

10 February 2025

*To: Independent Board Committee and the Independent Shareholders*

Dear Sirs

**DISCLOSEABLE AND CONNECTED TRANSACTION:  
ACQUISITION OF 100% EQUITY INTERESTS IN TWO COMPANIES  
OPERATING EXPRESSWAY IN ANHUI PROVINCE, THE PRC**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 10 February 2025 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 31 December 2024 in relation to the Acquisition.

On 31 December 2024, the Company and Anhui Transportation Holding Group entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase, and Anhui Transportation Holding Group has conditionally agreed to sell, the Target Equity. The Consideration for the acquisition of the Target Equity is RMB4,770,800,000.

As the highest applicable percentage ratio in respect of the Acquisition in accordance with the Listing Rules exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable and connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. As at the Latest Practicable Date, Anhui Transportation Holding Group holds approximately 31.63% of the total issued share capital of the Company, and is the controlling shareholder of the Company. Accordingly, Anhui Transportation Holding Group is a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will put forward, among others, an ordinary resolution to approve the Acquisition and the transactions contemplated thereunder at the extraordinary general meeting to be convened by the Company for the Independent Shareholders' consideration and approval.

Wang Xiaowen, Yu Yong, Chen Jiping and Wu Changming (being directors or senior management of Anhui Transportation Holding Group or its subsidiary(ies) and/or Directors of



the Company nominated by Anhui Transportation Holding Group) are deemed to be interested in the Acquisition and have abstained from voting on the discloseable and connected transaction in respect of the Acquisition according to the Listing Rules. Except as stated above, no Director has any material interest in the Acquisition, neither are there any Directors who are required to abstain from voting on the relevant Board resolution.

In view of the interest of Anhui Transportation Holding Group in the Acquisition Agreement, Anhui Transportation Holding Group and its associates will abstain from voting at the extraordinary general meeting to be convened by the Company to, among others, consider and approve the resolutions in relation to the Acquisition and the transactions contemplated thereunder.

The Company has established the Independent Board Committee comprising all the independent nonexecutive Directors, namely Mr. Zhang Jianping, Mr. Lu Taiping and Ms. Zhao Jianli, to advise the Independent Shareholders on the terms of the Acquisition and the transactions contemplated thereunder, and to recommend to the Independent Shareholders how to vote at the extraordinary general meeting. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

#### **INDEPENDENCE DECLARATION**

As at the Latest Practicable Date, we are not connected with the Directors, chief executive, the supervisors or substantial shareholders of the Company or any of their respective associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. We were not aware of any relationships or interest between us and the Company, Anhui Transportation Holding Group nor any other parties within the past two years that could reasonably be regarded as a hindrance to our independence to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

Save for the Company's proposed acquisition of Anhui Province Liuwu Expressway Co., Ltd.\* (安徽省六武高速公路有限公司) from Anhui Transportation Holding Group, on which we opined in the circular and the supplemental circular of the Company dated 26 July 2023 and 13 October 2023, respectively, there was no other engagement between us and the Company or Anhui Transportation Holding Group during the two years preceding the date hereof. Apart from normal professional fees payable to us by the Company in connection with the current appointment of us as independent financial adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or the Directors, chief executive, the supervisors or substantial shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Acquisition.



## **BASIS OF OUR OPINION**

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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 the 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 therein or the document misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Acquisition.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

### 1. Background of the Acquisition

#### *1.1 Background information on the Group*

On 15 August 1996, the Company was established as a joint stock company in Anhui province, the PRC. The Company's H Shares are listed on the Main Board of the Stock Exchange, while its domestic ordinary shares are listed on the Shanghai Stock Exchange. It was the first highway company to be listed in Hong Kong and the only listed highway company in Anhui province.

The Group is principally engaged in investment, construction, operation, and management of toll expressways located within Anhui province. The Group obtains toll expressway assets through investment and construction, acquisition, or cooperative operation. The Group provides toll services for vehicles, charges vehicles toll fees according to the charging standard, and maintains, repairs, and conducts safety maintenance for toll expressways.

#### *Financial performance of the Group*

Set out below is a summary of financial information of the Group for the three years ended 31 December 2021, 2022 and 2023 as extracted from the Company's annual reports (which were prepared in accordance with Hong Kong Financial Reporting Standards) and for the nine months ended 30 September 2023 and 2024 as extracted from the Company's 2024 third quarterly report (which was prepared in accordance with PRC Accounting Standards for Business Enterprises):

|                                   | For the year ended 31 December |           |           | For the nine months ended 30 September |             |
|-----------------------------------|--------------------------------|-----------|-----------|--|-------------|
|                                   | 2021                           | 2022      | 2023      | 2023                                   | 2024        |
|                                   | RMB'000                        | RMB'000   | RMB'000   | RMB'000                                | RMB'000     |
|                                   | (audited)                      | (audited) | (audited) | (unaudited)                            | (unaudited) |
| <b>Revenue</b>                    | 4,029,476                      | 5,206,366 | 6,631,337 | 4,344,060                              | 5,043,451   |
| <b>Gross profit</b>               | 2,306,988                      | 2,222,171 | 2,593,637 | 2,033,668                              | 1,795,235   |
| <b>Profit for the year/period</b> | 1,543,113                      | 1,415,624 | 1,676,167 | 1,390,533                              | 1,240,523   |

