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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Yuexiu Transport Infrastructure Limited**, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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# 越秀交通基建有限公司

## Yuexiu Transport Infrastructure Limited

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 01052)

### (1) DISCLOSEABLE AND CONNECTED TRANSACTION: ACQUISITION OF INTERESTS IN A COMPANY OPERATING AN EXPRESSWAY IN HENAN PROVINCE, THE PRC AND (2) NOTICE OF SPECIAL GENERAL MEETING

Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders



### SOMERLEY CAPITAL LIMITED

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Capitalized terms used in this cover page have the same meanings as those defined in this circular.

The Board Letter is set out on pages 8 to 24 in this circular. The Independent Board Committee Letter is set out on page 25 in this circular. The IFA Letter is set out on pages 26 to 47 in this circular.

A notice convening the SGM to be held at Plaza I-IV, Basement 3, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 18 November 2022 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to Tricor Abacus Limited, the Company's Hong Kong branch share registrar, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

Please see pages 1 to 2 of this circular for precautionary measures that the Company will implement at the SGM in consideration of the continuing risk posed by coronavirus disease (COVID-19), including:

- limited attendance in person at the SGM venue;
- compulsory wearing of face masks and any attendees who do not wear face masks may be requested to leave or denied entry into the SGM venue;
- scanning of the "LeaveHomeSafe" venue QR code and complying with the Vaccination Pass requirements;
- compulsory hand sanitizing before entry into the SGM venue;
- body temperature checks/screening before entry into the waiting area outside the SGM venue;
- no food and beverage service and no handing out of gift coupons or souvenirs; and
- any other additional precautionary measures as appropriate.

The Company would like to remind all Shareholders that physical attendance at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the Chairman of the SGM as their proxy to vote on the relevant resolution at the SGM instead of attending the SGM in person. Completion and return of the proxy forms will not preclude the Shareholders from attending and voting in person at the meeting (or any adjournment thereof) should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

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## CONTENTS

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	<i>Page</i>
<b>Precautionary Measures for the SGM</b> .....	1
<b>Definitions</b> .....	3
<b>Letter from the Board</b> .....	8
<b>Letter from the Independent Board Committee</b> .....	25
<b>Letter from the IFA</b> .....	26
<b>Appendix I – Valuation Report on the Target Equities</b> .....	I-1
<b>Appendix II – Summary of the Traffic Study Report</b> .....	II-1
<b>Appendix III – General Information</b> .....	III-1
<b>Notice of SGM</b> .....	SGM-1

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## PRECAUTIONARY MEASURES FOR THE SGM

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In consideration of the continuing risk posed by the coronavirus disease (COVID-19) and to manage the potential health risks of persons attending the SGM, the Company will implement the following precautionary measures at the SGM:-

### LIMITED ATTENDANCE IN PERSON AT THE SGM VENUE

The Company will limit attendance in person at the SGM venue in accordance with prevailing requirements or guidelines published by the HKSAR Government and/or regulatory authorities at the time of the SGM. Given the limited capacity of the SGM venue to ensure social distancing, only Shareholders and/or their representatives and relevant staffs will be admitted to the SGM. Admission to the SGM venue will not be granted in excess of the capacity of the SGM venue.

### HEALTH AND SAFETY MEASURES AT THE SGM

- 1) All attendees must wear face masks at all times inside the SGM Venue or at the waiting area outside the SGM venue. Any attendees who do not wear face masks may be requested to leave or denied entry into the SGM venue.
- 2) All attendees must scan the "LeaveHomeSafe" venue QR code and comply with the Vaccination Pass requirements.
- 3) All attendees must clean their hands with alcohol-based hand sanitizer before entering the SGM venue.
- 4) Body temperature checks/screening will be conducted on all persons before they enter the waiting area outside the SGM venue. Any person with a body temperature of over 37.2 degrees Celsius or has shown flu-like symptoms may be requested to leave or denied entry into the SGM venue.
- 5) No food and beverage service will be provided and there will be no handing out of gift coupons or souvenirs.
- 6) Only a limited number of seats will be available, with no standing arrangement, in the SGM venue in order to ensure social distancing and therefore, where necessary, the Company may limit the number of attendees entering the SGM venue.
- 7) Any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the HKSAR Government, the regulatory authorities and/or the SGM venue, or as considered appropriate in light of the development of the COVID-19 pandemic.

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## PRECAUTIONARY MEASURES FOR THE SGM

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The Company will continue to monitor how the COVID-19 outbreak develops and may adopt additional measures.

Attendees are requested (i) to consider carefully the risk of attending the SGM, which will be held in an enclosed environment, (ii) to follow any prevailing requirements or guidelines of the HKSAR Government relating to COVID-19 in deciding whether or not to attend the SGM, and (iii) not to attend the SGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

The Company reminds attendees that they should carefully consider their own health/personal circumstances before they decide to attend the SGM in person. The Company would like to remind all Shareholders that physical attendance at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the Chairman of the SGM as their proxy to vote on the relevant resolution at the SGM instead of attending the SGM in person. Completion and return of the proxy forms will not preclude the Shareholders from attending and voting in person at the meeting (or any adjournment thereof) should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

The proxy form is attached to this circular for registered Shareholders who opt to receive physical circulars. Alternatively, the proxy form can be downloaded from the "Investor Relations" section of the Company's website at [www.yuexiutransportinfrastructure.com](http://www.yuexiutransportinfrastructure.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk). If you are not a registered Shareholder (if your shares are held via banks, brokers or custodians), you should consult directly with your banks, brokers or custodians (as the case may be) to assist you in the appointment of a proxy.

