	Reinforced Concrete	822	2 Floors	2014.12
2	Water pump Room	Reinforced Concrete	82.66	2 Floors	2014.12
VIII.	**Chongzhou Toll Station**				
1	Management Room	Reinforced Concrete	1,470	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	43	Dismantled	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
5	Yangma Management Center Office Building	Reinforced Concrete	4,132	3 Floors	2014.12
6	Traffic Police Road Administration Office Building	Reinforced Concrete	1,470	2 Floors	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
7	Cafeteria	Reinforced Concrete	700	1 Floor	2014.12
8	Dormitory Building	Reinforced Concrete	1,432.9	2 Floors	2017.8
9	Multi-function Room	Reinforced Concrete	469.8	1 Floor	2017.8
10	Gatekeeper Room	Reinforced Concrete	36.5		2017.8
IX.	**Chongzhou Liaojia Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
X.	**Wenjiang Wanchun Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
XI.	**Pidu You'ai Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XII.	**Pidu Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
XIII.	**Gucheng Toll Station**				
1	Management Room	Reinforced Concrete	1,420	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
5	Gucheng Administration Office Building	Reinforced Concrete	1,469	2 Floors	2017.8

No.	Name	Material or Structure	Area (m^2)	Floor	Completion Year
XIV.	**Xindu Qingliu Toll Station**				
1	Management Room	Reinforced Concrete	858.2	2 Floors	2014.12
2	Toll Shed	Reinforced Concrete			2014.12
3	Water pump Room	Reinforced Concrete	41.33	1 Floor	2014.12
4	Power Distribution Room	Reinforced Concrete	102	1 Floor	2014.12
Total			**29,714.32**		

This assessment has not considered the possible costs associated with the subsequent filing of real estate title certificates, and the attention should be drawn to the users of the report.

2. As of the Valuation Benchmark Date, the western section project of the Chengdu Second Ring Expressway operated by the Enterprise has been completed, and the completion acceptance has not yet been completed with procedures being underway. Among the 26 towns along the western section of the Second Ring that goes through each district and county under the jurisdiction of Chengdu, except for Xindu (Qingliu Township and Xinfan Township), which has already obtained a real estate title certificate (Chuan (2021) Xindu District Real Estate Title No. 0088320), the remaining 24 towns along the route have not yet applied for real estate title certificate. The asset valuation professionals determined the land ownership based on the "Land Area Settlement Report" (《土地面積結算報告》) provided by Rongcheng Second Ring, and did not make any judgment on other matters that may exist on the land occupied by the western section of Chengdu Second Ring. Meanwhile, this assessment result has not considered the possible costs associated with the subsequent filing of real estate title certificates, and the attention should be drawn to the users of the report.

(III) Restricted valuation procedures:

Nil.

(IV) Incomplete valuation information:

Nil.

(V) Legal, economic and other outstanding matters as at the Valuation Benchmark Date:

Nil.

(VI) Relationship between guarantees, leases and contingent assets and liabilities and the valuation target

1. In 2012, Rongcheng Second Ring signed the RMB-Funded Syndicated Loan Contract for the Western Section Project of Chengdu Second Ring (《成都第二繞城高速公路西段項目人民幣資金銀團貸款合同》) (hereinafter as the "Original Syndicate Loan Contract") with ICBC Sichuan Branch, China Development Bank, Bank of Communications Sichuan Branch, Bank of China Sichuan Branch and Agricultural Bank of China Sichuan Branch (hereinafter as the "Original Syndicate"). Rongcheng Second Ring made loans of RMB8.692 billion from the Original Syndicate, with loan terms of 20 years commencing from the date of the first drawdown of the loan. Among which, the interest rate for the first two years of the loan is 10% above the corresponding benchmark interest rate, and the interest rate after the third year of the loan is the corresponding benchmark interest rate.

   On 30 November 2020, the board of directors of the Former Railway Investment Group issued the Resolution on the Replacement of the Outstanding Debt of the Five Expressways directly under the Group (《關於集團直屬5條高速公路存量債務置換的決議》), which decided to sign the relevant documents with Original Syndicate with Railway Investment Group as a co-borrower of the five expressway project companies (including Rongcheng Second Ring) and to collect the guarantee fee from the project companies at a rate of 0.7%. At that time, the 5-year loan interest rate of the syndicate was 4.9% per annum.

In 2020, the Former Railway Investment Group, Rongcheng Second Ring and Original Syndicate signed the RMB-Funded Syndicated Loan Contract for the Financing Re-arrangement (Syndicate) for the Western Section Project of Chengdu Second Ring Expressway of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (《四川蓉城第二繞城高速公路開發有限責任公司成都第二繞城高速公路西段項目融資再安排(銀團)貸款人民幣資金銀團貸款合同》) (the "Syndicate Supplemental Contract"). The lenders under the Contract are China Development Bank, CCB Sichuan Branch, ICBC Sichuan Branch, Bank of Communications Sichuan Branch, Agricultural Bank of China Sichuan Branch, Bank of China Sichuan Branch and Export–Import Bank of China Sichuan Branch, respectively. Rongcheng Second Ring made loans of RMB9.809 billion from the syndicate for the period from 16 December 2020 to 16 December 2045 at an interest rate of LPR-45BP for the corresponding period. At that time, the 5-year loan interest rate of the syndicate was reduced to 4.2% per annum, and the spread of 0.7% per annum between the loan interest rate and the previous loan interest rate was intended to be charged by the Former Railway Investment Group.

In order to guarantee the performance of the Syndicate Supplemental Contract, the syndicate filed a receivable pledge registration of all the interests and revenues for the Franchise Agreement (《特許權協議》) to which Rongcheng Second Ring is entitled, with a term expiring at 27 January 2046.

As of 30 September 2022, the interest rate of the syndicate loan was 4.2% and Rongcheng Second Ring actually drew down RMB9.109 billion, with principal repayment not yet commenced. Details of which are as follows:

Financial Institution	**Term**	**Principal balance** *(RMB)*
Bank of China Limited, Sichuan Branch	2021.3.5–2046.3.4	500,000,000.00
ICBC Chengdu High-Tech Industrial Development Zone Sub-branch	2021.3.2–2046.3.1	2,300,000,000.00
China Construction Bank, Chengdu Xinhua Sub-branch	2021.1.22–2046.1.21	200,000,000.00
Agricultural Bank of China Guanghua Science and Technology Park Sub-branch	2021.1.21–2046.1.20	978,000,000.00
Bank of Communications Chengdu Wuhou Sub-branch	2021.8.12–2046.8.11	50,000,000.00
Bank of Communications Chengdu Wuhou Sub-branch	2022.8.12–2046.12.16	50,000,000.00
Bank of Communications Wuhou Sub-branch	2021.1.19–2046.1.18	1,250,000,000.00
Bank of Communications Wuhou Sub-branch	2021.4.16–2046.4.15	100,000,000.00
Bank of Communications Wuhou Sub-branch	2022.3.14–2046.12.16	100,000,000.00
Export–Import Bank of China, Sichuan Branch	2021.1.13–2046.1.12	200,000,000.00
China Development Bank, Sichuan Branch	2021.1.13–2046.1.12	1,380,000,000.00
China Development Bank, Sichuan Branch	2021.2.3–2046.2.2	734,000,000.00
China Development Bank, Sichuan Branch	2021.2.26–2046.2.25	967,000,000.00
China Development Bank, Sichuan Branch	2020.12.16–2045.12.16	300,000,000.00

2. According to the “Ping An – Chengdu Second Ring Debt Investment Plan Investment Contract” signed by Rongcheng Second Ring and Ping An Asset Management Co., Ltd., Ping An Asset Management Co., Ltd. made debt investment on the Chengdu Second Ring Expressway (West Section) project under the debt repayment entity Rongcheng Second Ring, with a planned investment amount of RMB3 billion, a payback period of 10 years and an annual interest rate of 5.145%. In April 2016, the Former Railway Investment Group and Ping An Asset Management Co., Ltd. signed the “Letter of Guarantee for Debt Investment Plan of Ping An – Chengdu Second Ring”, and the Former Railway Investment Group made the guarantee for the debt investment matters in the investment contract. As of the valuation benchmark date, the balance of investment involved in the above-mentioned debt investment plan was RMB3 billion.