As set out in the table above, the Group's revenue increased significantly from RMB4,029.5 million for the year ended 31 December 2021 ("FY2021") to RMB5,206.4 million for the year ended 31 December 2022 ("FY2022"). In terms of profit, the Group's net profit declined from RMB1,543.1 million for FY2021 to RMB1,415.6 million for FY2022, representing a drop of approximately 8.3%. We note from the Company's last three annual reports, and understand from the management of the Company that the growth in the Group's revenue but a decline in profit in FY2022 was mainly due to:



- (i) an increase in revenue of RMB1,309.0 million from the construction or upgrade work under service concessions as a result of the construction progress of Public-Private-Partnership project (“**PPP project**”) of Xuanguang Expressway reconstruction and expansion; and
- (ii) a decrease in toll income of RMB154.7 million mainly because of the decrease in traffic volume of Xuanguang Expressway, which was under reconstruction and expansion work during FY2022.

The profit for the year of the Group dropped from RMB1,543.1 million for FY2021 to RMB1,415.6 million for FY2022 primarily because of (i) the decrease of gross profit generated from expressway business which is in line with the decrease in toll revenue; and (ii) no gross profit generated from construction or upgrade work under service concessions.

The Group’s revenue further increased from RMB5,206.4 million for FY2022 to RMB6,631.4 million for the year ended 31 December 2023 (“**FY2023**”), mainly due to the:

- (i) an increase in revenue of RMB1,057.9 million from the construction or upgrade work under service concessions as a result of the construction progress of PPP project of Xuanguang Expressway renovation and expansion; and
- (ii) an increase in toll income of RMB365.4 million mainly because of the increase in traffic volume resulting from the expansion of Xuanguang Expressway.

The profit for the year of the Group increased from RMB1,415.6 million for FY2022 to RMB1,676.2 million for FY2023 primarily because of the increase of gross profit generated from expressway business and construction or upgrade work under service concessions.

The revenue of Group increased from RMB4,344.1 million for the nine months ended 30 September 2023 (“**9M2023**”) to RMB5,043.5 million for the nine months ended 30 September 2024 (“**9M2024**”) mainly due to the overall increase of the construction service revenue for the Xuanguang Expressway renovation and expansion PPP project and the increase in traffic volume of the expressways operated by the Group during this period. Net profit of the Group decreased from RMB1,390.5 million for 9M2023 to RMB1,240.5 million for 9M2024, mainly due to a 40.59% rise in operating costs, primarily from higher construction service expenses related to the Xuanguang project.

### *Existing toll roads and bridges*

Set out below is a summary of details of existing toll roads and bridges as extracted from the Board Letter and the corresponding revenue contribution in FY2023 as extracted from the Company's annual report for FY2023:

|  | Interests<br>% | Remaining<br>operating<br>term <sup>1</sup><br>years | Length<br>kilometers | Revenue<br>for the year<br>ended 31<br>December<br>2023<br>RMB'000 | % to total<br>toll income<br>% |
|--|----------------|--|----------------------|--|--------------------------------|
| 1. Hening Expressway                           | 100.0          | 2.8  | 134                  | 1,426,608  | 34.3                           |
| 2. New Tianchang Section of National Trunk 205 | 100.0          | 3.0  | 30                   | 87,480   | 2.1                            |
| 3. Gaojie Expressway                           | 100.0          | 5.8  | 110                  | 929,713  | 22.3                           |
| 4. Xuanguang Expressway                        | 55.5           | 5.0  | 84                   | 425,426  | 10.2                           |
| 5. Lianhuo Expressway Anhui Section            | 100.0          | 9.5  | 54                   | 283,968  | 6.8                            |
| 6. Ninghuai Expressway Tianchang Section       | 100.0          | 9.5  | 14                   | 126,184  | 3.0                            |
| 7. Guangci Expressway                          | 55.5           | 5.5  | 14                   | 100,069  | 2.4                            |
| 8. Ningxuanhang Expressway                     | 51.0           | Note 2   | 117                  | 284,821  | 6.8                            |
| 9. Anqing Yangtze River Expressway Bridge      | 100.0          | 10.0   | 6                    | 350,907  | 8.4                            |
| 10. Yuewu Expressway Anhui section             | 100.0          | 22.0   | 46                   | 149,502  | 3.6                            |

Notes:

1. The remaining operating terms are calculated as of 31 December 2023 as set out in the Company's annual report for FY2023.
2. Ningxuanhang Expressway (Anhui Section) is made up of three sections namely: Xuancheng to Ningguo section, Ningguo to Qianqiuguan section and Liqiao to Xuancheng section with approximately 19.7 years, 22.0 years and 24.0 years of remaining operation term, respectively.

As at 31 December 2023, the Group had been operating a total of ten expressways (i.e. the toll roads and bridges as set out above). Among the expressways operated by the Group, Hening Expressway, Xuanguang Expressway and Gaojie Expressway together accounted for approximately 66.8% of the toll revenue for the year ended 31 December 2023 from these ten expressways, with an average remaining concession period of approximately 4.5 years. The average remaining concession period of all the ten expressways operated by the Group is approximately 9.5 years.