If Shareholders choosing not to attend the SGM in person have any questions about the relevant resolution, or about the Company or any matters for communication with the Board, they are welcome to contact the Company via email: [contact@yuexiutransport.com.hk](mailto:contact@yuexiutransport.com.hk).

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## DEFINITIONS

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

“Accounts Date”	31 May 2022
“Acquisition”	the acquisition of the Target Equities
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Board Letter”	the section headed “LETTER FROM THE BOARD” of this circular
“Company”	Yuexiu Transport Infrastructure Limited, an exempted company incorporated in Bermuda
“Completion”	completion of the sale and purchase of the Target Equities in accordance with the SPA
“Completion Date”	the date on which the Completion occurs
“Conditions”	the conditions precedent for the Completion
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Deductible Amounts”	as defined in section 2(i)(i) of the Board Letter
“Director”	a director of the Company
“Effective Date”	the date on which the Conditions are fulfilled (or waived, where applicable)
“Enlarged Group”	the Group as enlarged by the Acquisition
“Execution Order”	the execution order made by the Kaifeng Intermediate Court on 25 December 2020 under which the Kaifeng Intermediate Court ruled that the Toll Collection Right shall be owned by the Target Company from the date on which such order was served on the Target Company
“Group”	the Company and its subsidiaries
“Henan”	Henan Province (河南省) of the PRC

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## DEFINITIONS

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“HK SAR” or “Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFA”	Somerley, the independent financial adviser appointed by the Company in accordance with the Listing Rules for the purposes of advising and making recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder
“IFA Advice”	the advice given by the IFA as set out in the IFA Letter
“IFA Letter”	the letter issued by the IFA as set out in the section headed “LETTER FROM THE IFA” in this circular
“Independent Board Committee”	the independent board committee of the Company established in accordance with the Listing Rules to advise and to make recommendations to the Independent Shareholders on the Acquisition and the transactions contemplated thereunder
“Independent Board Committee Letter”	the section headed “LETTER FROM THE INDEPENDENT BOARD COMMITTEE” of this circular
“Independent Director”	an independent non-executive Director
“Independent Shareholders”	Shareholders other than those who (i) have a material interest in the Acquisition and therefore are, together with their associates, required to abstain from voting on the resolution to approve the Acquisition under the Listing Rules; or (ii) are otherwise required to abstain from voting on (or voting in favour of) the resolution to approve the Acquisition under other applicable laws, rules or regulations
“Jie Cheng”	Jie Cheng Consultants Limited, the traffic consultant of the Group in relation to the Acquisition

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## DEFINITIONS

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“Judicial Auction”	the judicial auction of the Toll Collection Right held on 18 and 19 December 2020 which was administered by an open auction platform authorised by the Kaifeng Intermediate Court
“Judicial Auction Price”	the price of RMB2,483,390,000 paid by the Target Company to acquire the Toll Collection Right in the Judicial Auction
“Kaifeng”	Kaifeng City (開封市) of Henan
“Kaifeng Intermediate Court”	the Intermediate People’s Court of Kaifeng* (開封市中級人民法院)
“km”	kilometre
“Latest Practicable Date” or “LPD”	31 October 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Party”	a party to the SPA
“percentage ratios”	has the meaning ascribed to it under rule 14.04(9) of the Listing Rules
“PRC”	the People’s Republic of China
“PRC GAAP”	the generally accepted accounting principles and practices of the PRC
“Profit Forecast”	as defined in section 2(e) of the Board Letter
“Purchaser”	Yuexiu (China) Transport Infrastructure Investment Company Limited* (越秀(中國)交通基建投資有限公司)
“RMB”	Renminbi, the lawful currency of the PRC
“Savills”	Savills Valuation and Professional Services Limited, the independent professional business valuer appointed by the Group in relation to the Acquisition
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“SGM”	the special general meeting of the Company to be held on Friday, 18 November 2022 for the Independent Shareholders to consider and, if thought fit, approve the Acquisition (including any adjournment thereof)
“Shareholder”	a holder of the Shares
“Shares”	ordinary shares of nominal value of HK\$0.10 each in the capital of the Company
“Somerley”	Somerley Capital Limited
“SPA”	the conditional sale and purchase agreement in relation to the transfer of the Target Equities entered into between the Vendor and the Purchaser on 17 October 2022
“SPA Announcement”	the announcement of the Company dated 17 October 2022 wherein the Company announced, among other things, that the Parties had entered into the SPA
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Submission Day”	a day which falls within five working days after the fulfillment or waiver (where applicable) of the Conditions disclosed in sections 2(g)(i) and 2(g)(iii) of the Board Letter on which the Parties shall submit relevant legal documents to the company registration authority for registration of the transfer of the Target Equities, provided that the Condition disclosed in section 2(g)(ii) of the Board Letter shall have remained fulfilled or shall have been waived before submission of the aforesaid legal documents
“Target Company”	Henan Yuexiu Lanwei Expressway Company Limited* (河南越秀蘭尉高速公路有限公司)
“Target Equities”	100% of the equity interests in the Target Company
“Target Expressway”	Lanwei Expressway (蘭尉高速公路), the expressway operated by the Target Company as described in more details in section 4 of the Board Letter
“Toll Collection Right”	the toll collection right over the Target Expressway
“Total Consideration”	as defined in section 2(d) of the Board Letter



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## DEFINITIONS

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“Traffic Study Report”	the traffic consultancy and evaluation report in respect of the Target Expressway prepared by Jie Cheng and issued in October 2022
“Valuation Date”	31 July 2022
“Valuation Report”	the valuation report dated 17 October 2022 prepared by Savills in relation to the valuation of the Target Equities as at the Valuation Date
“Vendor”	Guangzhou Yue Xiu Holdings Limited* (廣州越秀集團股份有限公司)