3. On 15 December 2015, ICBC Leasing Co., Ltd. signed the Financial Leasing Contract with Rongcheng Second Ring (contract number: [2015 ICBC Leasing Equipment II No. 090]), pursuant to which the lessor, ICBC Leasing Co., Ltd. leased the 56 bridges in the west section of Chengdu Second Ring Expressway to Rongcheng Second Ring for a total lease payment of RMB1 billion. The lease term was 10 years starting from 15 December 2015 (estimated), and the lease rate was calculated 15% lower than the PBOC benchmark lending rate for loans of five years or longer. As of the valuation benchmark date, the balance of the contract lease payment was RMB349.4542 million.

   On 15 May 2017, ICBC Leasing Co., Ltd. signed the Financial Leasing Contract with Rongcheng Second Ring (contract number: [2017 ICBC Leasing Traffic Zi No. 007]), pursuant to which the lessor, ICBC Leasing Co., Ltd. leased 17 bridges in the west section of Chengdu Second Ring Expressway to Rongcheng Second Ring for a total lease payment of RMB500 million. The lease term and pre-lease period was 10 years starting from 15 May 2017 (estimated), and the lease rate was calculated 19.81% lower than the PBOC benchmark lending rate for loans of five years or longer. As of the valuation benchmark date, the balance of the contract lease payment was RMB198.0649 million.

On 14 July 2020, both parties signed the Supplementary Agreement on Conversion of Pricing Basis to LPR, agreeing that the interest rate execution standard of the financial lease contract signed in 2015 was amended as "the lease interest rate is determined by the loan prime rate (LPR) plus/minus the floating basis points, where the loan prime rate (LPR) is the latest loan prime rate (LPR) for a term of 5 years or more (1 year/5 years or more) promulgated by the National Interbank Funding Centre prior to the determination date of each lease financing rate, plus/minus 48.5 basic points (one basis point is 0.01%) for each lease financing." The interest rate execution standard of the financial leasing contract signed in 2017 is amended as"the lease interest rate is determined by the loan prime rate (LPR) plus/minus the floating basis points, where the loan prime rate (LPR) is the latest loan prime rate (LPR) for a term of 5 years or more (1 year/5 years or more) promulgated by the National Interbank Funding Centre prior to the determination date of each lease financing rate, plus/minus 72 basic points (one basis point is 0.01%) for each lease financing".

4. On 16 December 2016, Rongcheng Second Ring and Sinopec Sales Company Limited Sichuan Petroleum Branch (中國石化銷售有限公司四川石油分公司) signed the Supplementary Agreement on Service Area Operation along Chengdu Second Ring Expressway (Western Section) and reached a lease agreement for Xinjin Huayuan Service Area and Xindu Qingliu Service Area for a lease term of 15 years. The term of operation of Xinjin Huayuan Service Area is calculated from 31 December 2014 and the term of operation of Xindu Qingliu Service Area is calculated from 31 December 2015.

   On 19 July 2016, Rongcheng Second Ring leased the property use right and its operation right of Dahua Parking Area (K161+558 for both sides) and Hesheng Parking Area (K179+958 for both sides) (including the outer & inner ring for the station areas) of Chengdu Second Ring Expressway to Chongqing Liangping Zhang Duck Food Company Limited* (重慶市梁平張鴨子食品有限公司) for an operating period of eight years, and both parties signed the Parking Area Lease Operation Contract for Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)沿線停車區租賃經營合同》). On 4 August 2021, the Enterprise signed the Parking Area Sub-lease Contract for Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)沿線停車區轉租合同》) with Chongqing Yuanlu Food Co. Ltd. *(重慶市原滷食品有限公司) (Chongqing Liangping Zhang Duck Food Company Limited) and Chengdu Kuntian Energy Co. Ltd* (成都坤

田能源有限公司). Pursuant to which, Rongcheng Second Ring agreed to sub-lease the assets involved in the above lease to Chengdu Kuntian Energy Co. Ltd. for the term as per the original contract. The lease conditions are as follows:

No.	Location	Purpose	Floor Area for Premises *(m^2)*	Land Area Available in Back of Premises *(m^2)*
1	Chongzhou Dahua Parking Area (inner ring)	For businesses: catering, canteen, water refilling services	169.12	82.96
	Chongzhou Dahua Parking Area (outer ring)	For businesses: catering, canteen, water refilling services	169.12	74.3
2	Wenjiang Hesheng Parking Area (inner ring)	For businesses: catering, canteen, water refilling services	169.12	94.67
	Wenjiang Hesheng Parking Area (outer ring)	For businesses: catering, canteen, water refilling services	169.12	131.76
	Total		**676.48**	**383.69**

On 4 May 2016, the Enterprise and Sichuan Jintong Engineering Testing Inspection & Testing Co., Ltd. (四川金通工程試驗檢測有限公司) signed the Huayuan Toll Station Site Lease Contract for Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)花源收費站場地租賃合同》), leasing part of the management room of Xinjin Huayuan Toll Station in the western section of Chengdu Second Ring Expressway to the other party, with a total of approximately 1,033 m^2 of land for test office building and office vehicle parking. The term of the lease is 10 years from the date of commissioning of the Chengdu Second Ring Expressway (Western Section) after the completion and acceptance of construction.

On 7 April 2021, the Enterprise leased outdoor advertising spaces along the vehicular flyover and service (parking) area of the western section of the Chengdu Second Ring Expressway (a total of 36 spaces) to Sichuan Shide Culture Communication Co. Ltd. (四川仕德文化傳播有限公司). Pursuant to the Lease Contract for Outdoor Advertising Spaces along the Vehicular Flyover and Service (Parking) Area of Chengdu Second Ring Expressway (Western Section) (《成都蓉城第二繞城高速公路(西段)沿線車行天橋及服務(停車)區戶外廣告位出租合同》), the lease term is eight years.

The impact of the above-mentioned leasing matters on the valuation results has been considered in this valuation, and the forecast of changes in rentals after the expiration of the asset leases is made based on the original contracts combined with market analysis, and the attention should be drawn to the users of the report.

(VII) Matters that may affect the valuation conclusion between the Valuation Benchmark Date and the Valuation Report Date

1. Events after the Valuation Benchmark Date are significant events that occur between the Valuation Benchmark Date and the Asset Valuation Report Date.

2. After the Valuation Benchmark Date, when the appraised assets are demolished, damaged, destroyed due to force majeure, bad debts arising from the current account and other subsequent events affecting the value of the assets, the valuation conclusion cannot be directly used.

3. This valuation conclusion cannot be directly used when significant events occur after the Valuation Benchmark Date. If the number of assets changes during the validity period of the asset valuation results, the appraised value shall be adjusted accordingly according to the original valuation method.

4. As the western section of the Chengdu Second Ring passes through six cities, districts and counties, including Chengdu City, Chongzhou City, Wenjiang District and Pidu District, the recognition of the nature of the land occupied by it affects the calculation of real estate tax and land use tax. According to the response letter or reply of Planning and Natural Resources Bureau of each city, district and county provided by the enterprise titled the Letter on Issuance of Certificate of Town Planning Area where Toll Stations are Located (《關於開具收費站所在城鎮規劃區範圍證明的函》) in early November 2022, among the 15 toll stations, two service areas and two parking areas of the enterprise, Chongzhou Dazhu Toll Station and Xinjin Xinyi Toll Station are located in town planning areas; Tianfu New District Station, Science City and Lizhou Station are owned by local state-owned platform companies or competent department, of which the Rongcheng Second Ring has only the use right, and the corresponding real estate tax and land use tax shall be paid by the property owners on their own. The remaining 13 toll stations, two service areas and two parking areas directly under the enterprise are located outside the town planning area, therefore, only the above two toll stations located within the town planning area are taken into account in the calculation of real estate tax and land use tax. This valuation has not taken into account the impact of the tax matters to be added due to changes of city zoning for the toll stations, parking areas and service areas along the western section of the Chengdu Second Ring on the valuation results.

5. Pursuant to the Group Fund Loan Contract [2022 Shudao Group Internal Loan No. (14) – Share/Capital] (《集團資金借款合同》[2022蜀高集團內借(14)號－股／資]), in order to address the funding gap of internal operation projects, Sichuan Shudao Expressway Group Co., Ltd. borrowed RMB300 million from Rongcheng Second Ring for a term of one year from 17 June 2022 to 16 June 2023. On 28 December 2022, Sichuan Shudao Expressway Group Co., Ltd. has repaid its loan of RMB200 million to Rongcheng Second Ring. This valuation assumes that the remaining RMB100 million will be repaid on time by Sichuan Shudao Expressway Group Co., Ltd. in accordance with the contract, without considering the impact of deferred repayment on the valuation result.