### ***1.2 Anhui Transportation Holding Group***

Anhui Transportation Holding Group is a state-owned enterprise established in the PRC and is the controlling shareholder and a connected person of the Company holding approximately 31.63% of the Company's issued share capital as at the Latest Practicable Date. Anhui Transportation Holding Group is principally engaged in highway and related infrastructure construction, supervision, inspection, design, construction, technical consultation and services; investment and asset management; real estate development and operation, etc.. Anhui Transportation Holding Group owns the entire equity interests in the Target Companies and is, in turn, directly under the ownership of the State-owned Assets Supervision Commission of Anhui Province\* (安徽省國有資產監督委員會) as at the Latest Practicable Date.



### **1.3 Target Companies**

#### **(a) Fuzhou Company**

Fuzhou Company is a limited liability company established in the PRC on 30 October 2024. Fuzhou Company is principally engaged in highway management and maintenance, engineering management services and maintenance of the Fuzhou Expressway in Anhui Province, the PRC.

Fuzhou Company currently owns the concession of Fuzhou Expressway. The toll operation period of Fuzhou Expressway is from 27 December 2009 to 26 December 2039 (30 years in total). Fuzhou Expressway starts from Liuxiaoji, Lixin County, Bozhou City, passes through Yingquan District, Yingdong District, and Yingshang County in Fuyang City, and ends at Fengjing Town, Huoqiu County, Lu'an City, intersecting with Ningluo Expressway, Chuxin Expressway, and Hezhou Expressway. The total chargeable mileage of the Fuzhou Expressway is 83.57 kilometers. It contains four toll stations along the line.

#### **(b) Sixu Company**

Sixu Company is a limited liability company established in the PRC on 30 October 2024. Sixu Company is principally engaged in highway management and maintenance, engineering management services and maintenance of Huaibei section of Sixu Expressway in Anhui Province, the PRC.

Sixu Company currently owns the concession of the Huaibei Section of Sixu Expressway. The toll operation period of the Huaibei Section of Sixu Expressway is from 24 December 2012 to 23 December 2042 (30 years in total). Huaibei Section of Sixu Expressway is an inter-provincial route connecting the provinces of Jiangsu, Anhui and Henan. Passing through central Jiangsu, northern Jiangsu, northern Anhui, and central Henan. The total chargeable mileage of the Huaibei Section of Sixu Expressway is 52.2 kilometers. It contains three toll stations, and one service area along the line.

## **2. Reasons for and benefits of the Acquisition**

The Group is principally engaged in investment, construction, operation, and management of toll expressways located within Anhui province. The Group obtains toll expressway assets through investment and construction, acquisition, or cooperative operation.

The Directors are of the view that the Group's substantial cash reserves (i.e. RMB4.33 billion cash and cash equivalents and time deposit as at 30 September 2024) presents an opportunity to optimise capital utilisation through increased investments in its core business. By expanding investments in its core business, it can effectively capitalise its funds, enhance returns, and create value for its shareholders. Hence, the Company is acquiring high-quality expressway assets within the province to leverage favorable opportunities from state-owned enterprise reform, asset securitisation, and the encouragement of mergers and acquisitions under the current national policies,. This strategic move aims to expand effective investment and significantly contribute to the Company's high-quality development. The remaining periods for the road assets of the Target Companies are 15 years and 18 years, respectively, which can effectively enhance the Company's ability to continue as a going concern.

The Fuzhou Expressway and the Huaibei section of Sixu Expressway are key components of Anhui Province's "five vertical and ten horizontal" expressway network. These highways play a vital role in promoting regional economic development, connecting the southeastern coastal areas, and facilitating economic interactions between Jiangsu, Henan, Anhui, and Shandong provinces. The Acquisition will further optimise the Group's expressway network in Anhui Province and allow it to achieve economies of scale, strengthening and expanding its core expressway business.

As of the announcement date, the Group operates approximately 609 kilometers of expressways, with most assets in a mature phase where traffic growth has stabilised. Upon completion of the Acquisition, the Group's total expressway mileage, operating revenue, net profit attributable to shareholders, and earnings per share are all expected to increase, thereby strengthening its sustainable profitability, improving operational performance, and enhancing shareholder returns.

Shareholders are advised to refer to the section headed "Reasons for and benefits of the Acquisition" in the Board Letter set out in the Circular for further details.

### **3. Principal terms of the Acquisition Agreement**

On 31 December 2024, the Company and Anhui Transportation Holding Group entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase and Anhui Transportation Holding Group has conditionally agreed to sell, the Target Equity, in consideration of the payment of the Consideration by the Company to Anhui Transportation Holding Group.

Set out below is a summary of the key terms of the Acquisition Agreement. For more details, please refer to the Board Letter.