*Notes:*

- \* *For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*
- ^ *Where the context so permits or requires, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.*



**越秀交通基建有限公司**  
**Yuexiu Transport Infrastructure Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 01052)**

*Executive Directors:*

LI Feng (*Chairman*)

HE Baiqing

CHEN Jing

CAI Minghua

*Registered Office:*

Victoria Place,

5th Floor,

31 Victoria Street,

Hamilton HM 10,

Bermuda

*Independent Non-executive Directors:*

FUNG Ka Pun

LAU Hon Chuen Ambrose

CHEUNG Doi Shu

*Principal place of business*

*in Hong Kong:*

17A Yue Xiu Building,

160 Lockhart Road,

Wanchai,

Hong Kong

2 November 2022

*To the Shareholders*

Dear Sir/Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:  
ACQUISITION OF INTERESTS IN A COMPANY OPERATING  
AN EXPRESSWAY IN HENAN PROVINCE, THE PRC  
AND  
(2) NOTICE OF SPECIAL GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the SPA Announcement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee in respect of the SPA; (iii) the IFA Advice; (iv) other information as required under the Listing Rules; and (v) the notice of the SGM.

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## LETTER FROM THE BOARD

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### 2. THE SPA AND RELEVANT INFORMATION

Set out below is a summary of the principal terms of the SPA and the relevant information:

**(a) Date**

17 October 2022 (after trading hours).

**(b) Parties**

The Vendor and the Purchaser.

**(c) Assets to be acquired**

The assets to be acquired by the Purchaser are 100% of the equity interests in the Target Company.

The Target Company was established by the Vendor and the entire capital of the Target Company was contributed by the Vendor solely, therefore there is no original acquisition cost of the Target Equities to the Vendor. Assuming that the total capital contributed by the Vendor to the Target Company in the aggregate amount of RMB990,000,000 is the original acquisition cost of the Target Equities to the Vendor, the Total Consideration (RMB1,098,000,000) would be higher than the Vendor's original acquisition cost. Such difference is primarily attributable to the appraised market value of the Target Equities (RMB1,111,000,000) as disclosed in section 2(e) of the Board Letter being higher than the total amount of capital contributed by the Vendor to the Target Company. As to the information on, among other things, the auction price at which the Target Company acquired the Toll Collection Right in the Judicial Auction, such information has been disclosed in section 3.1 of the Board Letter.

**(d) Consideration: amount and the financing thereof**

The total consideration for the Acquisition ("**Total Consideration**") is RMB1,098,000,000.

The Total Consideration is payable in cash. As at the LPD, the Company intended to finance approximately 60% of the Total Consideration by bank loan for acquisition and approximately 40% by internal resources.

**(e) Basis for determining the Total Consideration**

The Total Consideration, as determined after the Purchaser has taken into account the market value of the Target Equities as at 31 July 2022 as disclosed below and the factors mentioned in section 7. (REASONS FOR AND BENEFITS OF THE ACQUISITION) of the Board Letter and arm's length negotiation between the Parties, represents a discount of approximately 1.17% of the appraised market value of the Target Equities (in the amount of RMB1,111,000,000) according to the Valuation Report.

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## LETTER FROM THE BOARD

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The market value of the Target Equities as at 31 July 2022 was appraised by Savills under the income approach with discounted cash flow method which constituted a profit forecast (“**Profit Forecast**”) under rule 14.61 of the Listing Rules. Based on the free cash flow to equity and the appraised market value of the Target Equities at RMB1,111,000,000, the internal rate of return is estimated at 9.50%. Please refer to section 5.1 below for the principal assumptions on which the Profit Forecast was based.

**(f) Payment of the Total Consideration**

Subject to the Conditions having been fulfilled (or having been waived in the case of the Condition disclosed in section (g)(ii) below), the Purchaser may elect to pay the Total Consideration before the Completion Date, on the Completion Date or after the Completion Date in one lump sum provided that the Total Consideration shall be paid no later than the fifth working day after the Effective Date.

**(g) Conditions**

Completion is conditional upon the fulfillment (or waiver, where applicable) of the Conditions as set out below:

- (i) the Company having issued this circular and the Independent Shareholders having approved the transactions contemplated by the SPA, each in accordance with the Listing Rules;
- (ii) the specified representations and warranties given by the Vendor under the SPA (such as those disclosed in section (h) below) shall remain true, accurate and complete and have no omission and not misleading on each day from the signing of the SPA up to the Submission Day; and
- (iii) the Target Company having obtained consent or no objection from its creditor bank in writing for the Acquisition pursuant to the terms of the relevant loan documents.

None of the Parties may waive the Condition set out in (i) above.

The Purchaser may waive the Condition to be fulfilled by the Vendor and/or the Target Company as procured by the Vendor set out in (ii) above.

If the Conditions cannot be fulfilled (or waived, where applicable) on or before 31 December 2022, the SPA shall be terminated automatically unless the Parties agree to an extension.

As at the LPD, save and except that the Condition set out in (iii) above has already been fulfilled, none of the Conditions has been fulfilled or waived.