6. The long-term receivables declared by the enterprise are loans of RMB2.2 billion receivable from the Former Railway Investment Group. According to the Supplementary Agreement to Loan Agreement (《借款合同之補充協議》) provided by the enterprise, the Former Railway Investment Group and the former Sichuan Transportation Investment Group Corporation Limited (四川省交通投資集團有限責任公司) were merged to newly establish Shudao Investment Group Co., Ltd. (蜀道投資集團有限責任公司) (Party B to the Supplementary Agreement), and Shudao Investment Group Co., Ltd. has inherited all rights and obligations of the Former Railway Investment Group since 28 May 2021. The Supplementary Agreement stipulates that "Party B shall repay to Party A all the loan principal and interest in one lump sum no later than 30 June 2023 after the effective date of the Equity Transfer Agreement signed between Sichuan Shudao Expressway Group Co., Ltd. (四川蜀道高速公路集團有限公司), Sichuan Road and Bridge Construction Group Company Limited (四川公路橋樑建設集團有限公司) and Sichuan Expressway Company Limited (hereinafter referred to as "Sichuan Express") in relation to the transfer of 100% equity interest in Party A to Sichuan Express."

   This valuation results are made on the premise that the above amounts can be repaid in an accurate and timely manner. If the repayment amount or repayment period changes in the subsequent period, the corresponding valuation results will be adjusted, and the attention should be drawn to the users of the report.

7. According to the Resolution of the Twenty-first (the 120th of total) Meeting of the Board of Directors of Sichuan Railway Industry Investment Group Co., Ltd. in 2020 on the Replacement of the Outstanding Debt of 5 Expressways directly under the Group (《四川省鐵路產業投資集團有限責任公司董事會2020年第二十一次(總第120次)會議關於集直屬5條高速公路存量債務置換的決議》) provided by the enterprise, the Former Railway Investment Group, as a co-borrower of the Rongcheng Second Ring, signed relevant documents with the syndicate and shall charge the project company (Rongcheng Second Ring) a guarantee fee at a rate of 0.7% per annum. According to the decision of the 4th meeting of the General Manager Office provided by Shudao Investment Group Co., Ltd., after 30 September 2022, Shudao Investment Group Co., Ltd. would no longer charge the guarantee fee from Rongcheng Second Ring in respect of the guarantee matters signed with the syndicate. This valuation follows the decision of the 4th meeting of the General Manager Office. The guarantee fee is not predicted in the valuation assessment. If both parties fail to implement the matters as agreed in the meeting minutes at the later stage, the valuation results will be adjusted accordingly. And the attention should be drawn to the users of the report.

(VIII) Defects that may have a significant impact on the valuation conclusion in the economic behavior corresponding to this asset valuation

Nil.

(IX) Other issues to be addressed

1. This asset valuation report is made under the principles of independence, objectivity and fairness and in compliance with the relevant laws, administrative regulations and asset valuation standards. Our firm and all professional personnel participating in the valuation have no special interests with the client and relevant parties. The asset valuation professionals always abide by professional ethics throughout the valuation process.

2. The general information, proprietary information, policy documents and relevant materials related to the operation of the Enterprise involved in this valuation report are provided by the client and the appraised entity, and the client and the appraised entity shall bear the relevant legal liabilities for the authenticity and legality thereof. The purpose of asset valuation professionals to perform the asset valuation business is to estimate the value of the valuation target and express professional opinions. The confirmation or opinion on the legal ownership of the valuation target is beyond the scope of practice of asset valuation. Therefore, the valuation agency does not provide guarantee for the legal ownership of the valuation target.

3. For the defects of the Enterprise that may affect the appraised value of assets, the asset appraisal institution and the asset appraisal professionals shall not assume relevant responsibilities thereunder if they are not specified at the time of the engagement of the Enterprise and the asset appraisal professionals are still unable to be informed of the performance of the appraisal procedures.

4. According to the Continuation of Preferential EIT policies in the Western Region (《關於延續西部大開發企業所得稅政策的公告》) (Announcement No. 23 of 2020 issued by the Ministry of Finance, State Taxation Administration and National Development and Reform Commission), if the Enterprise introduces that it is eligible for the aforementioned preferential EIT policies, the Enterprise may apply for tax deductions at any time. However, due to the loss of the Enterprise in recent years, the procedure for filing tax concession has not yet been implemented. For this valuation, assuming that from the Valuation Benchmark Date to the end of 2030, the Enterprise is entitled to enjoy the 15% preferential EIT policy upon a positive net profit and after making up for the losses incurred in previous years, and from 2031 to the end of the operation period of the project, it will be implemented in accordance with the normal EIT policy of 25%, and the attention should be drawn to the users of the report.

5. According to the Description and Undertaking of Premises and Land Use Rights without Certificate of Title issued by the Enterprise, the Enterprise has eight existing land use rights for the land occupied by the western section of the Chengdu Second Ring Expressway, of which the land in the Xindu section has obtained a title certificate. The land information is as follows:

Title Certificate No.	**Holder of Right**	**Location**	**Purpose**	**Right Nature**	**Land Area** *(㎡)*
Chuan (2021) Xindu District Real Estate No. 0088320	Sichuan Rongcheng Second Ring Expressway Development Co., Ltd	Chengdu Second Ring Expressway K205+400 to K217+900	Land for Highway	Allocation	698,665.82

The remaining land is in the process of real estate registration (the progress is shown in the table below), and the use rights of the above eight pieces of land are owned by the Enterprise. There is no dispute on the ownership of the land. The Enterprise assumes full responsibility for any disputes arising from the land use rights.

Table on the Progress of Land Registration of Land Allocated in the western section of Chengdu Second Ring Expressway

District, County and City		Title Investigation			Allocation Decision Letter		Real Estate Title Certificate	
		Town Involved	Specific Reason	Date	Progress	Date	Progress	Date
Shuangliu District	2 towns	Yongan Town	/	/	/	December 2023	Pending progress	December 2023
		Huanglongxi Town	Shuangliu District is in the process of solving the outstanding issues raised by Dongyue Village	By early November 2023	Pending progress			
Tianfu New District	2 towns	Yongxing Town	/	/	Preparing materials	March 2023	Pending progress	June 2023
		Jiancha Town	/	/				
Xinjin District	4 towns	Huaqiao Town	/	/	Submitted materials	February 2023	Pending progress	April 2023
		Puxing Town						
		Xingyi Town						
		Huayuan Town						
Chongzhou City	7 towns	Chongping Town	1. redefined village and township boundaries after village and township adjustments; 2. 6 township rights, Chengdu-Wenjiang-Qionglai boundary	March	Pending progress	April 2023	Pending progress	August 2023
		Chongyang Town						
		Dahua Town						
		Jiangyuan Town						
		Liaojia Town						
		Sanjiang Town						
		Yangma Town						

District, County and City		Title Investigation			Allocation Decision Letter		Real Estate Title Certificate	
		Town Involved	Specific Reason	Date	Progress	Date	Progress	Date
Wenjiang District	3 towns	Shouan Town Wanchun Town Hesheng Town		January	Preparing materials	March 2023	Pending progress	April 2023
Pidu District	5 towns	Gucheng Town	/	/	Submitted materials	April 2023	Pending progress	June 2023
		Youai Town Sandaoyan Town Ande Town Pitong Town						
Xindu District	2 towns	Qingliu Town Xinfan Town	/	/	Obtained	/	Obtained	/
Pengzhou City	1 town	Mengyang Town	Outstanding problems from construction	August 2023	Pending progress	December 2023	Pending progress	December 2023

6. There are a total of 45 vehicles in Rongcheng Second Ring, among which, 12 administrative vehicles and 27 engineering vehicles are in normal use, and six engineering vehicles are in a state of pending obsolescence. According to the Cheng Heng Ping Bao Zi (2022) No. 20220232: Motor Vehicle Appraisal and Assessment Report (成衡評報字(2022年)第20220232號《機動車鑒定評估報告書》) provided by Rongcheng Second Ring, on 20 September 2022, Rongcheng Second Ring engaged Chengdu Hengxin Second-hand Auto Appraisal Co., Ltd. (成都衡信機動車鑒定評估有限公司) to value a total of six engineering vehicles, namely Chuan A6773U, Chuan A6806U, Chuan A6755U, Chuan A6805U, Chuan A7735U and Chuan A7C2R6, by using the replacement cost method and the current market price method, and concluded that all of six vehicles are "recommended for scrapping". According to the staff of Rongcheng Second Ring, the six vehicles are in the process of going through

the company's internal scrapping process, which will then process the vehicles for scrapping. The breakdown of vehicles to be scrapped is as follows:

						Carrying Value	
No.	**License Plate**	**Vehicle Name**	**Specification**	**Purchase Date**	**Usage Date**	**Original Value**	**Net Value**
1	Chuan A6755U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
2	Chuan A6773U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
3	Chuan A6806U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
4	Chuan A6805U	Light Truck	Nissan ZN1033U204	August 2014	August 2014	135,683.00	6,784.15
5	Chuan A7735U	Light Truck	Nissan ZN1033U204	March 2015	March 2015	135,466.00	6,773.30
6	Chuan A7C2R6	Small Passenger Vehicle	Dongfeng ZN6494H2N4	April 2015	April 2015	107,244.44	5,362.22

7. The traffic flow and toll revenue projections in respect of the expressway operating rights involved in this appraisal were obtained from the Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway issued by Chelbi Engineering Consultants, Inc. After the asset valuation professionals' thorough understanding of the model and relevant values and parameters adopted in the report, and conducting a comparison of the historical data on the composition of traffic flow, tolls and the impact of free vehicles with the forecast data, this valuation has directly adopted the predicted traffic flow and toll revenue data in the Report on Traffic Flow Assessment and Toll Revenue Calculation of the Western Section of Chengdu Second Ring Expressway, as there is no reason to doubt the professionalism of the report, and the attention should be drawn to the users of the report.

XIII. LIMITATIONS ON THE USE OF ASSET VALUATION REPORT

1. Scope of the asset valuation report:

   (1) This asset valuation report can only be used by the client or other users specified in the asset valuation report.

   (2) The asset valuation report may only be used for the purpose of valuation and usages stated in the asset valuation report.

   (3) All or part of the contents of this asset valuation report shall not be extracted, quoted or disclosed in the public media, unless otherwise provided by laws and regulations and agreed by the client and this asset valuation institution or the relevant parties.

   (4) The valuation conclusion of this asset valuation report is valid for one year from the Valuation Benchmark Date, and the validity period of this asset valuation report is from the Valuation Benchmark Date to 29 September 2023.

2. If the client or other users of the asset valuation report fail to use the asset valuation report in accordance with the laws, administrative regulations and the scope of use specified in the asset valuation report, the asset valuation agency and its asset valuation professionals shall not be liable.

3. Except for the client, other users of the asset valuation report as agreed in the asset valuation engagement contract and users of the asset valuation report as stipulated by laws and administrative regulations, no other institution or individual shall be a user of the asset valuation report.

4. Users of the asset valuation report should correctly understand the valuation conclusion. The valuation conclusion is not equivalent to the realizable price of the valuation target, and the valuation conclusion shall not be deemed as a guarantee for the realizable price of the valuation target.

XIV. DATE OF THE VALUATION REPORT

The asset valuation report date is the date when the valuation conclusion of the asset valuation professionals is formed. The date of this asset valuation report is 13 February 2023.

XV. SIGNATURES OF ASSET VALUATION PROFESSIONALS AND SEAL OF ASSET APPRAISAL FIRM

Beijing North Asia Asset Assessment Firm
(Special General Partnership)

Asset valuer:
Executed and sealed by

Asset valuer:
Executed and sealed by

Beijing, PRC
13 February 2023

Set out below is the report on the forecast and evaluation of traffic volume and toll revenue of the Second Ring (Western) Expressway prepared by Chelbi Engineering, an independent professional traffic consultant, which has been prepared for the purpose of inclusion in this circular. The Chinese text of this report shall prevail over the English text in the event of inconsistency.

華傑工程諮詢有限公司
CHELBI ENGINEERING CONSULTANTS, INC.

Xinyuan Century Building, No.20 Anyuan Road,
Chaoyang District, Beijing

6 February 2023

SICHUAN EXPRESSWAY COMPANY LIMITED FINAL REPORT ON THE FORECAST AND EVALUATION OF TRAFFIC VOLUME AND TOLL REVENUE OF THE WESTERN SECTION OF CHENGDU SECOND BELT EXPRESSWAY

1. INTRODUCTION

CHELBI Engineering Consultants, INC. (the "**traffic consultant**") has been commissioned by SICHUAN EXPRESSWAY COMPANY LIMITED to conduct an independent research on traffic volume evaluation and toll revenue assessment for the western section of Chengdu Second Belt Expressway. The traffic volume evaluation and forecast period for the western section of Chengdu Second Belt Expressway is from 1 October 2022 to 11 January 2046.

The western section of Chengdu Second Belt Expressway is an important part of Sichuan Province's highway network planning and Chengdu's comprehensive transportation system. It starts from Yongxing Town, Shuangliu District, connects with the eastern section of Chengdu Second Belt Expressway, passes through Shuangliu District, Xinjin District, Chongzhou City, Wenjiang District, Pidu District and Xindu District, ends in Haoyang Town, Pengzhou City, and then connects with the eastern section of Chengdu Second Belt Expressway. It is a closed expressway with a total length of 114.26 kilometers, designed as a two-way six-lane highway and its design speed is 100km/h. The project was opened to traffic on 8 May 2015.

The toll concession period of the western section of Chengdu Second Belt Expressway is 29 years and 330 days, from 16 February 2016 to 11 January 2046.

As an important part of the layout planning of Sichuan Province's highway network and Chengdu's comprehensive transportation system, the western section of Chengdu's Second Belt Expressway is of great importance to relieve traffic pressure of Chengdu's expressways, divert the urban transit traffic, improve the western comprehensive transportation hub, guide the layout of urban space and industry to be more rational, and enhance the radiating driving role of Chengdu to the whole province and even the west of China.

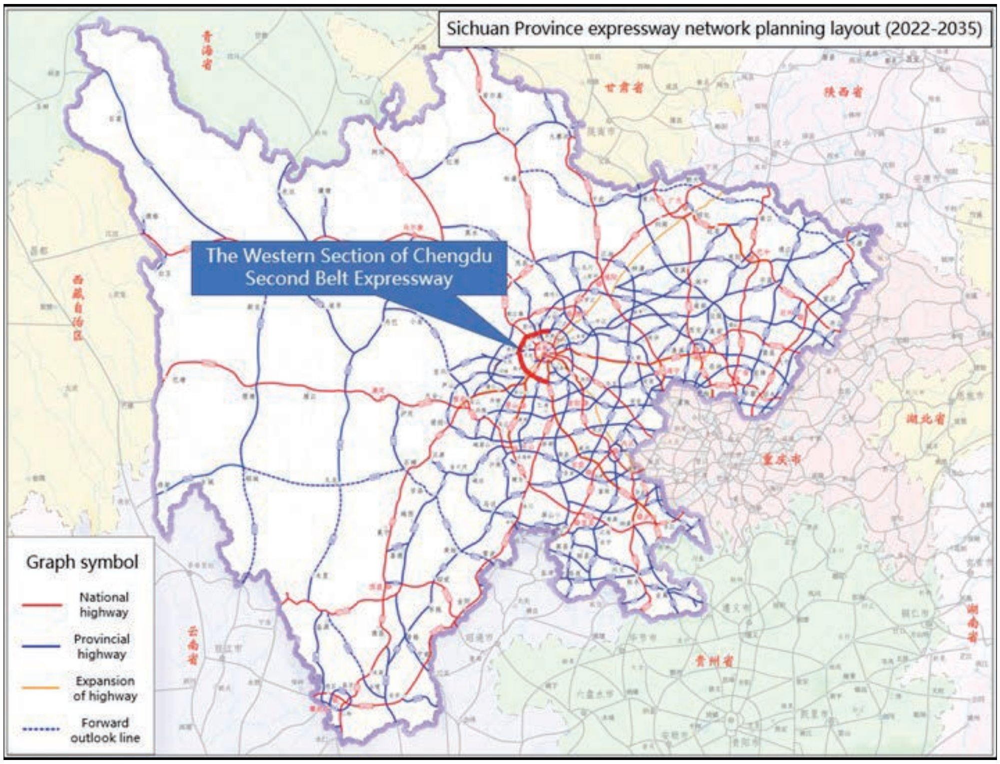


Figure 1 Location of the Western Section of Chengdu Second Belt Expressway

After receiving the assessment task, the project team went to the project site and carried out field surveys, deeply understood basic situation of the current road network as well as the related road traffic volume in the area affected by the project, and collected a large number of relevant data of economic, society and transportation in the project affected area, laying a good foundation for the smooth implementation of the preliminary assessment work.