### ***The Acquisition Agreement***

|  |   |
|--|---|
| Date:                                    | 31 December 2024 (after trading hours)  |
| Parties:                                 | (1) the Company, as purchaser; and<br><br>(2) Anhui Transportation Holding Group, as vendor   |
| Subject matter:                          | Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase and Anhui Transportation Holding Group has conditionally agreed to sell, the Target Equity, being 100% equity interests in Fuzhou Company and 100% equity interests in Sixu Company.  |
| Consideration and payment terms:         | <p>The Consideration for the acquisition of the Target Equity is RMB4,770,800,000. Upon fulfilment of all the conditions precedent in the Acquisition Agreement, payment shall be made in full by the Company to Anhui Transportation Holding Group within five business days.</p> <p>As at the Latest Practicable Date, the Company intends to pay the entire Consideration by self-owned and/or self-raised funds.</p>  |
| Basis for determining the Consideration: | <p>The Consideration for the Acquisition of the Target Equity was determined after arm's length negotiations between the Company and Anhui Transportation Holding Group. A number of factors have been considered by the Company and Anhui Transportation Holding Group when determining the Consideration, including, among others, the financial performance and the business prospects of the Target Companies and the PRC Valuation Reports prepared by the PRC Domestic Valuer pursuant to the requirements of the relevant PRC laws and regulations.</p> <p>The Consideration was determined based on the appraised value of the entire shareholders' equity interests of Fuzhou Company as at the Valuation Benchmark Date as appraised by the Fuzhou Company Valuation Report and the appraised value of the entire shareholders' equity interests of Sixu Company as at the Valuation Benchmark Date as appraised by the Sixu Company Valuation Report, and after taking into account the registered capital of RMB5,000,000 paid up by Anhui Transportation Holding Group to Fuzhou Company and Sixu Company, respectively, following the Valuation Benchmark Date. The PRC Valuation Reports used 31 October 2024 as the Valuation Benchmark Date, and the income approach with the use of discounted cash flow method was adopted in the valuation conclusion to determine the entire shareholders' equity interests of the Target Companies, with an aggregate valuation of RMB4,760,800,000 as at the Valuation Benchmark Date, of which, the appraised values of the entire shareholders' equity interests of Fuzhou Company and Sixu Company as</p> |

at the Valuation Benchmark Date were RMB2,898,120,000 and RMB1,862,680,000, respectively. Accordingly, the Consideration for the Acquisition agreed between the Company and Anhui Transportation Holding Group is RMB4,770,800,000.

In appraising the market value of the Target Companies, the PRC Domestic Valuer has also taken into consideration, among others, the traffic volume and toll collection rates of the Target Expressways assessed by the PRC qualified traffic consultant.

Conditions precedent:

The Completion of the Acquisition is conditional upon the satisfaction the following conditions precedent:

- (1) the Acquisition Agreement having been considered and approved by the competent decision-making authorities of the Company in accordance with relevant laws and regulations and the Company's articles of association;
- (2) the passing of the Acquisition Agreement by the competent decision-making authorities of Anhui Transportation Holding Group in accordance with relevant laws and regulations and the articles of association of Anhui Transportation Holding Group;
- (3) completion of the relevant regulatory approvals and filing procedures (if any) by the Company and Anhui Transportation Holding Group; and
- (4) the pledges on toll collection rights of the Target Companies have all been released.

### ***Our assessment of fairness and reasonableness of the consideration***

To evaluate the fairness and reasonableness of the consideration to be made according to the Acquisition Agreement, we have considered the Target Equity's valuation information provided in the PRC Valuation Reports and the Traffic Study Reports provided by the PRC Qualified Traffic Consultant, and our analysis, which are set out below:

#### ***1. Traffic Study Reports***

We are given to understand that the Traffic Study Reports were prepared and provided in support of the valuation of the appraised value of the Target Equity, to serve as a reference for the projection of the traffic volume and toll revenue of the Target Expressways for the period from 1 November 2024 to the end of their respective operation period. CHELBI Engineering Consultants, Inc.\* (華傑工程諮詢有限公司) (the “**PRC Qualified Traffic Consultant**”) has been engaged by the Company to conduct an independent research and prepare the Traffic Study Reports.

#### ***Qualification and experience of the PRC Qualified Traffic Consultant***



In order to assess the expertise and independence of the PRC Qualified Traffic Consultant, we have (i) reviewed the engagement letter between the PRC Qualified Traffic Consultant and the Company for the terms of engagement (including scope of work) of the traffic study of the Target Expressways; (ii) conducted an interview with the PRC Qualified Traffic Consultant to understand its background, experience, its relationship with the Company and the projection methodologies; (iii) discussed with the PRC Qualified Traffic Consultant about its previous experience on traffic consulting projects; and (iv) reviewed the qualification of the PRC Qualified Traffic Consultant. Based on our work performed as mentioned above, we understand that (a) the PRC Qualified Traffic Consultant is an experienced consultant in the traffic study for the PRC's infrastructure with more than 39 years of professional experience and the team that prepared the Traffic Study Reports has completed 20 traffic consulting projects including experience in traffic volume and toll revenue projection in the past three years; (b) the PRC Qualified Traffic Consultant has confirmed that it is an independent third party of the Company, Anhui Transportation Holding Group, and their core connected persons; (c) the scope of work of their engagement is appropriate and suitable for the preparation of the Traffic Study Reports; and (d) the PRC Qualified Traffic Consultant has Engineering Consulting Qualification Class A (工程諮詢單位甲級資信) qualification issued by the Institute of Engineering Consulting of China\* (中國工程諮詢協會). As such, we are not aware of any matters that could cause us to have doubts on the expertise and independence of the PRC Qualified Traffic Consultant.