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## LETTER FROM THE BOARD

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### **(h) Warranties given by the Vendor**

The Vendor has warranted, among other things, to the Purchaser the following:

- (i) the Vendor is the sole beneficial owner of the Target Equities;
- (ii) the Target Equities are free from any mortgage, charge or any similar encumbrance;
- (iii) the Toll Collection Right is true and legal and other than the charge made in favour of the creditor bank mentioned in section 2(g)(iii) of the Board Letter, the Toll Collection Right is not subject to any charge;
- (iv) there has been no material adverse effect on the Target Company; and
- (v) the Vendor shall compensate all the losses suffered by the Purchaser if:
  - (A) the interest of the Purchaser in the Target Equities (or any part thereof) is prejudiced as a result of third party's claims arising from causes on the Vendor's part or causes on the Target Company's part prior to the Completion Date; or
  - (B) the Toll Collection Right has been cancelled, deprived, terminated permanently or temporarily (other than temporary suspension, reduction or exemption of toll pursuant to the PRC laws and regulations or the PRC national policies) due to causes on the Vendor's part or causes on the Target Company's part prior to the Completion Date.

### **(i) The Deductible Amounts which may be deducted from the Total Consideration if the Vendor breaches its warranties or under other circumstances**

- (i) Deductible Amounts mean the amounts representing the following items:
  - (A) the debts or other payables of the Target Company which existed on or before the Accounts Date and which have not been disclosed on the Accounts Date;
  - (B) the extent that the assets of the Target Company as at the Completion Date are inadequate, damaged or the value of which is otherwise lost (fair wear and tear and ordinary depreciation excepted) as compared to the same as at the Accounts Date;

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## LETTER FROM THE BOARD

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- (C) the decreases in the assets of the Target Company or increases in the debts or liabilities of the Target Company as a result of the expenses incurred or transactions entered into by the Target Company between the Accounts Date and the Completion Date and which are not incurred in the ordinary course of business of the Target Company, regardless of whether disclosure of the same has been made to the Purchaser; and
  - (D) any other amounts which the Purchaser is entitled to deduct from the Total Consideration pursuant to the SPA, such as the compensation which the Purchaser is entitled to as a result of the Vendor's breach of its warranties or Deductible Amounts found in the Completion audit (i.e. the audit on the Target Company as at the Completion Date, the accounting firm of which shall be jointly appointed by the Parties within 15 working days after the Completion Date and the report of which shall be issued within 40 working days after the accounting firm's acceptance of the appointment).
- (ii) Depending on, among other things, whether the Total Consideration has already been paid, the Purchaser may deduct the Deductible Amounts from the Total Consideration as illustrated below:
- (A) (if the Total Consideration has not yet been paid) the Purchaser may deduct the Deductible Amounts and pay the balance (if any) to the Vendor;
  - (B) (if the Total Consideration is not enough to set-off the Deductible Amounts and the amounts that the Vendor shall compensate the Purchaser) the Vendor shall pay the shortfall to the Purchaser; or
  - (C) (if the Total Consideration has already been fully paid to the Vendor) the Vendor must repay such amounts equivalent to the Deductible Amounts and the amounts that the Vendor shall compensate the Purchaser.

**(j) Completion**

Subject to the fulfillment (or waiver, where applicable) of the Conditions, the Parties agree to submit relevant legal documents to the company registration authority for registration of the transfer of the Target Equities on the Submission Day and the Completion will take place on the date on which the Purchaser is registered as the shareholder of the Target Equities by the relevant company registration authority.

Upon the occurrence of the Completion, the Company will own 100% of the equity interests in the Target Company through the Purchaser. Accordingly, the Target Company will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

## LETTER FROM THE BOARD

### 3. INFORMATION ON THE TARGET COMPANY

#### 3.1 Establishment and principal business

The Target Company was established in the PRC on 27 November 2020 whose principal business is holding the Toll Collection Right and operating the Target Expressway. The Target Company acquired the Toll Collection Right in the Judicial Auction at the Judicial Auction Price of RMB2,483,390,000, of which RMB1,489,000,000 was financed by bank loan, RMB990,000,000 was paid by the Target Company's paid-up capital and RMB4,390,000 was financed by shareholders' loan to the Target Company. Please refer to section 4 below for the information on the Target Expressway.

#### 3.2 Financial information

Set out below is the financial information on the Target Company prepared in accordance with the PRC GAAP in relation to the periods specified below:

	For the period commenced from the date of the establishment of the Target Company up to 31 December 2020 <i>(audited)</i> RMB ('000)	For the year ended 31 December 2021 <i>(audited)</i> RMB ('000)	For the seven months ended 31 July 2021 <i>(unaudited)</i> RMB ('000)	For the seven months ended 31 July 2022 <i>(unaudited)</i> RMB ('000)
Net profits (before taxation)	(1,261)	36,011	23,765	34,310
Net profits (after taxation)	(1,261)	27,323	18,138	25,572
Revenue ( <i>Note</i> )	0	309,034	179,117	197,940
	As at 31 December 2020 <i>(audited)</i> RMB ('000)	As at 31 December 2021 <i>(audited)</i> RMB ('000)	As at 31 July 2021 <i>(unaudited)</i> RMB ('000)	As at 31 July 2022 <i>(unaudited)</i> RMB ('000)
Total equity	988,739	993,929	1,006,878	1,010,237
Total assets	2,533,077	2,530,446	2,500,658	2,457,124