The traffic volume forecast evaluation report is prepared based on the Method of the Feasibility Study Report of Highway Construction Project issued by the Ministry of Transport in April 2010. The report analyzes the historical data and development plan of economic, social and transportation in the project affected area in detail. Refer to the traffic survey data that the project teams obtained, the highway network toll data, the observation data of the relevant highway traffic volume, the economic and social development of the project affected area in recent years, the changes of the trunk highway network in the relevant area, as well as the future economic and social development trend and the possible trunk highway network form, the report forecasts the future traffic volume and vehicle toll revenue of the project.

2. RESEARCH CONTENT

According to the historical traffic flow data and other relevant information of the project, this report assesses and forecasts the traffic flow and estimates the vehicle toll revenue of the project based on the forecasted traffic volume, which provides reference for the investment, operation and management decisions on the project.

The research of this report mainly includes:

The forecast and evaluation of traffic volume and toll revenue of the western section of Chengdu Second Belt Expressway

Specific work scope covers:

- Research on regional economic development trends;
- Research on regional transportation development trends;
- The construction of traffic forecast models and traffic volume assessment;
- Vehicle toll revenue forecast and calculation.

3. BASIS OF PREPARATION

The basis of preparation for the valuation report of the project is as follows:

- Highway Law of the People's Republic of China;
- Technical Standard of Highway Engineering (JTG B01-2014);
- Methods for Feasibility Study Report of Highway Construction Projects (April 2010);
- Historical economic and social data of Sichuan Province and Chengdu as well as data of 14th Five-Year Plan for economic and social development;
- Historical traffic data of Sichuan Province and Chengdu and transportation planning data of 14th Five-Year Plan;
- Historical traffic volume data and revenue data of the western section of Chengdu Second Belt Expressway;
- Traffic volume data of surrounding expressways in western section of Chengdu Second Belt Expressway;
- The Approval on the Official Collection of Vehicle Toll on the West Section of Chengdu Second Ring Expressway by Sichuan Provincial Transportation Department, Sichuan Provincial Development and Reform Commission. (Sichuan Jiaofa [2021] No.31) (四川省交通運輸廳四川省發展和改革委員會關於成都第二繞城高速公路西段正式收取車輛通行費的批覆川交發[2021]31號);
- Relevant policies of national and Sichuan Province.

4. STUDY APPROACH

To forecast the future traffic volume and toll revenue of the western section of Chengdu Second Belt Expressway, the "four-stage method" is adopted to forecast the traffic volume. The steps are as follows:

1. Collect the historical data of the economic and social development of the area affected by the project, conduct regression analysis of the economic parameters with SPSS software, combined with the economic development planning of the area affected, revise the predicted data and determine the future development trend of the economic parameters;

2. Analyze regional traffic trip characteristics through traffic volume survey and traffic volume data collection of the site road network, combine the traffic volume data collected and investigated with Sichuan expressway network data to form the basic data for traffic volume prediction of this project;

3. According to the composition of the traffic flow direction, the report conducts social, economic and traffic study on the main attracting areas, analyzes and predicts the elastic coefficient, and uses the elastic coefficient method to further predict the traffic volume growth;

4. The report adopts the 'four-stage method'. On the basis of transportation survey and economic and social survey, the report establishes the relationship model between economic and social and transportation indexes by TransCAD software, which applied to the current situation traffic data so that to predict the traffic volume of the future channel where the project is and the corresponding traffic trip generation and attraction, finally get the traffic distribution of each feature year in the future;

5. The consultant adopts the Logit model in the non-aggregated model to predict the sharing rate of each transport mode. The random terms of the utility function of Logit model follow the Gumbel distribution, and the general form of the function is as follows:

$$P_{in} = \frac{exp\ U_{in}}{\sum_{i=1}^{n} exp\ U_{in}}$$

In the formula:

P_{in} – The probability of passenger n choosing the i-th mode of transportation;

U_{in} – The utility function when passenger n chooses the i-th mode of transportation.

When studying the share rate of each mode of transportation, the report improves the traditional logit model from the perspectives of transportation supply and passenger demand, extracts the safety factor and environmental impact factor from the service characteristics, and introduces the sensitivity index of passenger revenue level to ticket price. The utility function of the mode of transport is determined as follows:

$$V_i = S_i \cdot [\theta_1 E_i + \theta_2 T_i + \theta_3 C_i + \theta_4 K_i + \delta \frac{E_i}{I_n}] \cdot Ri$$

$\theta_1, \theta_2, \theta_3, \theta_4, \delta$ – Parameters of each service characteristic variable;

$\frac{E_i}{I_n}$11 – The sensitivity of revenue level to ticket price E;

S_i, E_i, T_i, C_i, K_i, R_i, – These are safety, economy, rapidity, convenience, comfort and environmental impact indicators of a certain mode of transportation.

In summary, the passenger flow sharing rate of high-speed railway or highway passenger transport is expressed as:

$$P_{1n} = \frac{exp\ (V_i)}{exp\ (V_i) + exp\ (V_j)}$$

$$P_{2n} = \quad 1 - P_{1n}$$

6. The predicted traffic volume is allocated to the road network. This report adopts the balanced distribution method to allocate the traffic volume. The basic idea is to constantly adjust the traffic flow that has been allocated to each road section and gradually reach or approach the balanced distribution. In each cycle, a 0-1 allocation (that is, an all-and-nothing allocation) is performed again based on the traffic flow already allocated to each section to obtain a set of additional traffic volumes for each road section. Then, the allocated traffic flow of each road section in this cycle and the additional traffic volume obtained in this cycle are used to obtain the allocated traffic flow in the next cycle. When the allocated traffic flow in two adjacent cycles is very close, the calculation can be stopped. The allocated traffic volume in the last cycle is the final traffic volume.

The distribution steps of the balanced distribution method can be summarized as follows:

Step 1: Initialize. In accordance with $t_a = t_a(0)\ \ \forall\ a$, implement a distribution all have no. Get the traffic flow $\{X_a^1\}$ of each section, order n = 1 ;

Step 2: Update. Order $t_a^n = t_a(X_a^n)\ \ \forall\ a$

Step 3: Find the next iteration direction. According to $\{t_a^n\}$, an all-and-nothing allocation is performed, and a set of additional traffic flow $\{Y_a^n\}$ is obtained;

Step 4: Determine the step size. The method of dichotomy is used to solve a_n satisfying the following formula:

$$\sum_a (Y_a^n - X_a^n) t_a [X_a^n + \alpha_n (Y_a^n - X_a^n)] = 0 \qquad 0 \leq \alpha_n \leq 1$$

Step 5: Determine the new iteration point. Order:

$$X_a^{n+1} = X_a^n + \alpha_n (Y_a^n - X_a^n) \quad \forall\ a$$

Step 6: Convergence test.

$$\max_a \left(\frac{\left| X_a^{n+1} - X_a^n \right|}{X_a^n} \right) \leq 5\%$$

$\{X_a^{n+1}\}$is the desired equilibrium solution; Otherwise order n = n + 1, return to step 1.

(1) Generalized path travel cost function

The generalized cost function model adopted in this report is shown in the following formula:

$$C = C_1T + 0.8PC_2L + C_3$$

In the formula:

C – Route travel cost;

C_1 – Behavioral time value, that is, the driver's judgment on the value of time when choosing the travel path;

T – Road segment travel time;

P – Local oil prices;

C_2 – Fuel consumption per kilometre;

L – Road section length;

C_3 – Toll on the road section.

(2) Traffic volume-speed model

In the distribution of traffic volume, the traffic volume-speed model in the second edition of Highway Technical and Economic Indicators is adopted.