#### *Methodologies and assumptions*

We have reviewed and discussed with the PRC Qualified Traffic Consultant about the Traffic Study Reports on the bases, assumptions and methodologies adopted to estimate the traffic volume and toll revenue of the Target Expressways from 1 November 2024 to the end of their respective operation periods. We noted that the PRC Qualified Traffic Consultant has (i) collected macro-economic data (primarily gross domestic product data from year 2011 to 2023) of Anhui, Jiangsu and Hubei Province, and Suzhou, Huanbei, Bozhou, Lu'an City, which are the cities located at the end of the Target Expressways and researched the future development plan in the above provinces and cities; (ii) obtained historical traffic data (for example, traffic volume, types of vehicles, toll revenue) of the Target Expressways; (iii) analysed the data in (i) and (ii) above; and (iv) built a traffic model to estimate the future expected traffic volume and toll revenue of the Target Expressways, in which, based on our understanding, historical trends of economic data and traffic data were both accounted for in formulating the projection by the PRC Qualified Traffic Consultant. As such, we consider that it is reasonable and consistent with the industry practice as per referencing disclosure of transactions of similar nature.

In estimating the traffic volume and toll revenue of the Target Expressways, we noted that the PRC Qualified Traffic Consultant has considered (i) the existing traffic flow patterns; (ii) the historical traffic data for the period from 2011 to 2023 of the Target Expressways; (iii) the toll rates by vehicle types based on the official toll rates issued by the Anhui Government on 30 December 2019; and (iv) the future development plan and outlook of the surrounding transportation network. In addition, we understand from the PRC Qualified Traffic Consultant that they have also considered the potential



competition factors in relation to the future development of transportation network (including expressways and railways) surrounding the Target Expressways and the government toll policies in the future traffic projection of the Target Expressways. As stated in the Traffic Study Reports, the PRC Qualified Traffic Consultant adopted the “four-stage method” in estimating the traffic volume and toll revenue. Based on our independent research, we noted that “four-stage method”, which consists of trip generation, trip distribution, modal split and traffic route assignment, is the most common methodology adopted in reports and consider the usage of this approach reasonable.

With regards to the toll rates, fixed toll rates at prevailing level with a toll discount for electronic toll collection (“ETC”) users at an effective rate based on historical data are assumed over the forecast period without adjusting for inflation, etc. We have (i) discussed with the PRC Qualified Traffic Consultant the determining factors to use fixed toll rates with a toll discount over the forecast period, such as historical toll rate policy and ETC discount policy in Anhui; and (ii) reviewed the historical toll rate changes of the Target Expressways.

Based on the Traffic Study Reports, we noted the following:

- (i) in respect of the Fuzhou Expressway, from 2013 to 2023, it achieved a historical compounded annual growth rate (“CAGR”) of 7.79% in toll revenue. The expressway experienced a rapid growth period from 2013 to 2017 with a CAGR of 14.06%, after which the growth rate slowed to a CAGR of 3.80% from 2017 to 2023. The estimated toll revenue CAGR from 2024 to 2039 is projected to be 3.43%, taking into account several major factors, including: (1) the estimated economic growth rate of Anhui Province, ranging from 4.3% to 5.0% for the years 2024 to 2039; (2) in early 2025 and late 2029, the Hezhou Expressway and the Subo-Fu Expressway will attract additional traffic by establishing new regional corridors; and (3) by late 2025, the Xuhuai-Fu Expressway and the Huaisu-Fu intercity railway will divert traffic from the Fuzhou Expressway.
- (ii) in respect of the Huaibei Section of the Sixu Expressway, from 2013 to 2023, it achieved a historical CAGR of 24.55% in toll revenue. The expressway experienced a rapid growth period from 2013 to 2019 with a CAGR of 33.86%, after which the growth rate slowed to a CAGR of 11.27% from 2019 to 2023. The estimated toll revenue CAGR from 2024 to 2042 is projected to be around 3.14%, taking into account several major factors, including: (1) the estimated economic growth rates of Anhui Province (4.0–5.0%), Henan Province (4.0–5.0%), and Jiangsu Province (4.2–5.5%) for the years 2025 to 2045; (2) the opening of new infrastructure that attracts traffic, such as the Yanoluo Expressway (Suchen to Sihong section) in September 2024, the Xuhuai-Fu Expressway in late 2025, which establish new regional corridors and attract additional traffic; and (3) the opening of new infrastructure that diverts traffic, including the Bomeng and Wumeng Expressways by late 2025, the Huaisu-Fu intercity railway by late 2025, and the Subo-Fu Expressway in late 2029, which will further divert traffic from the Huaibei Section.



We have discussed with the PRC Qualified Traffic Consultant on the above and it has confirmed with us that the bases, assumptions and methodologies employed in the Traffic Study Reports are commonly used for traffic volume and toll revenue projection and the Traffic Study Reports are prepared in accordance to the forecasting procedures which are in-line with market practice and similar to those that the PRC Qualified Traffic Consultant employed for other toll road traffic studies in the PRC.

Based on our interview with the PRC Qualified Traffic Consultant and our review of the 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 Reports. As such, we are of the opinion that the Traffic Study Reports provides a fair and reasonable basis for the preparation of the PRC Valuation Reports.