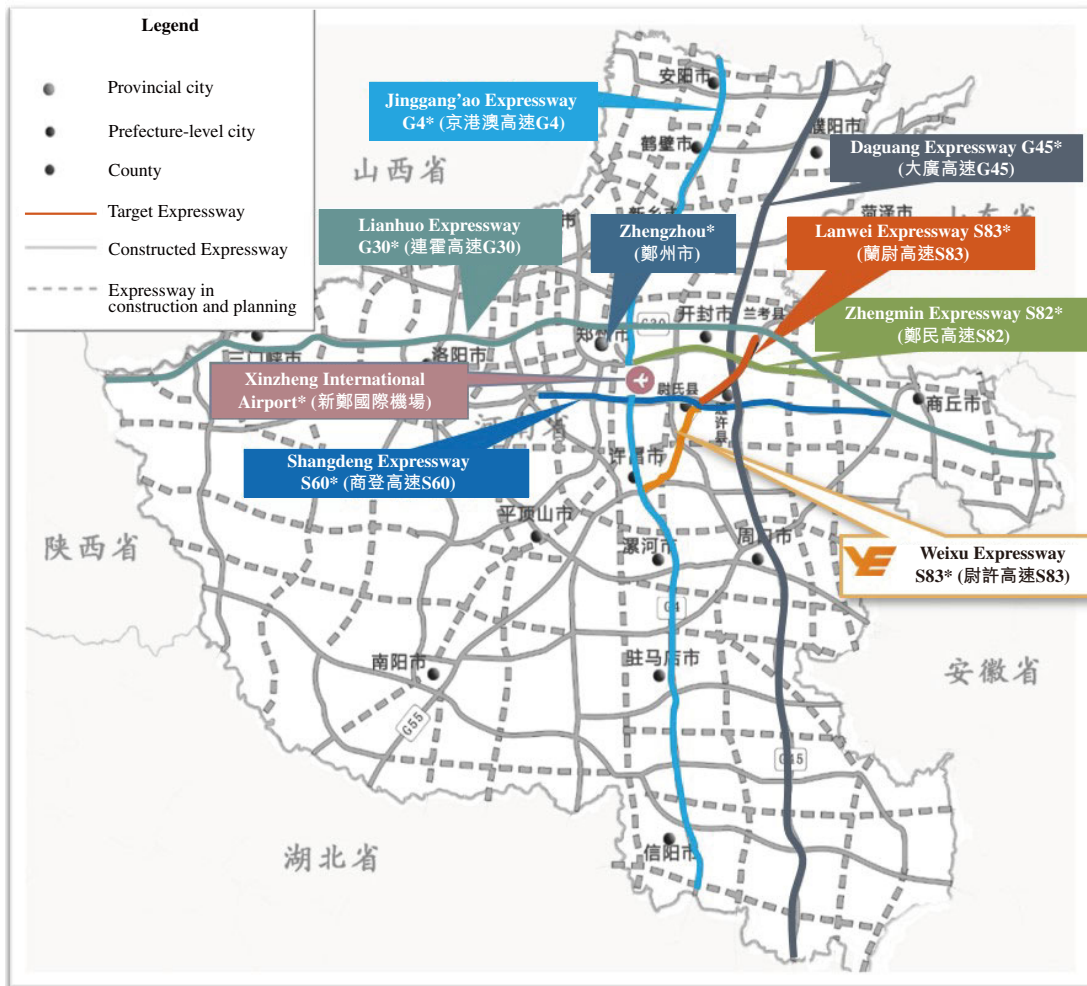
*Note:* As disclosed in section 3.1 of the Board Letter, the Target Company acquired the Toll Collection Right in the Judicial Auction. Under the applicable PRC laws, the Target Company was only entitled to the revenue derived from the Target Expressway from 26 December 2020, being the first day immediately following the day on which the Execution Order was served on the Target Company. However, the revenue derived from the Target Expressway from 26 December 2020 up to 31 December 2020 in the amount of RMB5,283,646.84 (before taxation) had not been recognised as the revenue of the Target Company under the PRC GAAP until 2021.

# LETTER FROM THE BOARD

## 4. INFORMATION ON THE TARGET EXPRESSWAY

### 4.1 Location

The Target Expressway is an important component of Lannan Expressway\* (蘭南高速), one of the 16 expressways running from north to south vertically under the expressway network of Henan. The Target Expressway connects the section from Wanglou\* (王樓) to Lankao\* (蘭考) of the Rilan Expressway\* (日蘭高速) in the north, connecting Zhengmin Expressway\* (鄭民高速), Daguang Expressway\* (大廣高速) and Shangdeng Expressway\* (商登高速), and connects the Weixu Expressway\* (尉許高速) in the south. It is an important part of the expressway network planned by Henan and it represents a highway from the hinterland of Zhongyuan\* (中原) to the coastal areas of Shandong Province. For reference purposes, a map showing the location of the Target Expressway is depicted below:



Information regarding, among other things, the toll mileage, design speed, number of toll collection stations and the toll collection right period of the Target Expressway is set out in section 4.2 of the Board Letter.



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## LETTER FROM THE BOARD

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### 4.2 Toll mileage and other information

The toll mileage and other information on the Target Expressway are set out below:

Toll mileage	:	61.03 km
Design speed	:	120 km per hour
Number of lanes	:	Dual two lanes
Number of toll collection stations	:	Three
Completion examination and acceptance	:	Completed
Expiry date of the toll collection right period	:	1 July 2034

### 4.3 Toll level

The toll level of the Target Expressway as at the LPD was primarily based on classification of vehicles by reference to (i) the number of seats (in the case of passenger vehicles) and (ii) number of axles and, where applicable, length of the vehicles and total maximum permitted loading weight (in the case of trucks). Details of the toll rates of the Target Expressway as at the Latest Practicable Date are disclosed below:

A. *Table on toll rates based on classification of vehicles*

<b>Vehicle class</b>		<b>Classification Standard</b>	<b>Toll Rate (RMB/per vehicle.km)</b>
Passenger vehicles	1	≤ 9 seats	0.45
	2	10 to 19 seats	0.65
	3	≤ 39 seats	0.85
	4	≥ 40 seats	1
Trucks ( <i>Note</i> )	1	Number of axles: two Length of truck: below 6,000 mm Total maximum permitted loading weight: less than 4,500 kg	0.50
	2	Number of axles: two Length of truck: not less than 6,000 mm Total maximum permitted loading weight: not less than 4,500 kg	1.50
	3	Number of axles: three	1.90
	4	Number of axles: four	2.20
	5	Number of axles: five	2.40
	6	Number of axles: six	2.60

*Note:* Length of truck, and the total permitted loading weight are not specified in respect of trucks of classes 3 to 6.