Super highways: $V_a = 80.14 \exp\left(-0.173\left(\frac{q_a}{C_a}\right)^2\right), \frac{q_a}{C_a} \leq 0.8$

$$V_a = 78.843 \exp\left(-0.561\left(\frac{q_a}{C_a}\right)^8\right), \frac{q_a}{C_a} > 0.8$$

First grade highway: $V_a = 68.119 \exp\left(-0.197\left(\frac{q_a}{C_a}\right)^2\right), \frac{q_a}{C_a} \leq 0.75$

$$V_a = 64.274 \exp\left(-0.526\left(\frac{q_a}{C_a}\right)^8\right), \frac{q_a}{C_a} > 0.75$$

Second grade highway: $V_a = 156.7 \times \frac{1}{q_a^{0.1681}}$

Third grade highway: $V_a = 99.1 \times \frac{1}{q_a^{0.1323}}$

Fourth grade highway: $V_a = 70.5 \times \frac{1}{q_a^{0.0988}}$

In the formula:

V_a – The vehicle speed of the section a;

q_a – The traffic flow of the section a;

C_a – The traffic capacity of the section a.

7. The final result of traffic volume prediction of this project can be obtained by analyzing the impact of traffic volume distribution and diversion on the future road network.

5. KEY ASSUMPTIONS

(1) The forecast value of GDP of the region affected by the project is based on the analysis and research of the current situation and future development trend of economic and social development, combined with the long-term economic and social development planning of each area affected, and the calculation is determined comprehensively by the method of quantitative analysis and qualitative analysis. However, the GDP growth rates in future years would be affected by the trend of the international economic development, macroeconomical control policy in the PRC, regional industrial policy and other social, economic and unpredictable events. Therefore, over the forecast period, there will be a risk that the actual GDP growth rates may be higher or lower than the predicted values.

(2) "The Notice on Printing and Distributing a Package of Policies and Measures to Stabilize the Economy" which was issued by the Central Committee of the CPC and the State Council, and The Sichuan Provincial People's Government has also issued a series of measures in 2022, which both aims to ensure the overall improvement of economic operation and achieve effectively qualitative improvement and reasonably quantitative growth. The stimulus of economic policies will benefit the development of this project.

(3) "The Outline of the Construction Plan for the Twin-City Economic Circle in the Chengdu-Chongqing Region" which was issued by the Central Committee of the CPC and the State Council in 2021 indicates to focus on the development of the Twin-City Economic Circle in the Chengdu-Chongqing Region. This project is the Chengdu Grand Ring Expressway which is the development link of the Twin-City Economic Circle in the Chengdu-Chongqing Region. Therefore, this project has a good location advantage.

(4) Based on the "14th Five-Year Plan for the Development of Comprehensive Transport and Logistics Industry in Chengdu City" which was issued by the Chengdu Municipal Transportation Bureau in 2021, Chengdu should support the development of key industrial ecosystems and industrial functional areas as the guideline, and also complete the "6 centers and N bases" space function layout. Chengdu will accelerate the construction of large logistics centers in Jintang, Xinjin, Longquan, Jianzhou, and Jianyang, etc. By surrounding the actual situation of logistics development and the demand in districts (cities) and counties, Chengdu will accelerate the construction of logistics bases in Pengzhou, Pujiang, Jintang, Chongzhou, and Qionglai. These areas are all located near the Second Ring Expressway in Chengdu which can effectively drive the increment of the traffic flow of this project.

(5) According to the statistics of Chengdu's permanent population over the years, the growth rate of Chengdu's permanent population from 2016 to 2021 was 3.9%. It shows that Chengdu is an attractive city, and is also developing into a big city. The increase in population and the outward development of cities will bring an increase in the traffic flow.

(6) According to the statistics of civilian vehicle ownership in Sichuan Province, the average annual growth rate of civilian passenger vehicles from 2016 to 2019 was 10.8%, and the average annual growth rate of civilian cargo vehicles from 2016 to 2019 was 7.9%. It shows that car ownership in Sichuan Province is growing steadily, and the increase in car ownership will also bring an increase in the traffic flow on the road section of this project.

(7) According to the Approval of Official Vehicle Toll Collection on the Western Section of Chengdu Second Belt Expressway issued by Sichuan Provincial Transportation Department and Sichuan Provincial Development and Reform Committee (Sichuan Jiao Fa [2021]31), the project toll standard is determined. The report assumes that the current toll charge policy to be maintained till the end of the concession period. The toll revenue will be changed if the government makes any adjustment to the toll charge policy.

(8) From 1 December 2010, China's toll roads have implemented a new "green channel" policy, exempting the toll for vehicles that legally transfer fresh agricultural products. Secondly, Sichuan Province has implemented a toll discount of 5 percent for vehicles that pay tolls using ETC. According to the historical revenue data provided by Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. the amount of green traffic exemption from 2020 to 2021 accounted for 9.0% and 9.8% of freight vehicles toll revenue, and the amount of freight vehicles ETC exemption accounted for 3.8% and 4.0% of freight vehicles toll revenue. The amount of passenger vehicles ETC exemption accounted for 4.7% and 4.5% of the passenger vehicles toll revenue, while the amount of other policy exemption accounted for 0.1% of the total toll revenue. This report comprehensively considers the average value of charging efficient rate of passenger vehicle from 2020 to 2021 is 95.4%, while the charging efficient rate of freight vehicle is 86.5%. If the green traffic exemption policy and ETC exemption policy are adjusted in the future, the toll revenue will change accordingly.

(9) According to the Notice of The State Council on the Implementation Plan of Approving the Transfer of Tolls for small passenger Cars to the Ministry of Transport and other Departments on Major Holidays (No.37 [2012]), four national statutory holidays, including the Spring Festival, Tomb-sweeping Day, Labor Day and National Day, as well as the consecutive holidays associated with the above four festivals as announced by the General Office of the State Council every year, are free for passenger vehicles with less than 7 seats (including 7 seats). According to the four national holidays and the consecutive holidays in recent years, there are 22 days of exemption from the toll of passenger vehicles with less than 7 seats (including 7 seats) each year. Considering that the vast majority of first-class passenger cars are passenger vehicles with less than 7 seats (including 7 seats), the toll of Class Ⅰ passenger vehicles is calculated as 343 days. If there is any adjustment of the toll free policy in the future, the toll revenue will change accordingly.

(10) With the continuous improvement of the road network around Chengdu's Second Belt Expressway in the future, the changes of the road network will divert the traffic flow of the project and then affect the toll revenue of the project. The relevant influencing factors are mainly shown in the table below.

Table 1 Table of influencing factors taken into account in this calculation

Year of opening	Project name	Traffic impact
At the end of 2025	Pujiang Railway Logistics Port, Chongzhou Modern Logistics Industry Base, Southwest Characteristic Fruit Cold Chain Logistics Industry Base (Pujiang), Qingbaijiang Railway Logistics Port	Positive influence
At the end 2025	Chengdu Fifth Ring Road	Negative impact
At the end 2030	Chengdu Loop Railway	Negative impact
At the end 2035	Yanting-Heishui Highway Ma'erkang- Yan'an Expressway	Negative impact

(11) In 2022, affected by the COVID-19, the economy of all regions in China declined sharply, as a result the traffic flow and toll revenue of expressways also declined. At the end of 2022, with the gradual recovery of the economy, the traffic volume and toll revenue of the project are correspondingly increasing. The evaluation and forecast of the project are based on the current situation, the actual toll revenue may be affected by the same or similar contingency factors.

6. TRAFFIC VOLUME AND TOLL REVENUE FORECAST RESULTS

(1) Average Daily Traffic Volume of the Western Section of Chengdu Second Belt Expressway (Forecast Period)

Table 2 Forecast results of traffic volume

Year	**Total** *(veh/day)*
2022	22,611
2023	31,192
2024	33,656
2025	36,315
2026	37,902
2027	40,549
2028	43,395
2029	46,455
2030	49,749
2031	51,793
2032	54,981
2033	58,389
2034	62,034
2035	65,935
2036	68,702
2037	72,236
2038	75,985
2039	79,962
2040	84,181
2041	87,410
2042	90,804
2043	94,371
2044	98,120
2045	102,060
2046	106,202

Note: The volume of 2022 is the annual average daily traffic volume of the section.

(2) Toll revenue of Western Section of Chengdu Second Belt Expressway (calculation period)

Table 3 Toll revenue forecast results

Year	**Toll revenue** *(RMB in thousand)*
2022 (October-December)	161,220
2023	900,215
2024	978,729
2025	1,064,029
2026	1,118,986
2027	1,205,455
2028	1,299,452
2029	1,401,752
2030	1,513,229
2031	1,588,970
2032	1,700,140
2033	1,820,429
2034	1,950,710
2035	2,091,957
2036	2,197,930
2037	2,329,200
2038	2,469,853
2039	2,620,623
2040	2,782,309
2041	2,912,537
2042	3,050,588
2043	3,196,946
2044	3,352,130
2045	3,516,693
2046 (End to 11 January)	111,243
Total	47,335,324

Note: Toll revenue in 2022 is from October to December, and toll revenue in 2046 ends to 11 January; in 2020, due to the impact of the epidemic, 79 days without charging. If the charging period of this project is extended by 79 days, the toll revenue will increase by about RMB800 million.