## *2. PRC Valuation Reports*

### *Qualification and experience of the PRC Domestic Valuer*

We have reviewed and enquired the background, qualification and experience of the PRC Domestic Valuer who conducted the valuation of the Target Company. We have (i) reviewed their engagement mandate as well as the terms of engagement (including their scope of work); (ii) conducted desktop research, reviewed credentials and made inquiries regarding the qualification and experience of the PRC Domestic Valuer; (iii) conducted an interview with the PRC Domestic Valuer in relation to its expertise and inquiry regarding any current or prior relationships with the Group, Anhui Transportation Holding Group, and core connected persons of either the Group or Anhui Transportation Holding Group; and (iv) reviewed and discussed with the PRC Domestic Valuer in relation to its past and similar experience on toll road valuation. According to our work performed as mentioned above, we understand that (a) the PRC Domestic Valuer is recognised by the State-owned Assets Supervision and Administration Commission (the “SASAC”) as a qualified asset appraisal company in the PRC according to our checking of the website of the SASAC; (b) the PRC Domestic Valuer is an established appraisal firm with over 31 years of experience acting as an asset appraisal valuer. The valuation project is managed by Ms. Xiayan of the PRC Domestic Valuer, the responsible person of the valuation project, who had over 17 years of experience in asset appraisal industry and participated or led toll road asset appraisal projects and had participated in relevant valuations in the PRC before; (c) the PRC Domestic Valuer had extensive experience in undertaking appraisals and completed over four toll road valuation projects in the past three years; and (d) the PRC Domestic Valuer is a third party independent of the Company and Anhui Transportation Holding Group and their respective core connected persons. Based on the above, we are of the view that the PRC Domestic Valuer is suitable and qualified to conduct the valuation of the Target Equity given (i) their recognition by SASAC as a qualified asset appraisal company; (ii) their extensive experience of over 31 years in the asset appraisal industry; (iii) their proven track record in toll road valuations; and (iv) the project lead’s relevant experience of over 17 years including specific toll road appraisal expertise.

Furthermore, we have reviewed the terms of their engagement and discussed with the PRC Domestic Valuer regarding their scope of work. The scope of works of the PRC Domestic Valuer primarily includes: (i) conducting valuation work including



preparation work, on-site valuation, consolidation of valuation results, and report submission; (ii) provision of the asset valuation report to the Company and assisting the SASAC filing process; and (iii) assisting professional parties and relevant intermediaries for the submission of relevant documents to both Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited, and assisting in responding to regulatory review questions. The PRC Domestic Valuer also confirms that they are not aware of any limitations on the relevant scope of work. Thus, we consider that (i) the scope of work of the PRC Domestic Valuer is sufficient and appropriate and (ii) the PRC Domestic Valuer is qualified and possesses sufficient relevant experience in conducting the valuation of the Target Equity.

*Valuation methodology adopted by the PRC Domestic Valuer*

We have obtained and reviewed the PRC Valuation Reports, which are outlined in Appendix I to the Circular. As discussed with the PRC Domestic Valuer, we understand that the PRC Valuation Reports were prepared in accordance with the PRC valuation standards and the PRC Valuation Reports has a validity period of one year from the Valuation Benchmark Date. In respect of the valuation methodology, the PRC Domestic Valuer considered three widely-used approaches: the asset-based approach, income approach, and market approach, in accordance with the PRC valuation standards. The PRC Domestic Valuer advised that the market approach was not appropriate for valuing the Target Companies, given that (i) there is no listed companies matching the unique characteristics of the Target Companies (including but not limited to operation model, asset scale and operating results of the expressways being operated); and (ii) the limited access to information for transaction of expressways with similar characteristics in PRC, and it is difficult to reasonably quantify the impact of the above factors on the valuation. Therefore, the market approach was not adopted for the valuations. The income approach, which appraises the enterprise value through capitalising or discounting the expected free cashflow of the valuation target in the future, was used because the Target Companies are profitable and future financial performance can be projected reasonably as the Target Expressways have an operation track record of over 12 years, as advised by the PRC Domestic Valuer. Thus, the income approach was used in the valuations. The PRC Domestic Valuer also advised that the asset-based approach, which reasonably evaluates the underlying values of each identifiable asset and liability item to determine the value of the appraised entity, was also considered in the valuations, as advised by the PRC Domestic Valuer.

We have obtained and reviewed the PRC Valuation Reports and we note that the PRC Domestic Valuer has considered both asset-based approach and the income approach in the valuations. We understand that the result derived by using the income approach is adopted by the PRC Domestic Valuer as the final valuation conclusions. Regarding the income approach, we noted that it is commonly adopted in the business valuation for valuation subject with supportable operating profit and cash flow forecasts such as mining companies, investment properties with long term foreseeable rental agreements, as well as expressway companies or other public utilities with reasonable operating contractual arrangements. We have further enquired with the PRC Domestic Valuer on the rationale and we are given to understand that as a stable future growth from operation is expected of the Target Companies, and income approach is able to



directly capture and incorporate such information about the future economic benefits contributed by the business operation of the Target Expressways, the valuation derived from the income approach is therefore more comprehensive and accurate. As such, we concur with the view of the PRC Domestic Valuer that the adoption of income approach for the valuation of the Target Equity is fair and reasonable.

#### *Valuation bases and assumptions*

We further discussed with the PRC Domestic Valuer in respect of the PRC Valuation Reports to understand the major valuation parameters and assumptions (including toll traffic volume and revenue, cost of services, discount rate, etc.) and the PRC Domestic Valuer's work-done in arriving at the valuation.