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## LETTER FROM THE BOARD

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B. *Table on toll rates under the policy on different and favourable toll rates for trucks*

The section for standard toll rate for trucks of class 1		Vehicles of class 2	Vehicles of class 3	Vehicles of class 4	Vehicles of class 5	Vehicles of class 6
Road Standard	RMB0.50 per vehicle.km	62.67%	74.21%	83.64%	82.08%	93.08%

*Notes:*

1. The toll rates under the policy on different and favourable toll rates for trucks set out in the above table applies to every section of the Target Expressway.
2. The vehicles as classified and set out in the above table refer to trucks of class 2, 3, 4, 5 and 6, respectively set out in the "Table on toll rates based on classification of vehicles". There is no favourable rate for trucks of class 1.
3. The percentages set out in the above table are the percentages of the standard toll rates for those classes of trucks set out in the "Table on toll rates based on classification of vehicles" under the policy on different and favourable toll rates.

C. *Favourable toll rates policy for vehicles which make toll payment without stopping pursuant to the "Non-Stop Electronic Toll Payment of the Joint Networks of the Expressways of Henan Province" (河南省高速公路聯網電子不停車收費繳費車輛收費標準優惠政策)*

A favourable rate at a discount of 5% is offered in Henan for those vehicles which make toll payment without stopping pursuant to the Non-Stop Electronic Toll Payment of the Joint Networks of the Expressways of Henan.

D. *The decision of the regular meeting of the State Council on the policy to reduce 10% of the toll rates for trucks using toll highways in the fourth quarter of 2022*

On 21 September 2022, it was resolved at the regular meeting of the State Council that toll rates for trucks using toll highways nationwide be reduced by 10% in the fourth quarter of 2022. The Traffic Study Report has already taken into account the impact of the said reduction of toll rates.

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## LETTER FROM THE BOARD

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### 5. MARKET VALUE OF THE TARGET EQUITIES AS APPRAISED BY THE VALUER

#### 5.1 Principal assumptions

For the purpose of complying with rule 14.62 of the Listing Rules, the principal assumptions on which the Profit Forecast is based are set out below:

(a) *Specific assumptions*

- (i) The future financial performance of the Target Company will be in line with the traffic and maintenance cost projections made by Jie Cheng with the assistance of the management of the Company at the required rate of return.
- (ii) The toll rate and charging mechanism will remain unchanged over the remaining toll collection period for the Target Expressway as forecasted by Jie Cheng.
- (iii) The financial and operational information provided and confirmed by the Company are accurate. The Target Company will have sufficient financial support as required to remain operating as a going concern.
- (iv) The Target Company will repay its bank loans at the time, amount and interest rate agreed in the loan contract provided by the Company.
- (v) The capital expenditure and maintenance cost forecast are sufficient for maintaining the Target Expressway at satisfactory conditions for the forecasted traffic and the regulatory requirement, there are no hidden or unexpected conditions associated with the assets or liabilities of the Target Company that might adversely affect the reported value.
- (vi) As the equity of the Target Company is not publicly listed and not readily marketable (i.e. illiquid) as at the Valuation Date, Savills has added a 1.0% premium to the discount rate to reflect the applicable Discount for Lack of Marketability (“DLOM”) to the equity value of the Target Company as at the Valuation Date with reference to the circumstances of the Target Company, market factors and the DLOM adopted in other acquisitions of toll road companies in China.
- (vii) Since the stake involving the Target Company is controlling stake, discount for lack of control is not necessary.

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## LETTER FROM THE BOARD

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(b) *General assumptions*

- (i) There will be no major changes in existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation.
- (ii) The long term inflation rate, interest rate and currency exchange rate will not differ materially from those presently prevailing.
- (iii) The Target Company will retain sufficient management and technical personnel to maintain its ongoing operations.
- (iv) There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will significantly affect the existing business.
- (v) The Target Company's businesses are unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements. All applicable laws and regulations have been and will be complied with.
- (vi) The business is not and will not be subject to any unusual or onerous restrictions or encumbrances which may render the Target Company's default against its outstanding commitment or obligations.
- (vii) Any potential bad debt of the Target Company will not materially or significantly affect the value of the Target Company.