Through surveys, this project acquires information of the region where it is located in respect of socio-economic development, transportation and traffic volume of relevant roads, and then analyses the socio-economic development and transportation conditions of the region to obtain the natural growth rate of traffic volume. On this basis, the project conducts comprehensive assessment of the traffic volume, with consideration of the development plans for the economy, the society and the traffic network in the coming years and the past development experience of several similar projects, to arrive at the final growth rate of the traffic volume.

Toll revenue is calculated based on traffic flow forecasts and the project toll standard, and future changes in toll standard due to the policy will affect revenue forecast.

7. CONCLUSION

This Study carried out future traffic volume for the western section of Chengdu Second Belt Expressway from 1 October 2022 to 11 January, 2046. According to the existing charging standards and the predicted traffic volume, the report measures the project's toll revenue. The research process of the traffic volume forecast report conforms to the general practice of industry execution. Its result can be used as a reference to make investment decision for SICHUAN EXPRESSWAY COMPANY LIMITED..

CHELBI ENGINEERING CONSULTANTS, INC

The following is the text of a report from Ernst & Young, the reporting accountants of the Company, for the purpose of inclusion in this circular.

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN SICHUAN RONGCHENG SECOND RING EXPRESSWAY DEVELOPMENT CO., LTD.

To the directors of Sichuan Expressway Company Limited (the "**Company**")

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 13 February 2023 prepared by Beijing North Asia Asset Assessment Firm (Special General Partnership) in respect of Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (the "**Target Company**") as at 30 September 2022 is based. The valuation is in connection with the acquisition of 100% equity interest in the Target Company, as set out in the Company's announcement dated 17 February 2023 (the "**Announcement**"). The valuation based on Forecast is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the preparation of Forecast. The Forecast has been prepared using a set bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "Valuation Assumptions" of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules, and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions as set out in the Announcement.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
17 February 2023

The following is the text of a letter from Lego Corporate Finance Limited, the financial adviser to the Company, for the purpose of inclusion in this circular.

Lego Corporate Finance Limited
力高企業融資有限公司

The Board of Directors
Sichuan Expressway Company Limited
252 Wuhouci Da Jie, Chengdu City
Sichuan Province, the PRC

17 February 2023

Dear Sirs or Madams,

We refer to the announcement of the Company dated 17 February 2023 (the "**Announcement**") in relation to the proposed acquisition of 100% equity interest in the Target Company by the Company from Shudao Expressway and SRB Group, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

As disclosed in the Announcement, the Consideration was determined with reference to the market value of 100% equity interest in the Target Company as at 30 September 2022 appraised by the PRC Valuer (the "**Valuation**"), details of which are contained in the valuation report dated 13 February 2023 prepared by the PRC Valuer (the "**Valuation Report**"). We understand that the Valuation Report and certain other documents related to the Acquisition have been provided to you as the Directors in connection with your consideration of the Acquisition.

According to the Valuation Report, the Valuation has been arrived at using the income approach based on discounted cash flows. As such, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

For the purpose of preparing this letter, we have reviewed the forecast of future cash flows of the Target Company (the "**Forecast**") underlying the Valuation, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the PRC Valuer on the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from Ernst & Young, the Company's reporting accountants (the "**Reporting Accountants**"), dated 17 February 2023 addressed to you containing its opinion on the arithmetical accuracy of the calculations of the Forecast, details of which are set out in Appendix I to the Announcement.

We have not independently verified the computations leading to the determination of the Valuation by the PRC Valuer. The assessment, review and discussions carried out by us as described in this letter are based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and we have, in arriving at our views, relied on information and materials provided to us by the Company, the PRC Valuer and the Reporting Accountants and opinions expressed by, and representations of, the employees and/or management of the Company, the PRC Valuer and the Reporting Accountants. We have assumed, without independent verification, that all the information, materials and representations so provided, including all the information, materials and representations referred to or contained in the Announcement, for which you as the Directors are wholly responsible, were true, accurate, complete and not misleading in all material respects at the time they were provided or made and continued to be so up to the date of this letter, and that no material facts have been withheld or omitted from the information, materials and representations provided. No representation or warranty, expressed or implied, is made by us on the truth, accuracy or completeness of such information, materials, opinions and/or representations referred to or contained in the Announcement, and we have not assumed any responsibility or liability therefor. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our assessment and review.

It should be noted that the Forecast has been prepared using a set of assumptions which include hypothetical assumptions about future events that may or may not occur and therefore the Forecast may not be appropriate for purposes other than for deriving the Valuation. Even if the events anticipated under the hypothetical assumptions occur, actual financial performance may still differ from the Forecast since such anticipated events frequently may or may not occur as expected and the variation could be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted in the Valuation, for which the PRC Valuer and the Company are responsible, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, has been made by you after due and careful enquiry. For the avoidance of doubt, this letter does not constitute an independent valuation or fairness opinion and is expressly limited to the matters described herein.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. This letter may not be used or disclosed, referred or communicated (in whole or in part) to any party for any other purpose whatsoever, except with our prior written approval. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them had taken or was deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(1) Long position in the Company

Name	Capacity	Types of Shares	Nature of interest	Number of Shares held	Percentage of total issued share capital of the Company
Mr. Gan Yongyi	Director	A Shares	Beneficial owner	50,000	0.0016%
Mr. Luo Maoquan	Supervisor	A Shares	Beneficial owner	10,000	0.0003%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(2) Other interests

As at the Latest Practicable Date, so far is known to the Directors,

(i) none of the Directors and Supervisors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to any member of the Enlarged Group since 31 December 2021, the date to which the latest published audited financial statement of the Enlarged Group was made up;

(ii) further details of the Directors and Supervisors who serve as a director, supervisor or employee of a company which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

- Mr. Li Chengyong, a non-executive Director, is the deputy head of the finance management department in Shudao Investment;
- Mr. Chen Chaoxiong, a non-executive Director, is a Class II Director (i.e. a director of a subsidiary nominated and appointed by Shudao Investment from its subsidiaries (including the Company)) in Shudao Investment;
- Mr. Ling Xiyun, a Supervisor, is the deputy chief accountant of Shudao Investment; and
- Mr. Wang Yao, a Supervisor, is the head of internal control legal affair department of Shudao Investment.

(iii) none of the Directors and Supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting and significant in relation to the business of the Enlarged Group.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, no other person had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name	Type of Shares	Long position/ Short position	Number of the Company's Shares held	Approximate percentage in the total shares capital of the Company	Approximate percentage in A/H Shares	Capacity
Shudao Investment	A Shares (state-owned shares)	Long position	1,035,915,462	33.875%	47.898%	Beneficial owner
	H Shares	Long position	121,950,220	3.988%	13.621%	Beneficial owner
		Total	1,157,865,662	37.863%		
China Merchants Expressway Network & Technology Holdings Co., Ltd.	A Shares (legal person shares)	Long Position	664,487,376	21.729%	30.724%	Beneficial owner
	H Shares	Long position	96,458,000	3.154%	10.774%	Interest in controlled corporation (1)
		Total	760,945,376	24.883%		

Note:

(1) Equity interest held by Cornerstone Holdings Limited, a wholly-owned subsidiary of China Merchants Expressway Network & Technology Holdings Co., Ltd. Therefore, China Merchants Expressway Network & Technology Holdings Co., Ltd. is deemed to be interested in the H shares held by Cornerstone Holdings Limited under the SFO.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the Supervisors nor any of their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or is likely to compete, either directly or indirectly, with the business of the Group as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules.

5. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors or the Supervisors has entered into any service contract with any member of the Enlarged Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, as far as known to the Directors, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2021, the date to which the latest published audited financial statements of the Company were made up.

8. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have been named in this circular or have given opinion or advice contained in this circular:

Name	**Qualification**
Octal Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Beijing North Asia	An independent qualified valuer in the PRC
Lego	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Chelbi Engineering	An independent professional traffic consultant in the PRC

To the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, each of Octal Capital, Ernst & Young, Beijing North Asia, Lego and Chelbi Engineering is a third party independent of the Group and its connected persons and as at the Latest Practicable Date:

1. none of the above experts has any shareholding in any member of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any member of the Group;

2. each of the above experts has given and has not withdrawn its written consent to the publication of this announcement with the inclusion herein of its letter(s), report(s), opinion(s) and/or references to its name in the form and context in which they are included; and

3. none of the above experts has any interest in any assets which have been, since 31 December 2021 (being the date to which the latest published audited annual financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. GENERAL

(1) The head office, registered office and principal place of business of the Company is situated at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC.

(2) The principal place of business in Hong Kong of the Company is at Rooms 2201-2203, 22/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong.

(3) The H Share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(4) The joint company secretaries of the Company are Mr. Yao Jiancheng and Mr. Wong Wai Chiu. Mr. Yao Jiancheng holds a Legal Profession Qualification Certificate of the People's Republic of China. Mr. Wong Wai Chiu is a fellow member of the Hong Kong Chartered Governance Institute (formerly known as the Hong Kong Institute of Chartered Secretaries), a fellow member of Chartered Governance Institute in the United Kingdom, a member of CPA Australia, a member of the Hong Kong Trustees' Association and a Certified Trust Practitioner.

10. MATERIAL CONTRACTS

The members of the Enlarged Group has entered into the following contracts (not being contract entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

(1) the equity and corresponding shareholder's loan transfer agreement dated 16 August 2021 and entered into between the Company and Sichuan Transportation Investment Property Company Limited (the "**STIP**") in relation to the sell of 91% equity interest in Renshou Trading Landmark Company Limited (the "**Renshou Landmark**") and the principal of the shareholder's loan as outstanding and owed by Renshou Landmark to the Company at

an aggregate consideration of not exceeding approximately RMB1,858.2 million; and the assets transfer agreement dated 16 August 2021 and entered into between Chengdu Shuhong Property Company Limited (the "**Chengdu Shuhong**") and STIP in relation to the sell of real estate project under construction held by Chengdu Shuhong at an aggregate consideration of not exceeding approximately RMB87 million;

(2) the factoring cooperation agreement dated 14 September 2021 and entered into between the Company and Sichuan Transportation Investment Logistics Company Limited in relation to the revolving factoring credit line of not exceeding RMB200 million;

(3) the equity interest transfer agreement dated 13 December 2021 and entered into between the Company and Shudao Investment in relation to the sell of 2.6606% equity interest in Shudao Transport Services Group Co., Ltd. at an aggregate consideration of RMB53,940,100, and the equity interest transfer agreement dated 13 December 2021 entered into between the Company and Shudao Investment in relation to the sell of 0.6% equity interest in STIP at an aggregate consideration of RMB16,635,600;

(4) the original disposal agreement, the supplemental agreement to the original disposal agreement, and the new disposal agreement dated 20 October 2021, 3 March 2022, and 3 March 2022, respectively, and entered into between the Company, Sichuan Expressway Construction and Development Group Co., Ltd., Sichuan Tibetan Area Expressway Co., Ltd., Sichuan Port and Channel Development Co., Ltd. and Sichuan Road and Bridge (Group) Co., Ltd., in relation to, among other things, the sell of 5% equity interest in Sichuan Transportation Construction Group Co., Ltd at a consideration of RMB369,195,000;

(5) the asset transfer agreement dated 13 June 2022 entered into between Sichuan Shudao New Energy Technology Development Co., Ltd. and Sichuan Jiaotou New Energy Co., Ltd. in respect of the acquisition of certain charging station assets at a consideration of RMB85,840,000; and

(6) the equity interest transfer agreement dated 30 June 2022 and entered into between the Company and Shudao Capital Holding Group Co., Ltd., in relation to the sell of 44.95% equity interest in Chengyu Financial Leasing Company Limited at a consideration of RMB296,670,000.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.cygs.com) for a period of 14 days from the date hereof:

(1) all material contracts described in paragraph 10 of this appendix;

(2) the Equity Transfer Agreement;

(3) the accountants' report of the Target Company, the text of which is set out in Appendix II to this circular;

(4) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(5) the valuation report of the Target Company, the English translation of which is set out in Appendix V to this circular;

(6) the traffic study report of the Second Ring (Western) Expressway, the text of which is set out in Appendix VI to this circular;

(7) the report from the reporting accountants on profit forecast as set out in Appendix VII to this circular;

(8) the letter from the financial adviser on profit forecast as set out in Appendix VIII to this circular;

(9) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 21 to 22 of this circular;

(10) the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 23 to 52 of this circular; and

(11) the letters of consent referred to under the paragraph headed "Experts and Consents" of this appendix.

12. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the event of inconsistency unless otherwise specified.

四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00107)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Sichuan Expressway Company Limited* (the "**Company**") will be held at 3:00 p.m. on Thursday, 30 March 2023 at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan, the PRC for the purposes of considering and, if thought fit, passing (with or without modifications) the following resolution.

Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the circular (the "**Circular**") of the Company dated 10 March 2023 containing the details in relation to the resolution herein below.

ORDINARY RESOLUTION

To consider and approve the following resolution by way of open ballot and non-cumulative voting:

1. **THAT:** The signing, performance and implementation of the Equity Transfer Agreement are hereby considered, ratified, confirmed and approved; and any one of the Directors of the Company be and are hereby authorised to execute for and on behalf of the Company all such other documents, instruments and agreements, and to take all steps necessary or expedient to implement and/or give effect to the Equity Transfer Agreement; any member of the Group (including those newly established or invested through equity acquisition or other organisations) be and are hereby approved to, in its absolute discretion deemed appropriate or expedient and in the interests of the Company and its shareholders as a whole and based on the actual work needs, to negotiate, develop, execute, amend, supplement and perform all documents in connection with the Equity Transfer Agreement (including but not limited to the specific agreement contemplated under the Equity Transfer Agreement) with any member of the Shudao Investment Group (including those newly

established or invested through equity acquisition or other organisations) and proceed with all things and actions necessary for executing and implementing the Equity Transfer Agreement.

By order of the Board
Sichuan Expressway Company Limited*
Yao Jiancheng
Joint Company Secretary

Chengdu, Sichuan Province, the PRC
10 March 2023

Notes:

1. The register of members of H Shares of the Company will be closed from Monday, 27 March 2023 to Thursday, 30 March 2023, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM, holders of H Shares shall ensure that all transfer documents of H Shares accompanied by the relevant share certificates and the appropriate transfer documents must be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 March 2023.

2. Any holder of H Shares who has registered on the register of members of H Shares before the close of business on Friday, 24 March 2023 is entitled to attend the EGM after registration for the meeting. He/she is also entitled to appoint one or more proxies to attend and vote at the EGM on his/her behalf in accordance with the Articles of Association. A proxy need not be a Shareholder of the Company.

3. In order to be valid, the form of proxy of holders of H Shares and, if such form of proxy is signed by a person under a power of attorney or other authority on behalf of the principal, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM (or any adjournment thereof) or 24 hours before the time appointed for the passing of the resolution(s) (i.e. before 3:00 p.m. on Wednesday, 29 March 2023.

4. Shareholders or their proxies should produce their identity documents when attending the EGM. Should a proxy be appointed, the proxy shall also present the form of proxy.

5. Pursuant to the Articles of Association and the Listing Rules, the Chairman of the EGM will demand a poll in relation to all the resolution(s) proposed at the EGM.

6. Shareholders who intend to attend the EGM shall complete and lodge the reply slip for attending the EGM at the Company's registered address at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC not later than 4:30 p.m. on Friday, 24 March 2023. The reply slip may be delivered to the Company by hand, by post or by fax (fax no.: (8628) 8553 0753).

7. The EGM is expected to last for less than one day. Shareholders or their proxies attending the EGM shall bear their own traveling, dining and accommodation expenses.

As at the date of this notice, the Board comprises Mr. Gan Yongyi (Chairman), Mr. Li Wenhu (Vice Chairman), Madam Ma Yonghan, Mr. You Zhiming and Madam Xue Min as executive Directors, Mr. Wu Xinhua (Vice Chairman), Mr. Li Chengyong and Mr. Chen Chaoxiong as non-executive Directors, Mr. Yu Haizong, Mr. Yan Qixiang, Madam Bu Danlu and Mr. Zhang Qinghua as independent non-executive Directors.

* *For identification purpose only*