##### *A. Toll traffic volume and revenue*

To determine the valuation of the Target Equity, the PRC Domestic Valuer relied on the Traffic Study Reports, which includes projections and historical data for toll traffic volume and revenue for the Target Expressways during their remaining concession period starting from 1 November 2024. To understand the relevant assumptions used in the valuation, we (i) discussed the major projection items provided by the PRC Qualified Traffic Consultant with the PRC Domestic Valuer and reviewed them, including but not limited to the forecast of toll traffic volume, toll revenue and toll road policy; (ii) reviewed the forecast projection adapted by the PRC Domestic Valuer, which is prepared by the management of the Company; and (iii) reviewed the underlying documents showing the concession periods of the Target Expressways. We cross-checked and compared the forecast toll revenue (before value-added tax and business tax) used in the valuation against the Traffic Study Reports and found no variance. Based on the above work performed, we are not aware of any factors that would cause us to doubt the fairness and reasonableness of the assumptions of the toll traffic volume and revenue projection adopted by the PRC Domestic Valuer.

##### *B. Cost of sales*

According to the PRC Valuation Reports, cost of sales comprises mainly depreciation and amortisation, overhaul cost, staff costs and repair and maintenance fee. We noted that depreciation and amortisation attribute to the majority of the cost of sales and mainly represent depreciation of the land and building of the expressway calculated based on the historical construction costs using straight-line depreciation method. Such amounts are excluded from the projected cash flow for discounting under the income method as they are non-cash expenses. We have also reviewed the estimation of overhaul cost, which is another key component of the cost of sales. Based on our discussion with the management and the PRC Domestic Valuer, we noted that it is based on the historical overhaul cost which was generally in a growth trend and the growth rates are primarily estimated based on the historical compound annual growth rate of the overhaul cost in the previous periods which we consider to be reasonable as it averages out the fluctuations and is comparable to the historical growth rate.



### C. Discount rate

We discussed with the PRC Domestic Valuer regarding the estimation of discounted future free cash flow to equity (“**FCFE**”) that the Target Companies will generate. We noted that discounted FCFE is used for the estimation of the equity value of the Target Assets as the Target Companies is interest bearing debt-free. The discount rate used to calculate the present value of the FCFE is the required rate of return on equity for the Target Companies, which is determined by using the Capital Asset Pricing Model (“**CAPM**”). We understood that the CAPM technique is widely accepted for the purpose of estimating required rate of return on equity. To arrive at the required rate of return on equity for the Target Companies, the PRC Domestic Valuer has taken into account the following factors: (i) the risk-free rate, (ii) the market risk premium, (iii) the beta and (iv) the asset specific risk premium.

The PRC Domestic Valuer adopted 2.15% as risk-free rate, which was determined with reference to yield of 10-year China Government Bond according to the data published by China Central Depository & Clearing Co., Ltd as at the valuation date of 31 October 2024. We performed checking on the data published on the website of the People’s Bank of China for the yield rates of 10-year China Government Bond and it is consistent with the rate adopted by the PRC Domestic Valuer. Therefore, we consider the risk-free rate of 2.15%, which the PRC Domestic Valuer adopted, to be justifiable.

For the market risk premium, the PRC Domestic Valuer adopted a rate of 7.16%. In assessing the reasonableness of the market risk premium, we considered the direct calculation method of the market risk premium in the CAPM model, which is the difference between the required return to equity and the risk free rate. Based on “Survey: Market Risk Premium and Risk-Free Rate used for 96 countries in 2024”<sup>1</sup> published by the Pablo Fernández (being a professor of finance at IESE Business School and an authoritative source of country risk premium as per our understanding), the required return to equity for the PRC capital market in 2024 was 9.6%.

Based on the required return to equity of 9.6% and the risk free rate of 2.15% as mentioned above, the implied market risk premium is 7.45%. Given the market risk premium of 7.16% adopted by the PRC Domestic Valuer in the PRC Valuation Reports is comparable to the market risk premium calculated by the above direct calculation method, we are of the view that the market risk premium adopted in the PRC Valuation Reports is reasonable.

In arriving at the beta, based on our review of the list of comparable companies as stated in the PRC Valuation Reports, and as ascertained by the PRC Domestic Valuer, we noted that the PRC Domestic Valuer has identified 4 companies which are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange; and are principally engaged in expressway operation in the PRC (the “**Beta Reference Companies**”). In the course of our discussion with the PRC Domestic Valuer, we

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<sup>1</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4754347](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4754347)



were given to understand that the Beta Reference Companies are selected primarily based on the financial information in their respective annual reports for FY2023 and company information as at 31 October 2024 (i.e. the Valuation Benchmark Date), using the following criteria: (i) are located in the PRC and listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange for more than 5 years with proper operational record; (ii) are principally engaged in expressway operation in the PRC with not less than 60% of total revenue generated from expressway operation business; and (iii) operate in a comparable scale as the Target Companies. Apart from discussing with the PRC Domestic Valuer as detailed above, we have, on a best effort basis, conducted an independent background check on the Beta Reference Companies, and noted that the Beta Reference Companies represent an exhaustive list based on the aforementioned selection criteria adopted by the PRC Domestic Valuer in the PRC Valuation Reports. We also consider that the selection criteria of the Beta Reference Companies are reasonable and appropriate for the calculation of the beta based on the fact that (i) the Target Companies operates in PRC which is the same as the Beta Reference Companies; (ii) the Beta Reference Companies (i.e. with more than 60% of their total revenue generated from expressway operation) were of similar business operation as the Target Companies, which generated revenue solely from expressway operation from FY2021 to FY2023. As referred to in the PRC Valuation Reports, the beta adapted in deriving the discount rate of the Target Companies is 0.4769, which is the average unlevered beta of the Beta Reference Companies (i.e. after taking out the effect of financial leverage of each company) as the Target Companies are interest bearing debt-free.