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## LETTER FROM THE BOARD

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### 5.2 Traffic and revenue forecast projection

*Table A: summary of the Traffic Forecast Projections on Annual Average Daily Traffic basis*

Year	<b>Optimistic case</b> <i>(Vehicle/day)</i>	<b>Conservative case</b> <i>(Vehicle/day)</i>
2022	14,598	13,754
2023	16,724	15,459
2024	17,837	16,335
2025	18,987	17,228
2026	19,612	17,466
2027	20,799	18,358
2028	22,017	19,262
2029	23,268	20,179
2030	24,550	21,108
2031	25,861	22,047
2032	27,198	22,993
2033	28,559	23,945
2034	29,940	24,899

*Table B: summary of the Traffic Forecast Projections in Annual Revenue (RMB in million)*

Year	<b>Optimistic case</b>	<b>Conservative case</b>
2022	345	326
2023	356	335
2024	377	352
2025	397	368
2026	404	367
2027	424	383
2028	446	400
2029	466	415
2030	488	431
2031	510	447
2032	533	464
2033	554	479
2034	288	247

*Note:* The forecast set out in Tables A and B is made on the basis that there will be 365 days on which toll may be collected during 2022 to 2033 (366 days in the leap years during that period), there will be 182 days in 2034 (being the year in which the toll collection right period of the Target Expressway will be expired) on which toll may be collected and the toll for trucks for the fourth quarter of 2022 has been reduced by 10%.

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## LETTER FROM THE BOARD

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### 5.3 Reports from the Board and the auditors of the Company

The Board had issued a report confirming that the Directors had made the Profit Forecast after due and careful enquiry. Please refer to appendix I to the SPA Announcement for the said report of the Board.

Ernst & Young, the auditors of the Company, had reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows upon which the valuation prepared by Savills was based. Please refer to appendix II to the SPA Announcement for the said report from Ernst & Young for the purpose of rule 14.62 of the Listing Rules.

## 6. INFORMATION ON THE PARTIES

### 6.1 The Group and the Purchaser

The Group is principally engaged in investment, operation and management of toll expressways and bridges in Guangdong Province and other high growth provinces in the PRC.

The Purchaser is a wholly-owned subsidiary of the Company and is an investment holding company.

### 6.2 The Vendor

The Vendor is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government. The scope of business of the Vendor includes, among other things, import and export of technologies and goods, investment with its own funds, enterprise management services and enterprise management consultancy services. The Vendor is the controlling shareholder of the Company holding approximately 44.20% of the issued share capital of the Company both as at the date of the SPA and as at the LPD and therefore was a connected person of the Company.

The Vendor is owned by the People's Government of Guangzhou\* (廣州市人民政府) as to approximately 90%.

## 7. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Expressway is located in the core development region of Zhongyuan\* (中原) city cluster, and is an important component of Lannan Expressway\* (蘭南高速) in Henan. Its detailed location is disclosed in section 4.1 of the Board Letter. Thanks to its excellent location, the Target Expressway will continue to benefit from the regional development strategic plans such as the "Rise of Central China" (中部崛起) and constructions of Zhongyuan city cluster and Zhengzhou Metropolitan Area\* (鄭州大都市區).

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## LETTER FROM THE BOARD

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The Target Expressway has been in operation for nearly 17 years since it had been opened for traffic in 2005. Both the expressway networks connecting to the Target Expressway and expressway networks near the Target Expressway are very mature and stable. The Target Company recorded profits in the first year (2021) after its acquisition of the Toll Collection Right in the Judicial Auction in December 2020. Further, the revenue of the Target Company for the seven months ended 31 July 2022 increased by approximately 10.51% as compared to the same in the corresponding period in 2021, and its net profits (before taxation) even increased substantially by nearly 44.37% (after excluding the revenue of RMB5,283,646.84 (before taxation) originally derived in 2020 but which, due to the PRC GAAP, had not been recognised until 2021 as disclosed in the note to section 3.2 of the Board Letter, the growth rates mentioned in this paragraph will be approximately 13.78% and 85.65%, respectively).

The Target Company had a revenue of approximately RMB309,033,823.91 for year 2021. The Group's source of income will be widened after completion of the Acquisition. Further, since the Target Company recorded profits for both the year ended 31 December 2021 and the seven months ended 31 July 2022, the Company believes that the Target Company can bring profits to the Group starting from 2023. The Company also believes that the Target Company will continue to bring impetus to the growth of the Group's toll income and profits in the future.

Upon completion of the Acquisition, the toll mileage of the Group's controlled expressways will increase from 495.2 km to 556.23 km, representing an increment of approximately 12.32%. To sum up, the Group's revenue, profit and toll mileage will be enhanced after completion of the Acquisition, which will help to weaken the impact of the spin-off of Wuhan-Xiaogan Expressway\* (漢孝高速公路) from the Group for listing on the Shenzhen Stock Exchange in December 2021. The Acquisition will also facilitate the Group to optimize its regional layout of expressway assets by increasing revenue to be contributed by provinces in Central China while decreasing the proportion of revenue to be contributed by projects in Hubei. The resulting fall in concentration of regions will help the Group to deal with, among other things, the uncertain factors (such as the epidemic lockdown and restriction measures) and weaken the effect of regional risks on the Group's results.

As disclosed in section 2(d) of the Board Letter, the Total Consideration is intended to be financed by the internal resources of the Group (approximately 40%, being approximately RMB439,200,000) and bank loan for acquisition (approximately 60%, being approximately RMB658,800,000). As at the LPD, the Group has not entered into any legally binding agreement in relation to the said bank loan for acquisition. After taking into account factors such as the said bank loan for acquisition and the financial position of the Target Company, it is expected that the gearing ratio of the Group after completion of the Acquisition will only increase slightly from 48.40% as at 30 June 2022 to approximately 52.50%. Further, since the Target Company has already recorded profits, it is expected that the Acquisition can increase the earning per Share without affecting the stability of the financial aspect of the Group.

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## LETTER FROM THE BOARD

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From the perspective of management, the Target Expressway is connected to Weixu Expressway\* (尉許高速) owned by the Group and therefore unified operation and management can be achieved and a districts management model can be formed to provide economies of scale and be conducive in the enhancement of management efficiency.