Regarding the asset specific risk premium, 1.48% was used by the PRC Domestic Valuer after taking into account of the relative size of the Target Companies, stability of future profitability, and other qualitative attributes of the Target Companies in order to account for non-systematic risk inherent to the Target Companies. In assessing the reasonableness of the asset specific risk premium used, we have, among other things, (i) reviewed the evaluation of aforementioned qualitative attributes of the Target Companies prepared by the PRC Domestic Valuer; (ii) discussed with the PRC Domestic Valuer on the key factors considered and understood that the asset specific risk premium was set at 1.48%, according to their experience and judgement, after primarily considered that (i) the Target Companies both operated in a relatively smaller scale compared to the Beta Reference Companies; and (ii) the Target Companies' forecast is relatively stable, and we considered the asset specific risk premium adopted by the PRC Domestic Valuer to be reasonable.

Based on the above and information and documents in respect of the PRC Valuation Reports provided to us by the PRC Domestic Valuer and having considered the PRC Domestic Valuer's qualification and experience, we did not identify any major factors which had caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the PRC Valuation Reports.



Having also considered (i) our due diligence work on the PRC Domestic Valuer in respect of the PRC Valuation Reports; (ii) the Rule 14.60A of Listing Rules requirement; (iii) that Ernst & Young confirmed they have reviewed the calculation of the discounted cash flow forecast; and (iv) that the Financial Adviser is of the opinion that the discounted cash flow forecast, for which the Directors are solely responsible, has been made after due and careful enquiry, we consider that the principal bases and assumptions adopted for the PRC Valuation Reports are fair and reasonable.

#### **4. Financial effects of the Acquisition to the Group**

As disclosed in the Board Letter, upon completion of the Acquisition, the Target Companies will become a wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the consolidated financial statements of the Group.

##### *(i) Earnings*

For the year ended 31 December 2023, the net profit of the Company attributable to the Shareholders was approximately RMB1,657.7 million and the profit after income tax of Fuzhou Company and Sixu Company were RMB200.4 million and RMB107.6 million, respectively. Assuming the Acquisition was completed and took place in the beginning of 2023, the consolidated net profit of the Company attributable to the Shareholders would increase by approximately RMB308.0 million.

Shareholders are reminded that the actual impact on the consolidated statement of profit or loss of the Company following completion of the Acquisition shall be subject to audit.

##### *(ii) Net assets value*

As the financial results of the Target Companies will be consolidated into the accounts of the Company in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants. Accordingly, no goodwill or excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination to the extent of the continuation of the controlling party or parties’ interests will be recognised.

Upon completion of the Acquisition, the surplus of the Consideration over the net asset value of the Target Companies will be recognised in the reserves and/or retained earnings of the Group and reduce the net assets of the Group accordingly. As at 31 December 2023, the NAV of Fuzhou Company and Sixu Company were approximately RMB1,770.3 million and RMB1,200.4 million, respectively. As the Consideration for the acquisition of the Target Equity is RMB4,770.8 million, assuming the Acquisition was completed and took place at 31 December 2023, the net assets of the Group would be decreased by RMB1,800.1 million.

Shareholders are reminded that the actual accounting impact on the consolidated balance sheet of the Company following completion of the Acquisition shall be subject to audit.

##### *(iii) Gearing*



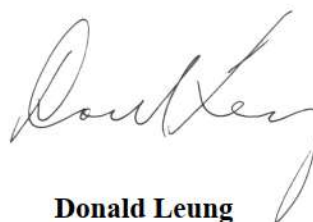
Assuming the Acquisition was completed and took place at 31 December 2023, the gearing ratio (i.e. net debt over the sum of net debt and shareholders' equity) would be 31.18% as compared to the gearing ratio of the Group of 28.33% as at 31 December 2023. The increase in gearing ratio was mainly attributable to a decrease in total capital (i.e. sum of net debt and shareholders' equity) value by approximately RMB1,800.1 million due to the decrease in reserves and/or retained earnings of the Group.

It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial positions of the Group will be upon completion of the Acquisition.

## **OPINION AND RECOMMENDATION**

Having taken into consideration the factors and reasons as stated in section headed "Principal Factors and Reasons Considered" in this letter above, we are of the opinion that while the Acquisition is not conducted in the ordinary and usual course of business of the Group, the Acquisition is in the interests of the Company and the Independent Shareholders as a whole, and the terms of the Acquisition Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Acquisition to the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the Acquisition, to be proposed at the EGM.

Yours faithfully  
For and on behalf of  
**Shenwan Hongyuan Capital (H.K.) Limited**



**Donald Leung**  
*Executive Director*  
*Corporate Finance*

*Note:* Mr. Leung is a licensed person registered with the Securities and Futures Commission and a responsible officer of Shenwan Hongyuan Capital (H.K.) Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has more than 19 years of experience in corporate finance advisory industry.