The Directors note that as disclosed in the interim report 2022 of the Company dated 30 August 2022, as at 30 June 2022, the Group had a net current liability position of RMB3,586,933,000. According to the unaudited financial statement of the Target Company, as at 30 June 2022, the Target Company had a net current asset position of RMB138,533,000. The Directors are confident that the Enlarged Group will have sufficient working capital in the next 12 months from the date of this circular having considered the forecast cash flows including the bank borrowings and facilities available to the Group, the issuance of super short-term commercial paper and/or corporate bonds by the Company and the internally generated funds from operations.

Taking into account the reasons and benefits described above and other information disclosed above, the Board considers that the terms of the Acquisition and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **8. IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES**

#### **8.1 Discloseable and connected transaction**

As the highest applicable percentage ratio in respect of the Acquisition exceeded 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules but is not required to be approved by the Shareholders.

However, as the Vendor was a connected person of the Company as at the date of the SPA as disclosed in section 6.2 above, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest percentage ratio (other than the profits ratio) in respect of the Acquisition is more than 5%, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the Acquisition.

#### **8.2 Shareholders required to abstain from voting at the SGM**

By virtue of the Vendor being materially interested in the SPA, it and its associates will be required to abstain from voting on the resolution to be proposed at the SGM to approve the Acquisition. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder would be required to abstain from voting on the shareholders' resolution to approve the Acquisition except for the Vendor and its associates.



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## LETTER FROM THE BOARD

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### 8.3 Advice of the Independent Board Committee

The Independent Board Committee, comprising only all the Independent Directors, has been formed to advise the Independent Shareholders on the matters referred to in Rule 14A.40 of the Listing Rules, including but not limited to whether the terms of the Acquisition are fair and reasonable and how to vote on the resolution(s) in relation to the Acquisition and the transactions contemplated thereunder. Please refer to the Independent Board Committee Letter for the opinion of the Independent Board Committee and its recommendations to the Independent Shareholders as to how to vote at the SGM.

### 9. SGM

A notice convening the SGM to be held at Plaza I-IV, Basement 3, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, on Friday, 18 November 2022 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

The register of members of the Company will be closed from Wednesday, 16 November 2022 to Friday, 18 November 2022, both days inclusive, during which period no transfer of Shares can be registered. The record date for ascertaining shareholders' entitlement to attend and vote at the SGM will be Friday, 18 November 2022. In order to qualify for attending and voting at the SGM, all transfer forms accompanied by the relevant share certificates must be lodged for registration with Tricor Abacus Limited, the branch share registrar and transfer office of the Company in Hong Kong, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Tuesday, 15 November 2022.

A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to Tricor Abacus Limited, the branch share registrar and transfer office of the Company in Hong Kong, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

The ordinary resolution to approve the Acquisition at the SGM will be taken by poll and an announcement on the results of the SGM will be made by the Company after the SGM. The Vendor, being a Shareholder with a material interest in the Acquisition, together with its associates, will not vote at the SGM.

### 10. RECOMMENDATION

In addition to the information contained in the sections immediately preceding this section headed "10. RECOMMENDATION", your attention is drawn to the Independent Board Committee Letter set out on page 25 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the SPA.

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## LETTER FROM THE BOARD

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Having considered the terms of the SPA and the transactions contemplated thereunder, the Directors (including the Independent Directors after taking into account the IFA Advice and the principal factors and reasons taken into consideration by the IFA) are of the opinion that the terms of the SPA and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, therefore, recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the SPA and the transactions contemplated thereunder.

### 11. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board  
**Yuxiu Transport Infrastructure Limited**  
**LI Feng**  
*Chairman*



**越秀交通基建有限公司**  
**Yuexiu Transport Infrastructure Limited**

*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 01052)**

2 November 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION:  
ACQUISITION OF INTERESTS IN A COMPANY OPERATING  
AN EXPRESSWAY IN HENAN PROVINCE, THE PRC**

We refer to the circular of the Company to the Shareholders of the date of this letter (the “**Circular**”), in which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter have the same meanings as defined in the Circular.

For the purposes of the Listing Rules, we have been appointed as the Independent Board Committee to consider the Acquisition and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition. We are required to recommend whether or not the Independent Shareholders should vote for the resolution(s) to be proposed at the SGM to approve the Acquisition and the transactions contemplated thereunder.

The IFA, namely Somerley Capital Limited, has been appointed with the Independent Board Committee’s approval to advise the Independent Board Committee and the Independent Shareholders in relation to the SPA and the transactions contemplated thereunder.

We wish to draw your attention to the IFA Letter which contains its advice to us in relation to the Acquisition. We also draw your attention to the Board Letter.

Having considered the terms of the SPA and the transactions contemplated thereunder (including but not limited to the Acquisition), the IFA Advice and the principal factors and reasons taken into consideration by the IFA, we are of the opinion that the terms of the SPA and the transactions contemplated thereunder (including but not limited to the Acquisition) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, therefore, recommend that you vote in favour of the resolution to be proposed at the SGM to approve the SPA and the transactions contemplated thereunder (including but not limited to the Acquisition).

Yours faithfully,  
Independent Board Committee of  
**Yuexiu Transport Infrastructure Limited**  
**FUNG Ka Pun**  
**LAU Hon Chuen Ambrose**  
**CHEUNG Doi Shu**  
*Independent non-executive Directors*

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## LETTER FROM THE IFA

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*The following is the text of a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

2 November 2022

To: *The Independent Board Committee and the Independent Shareholders of  
Yuexiu Transport Infrastructure Limited*

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION:  
ACQUISITION OF INTERESTS IN A COMPANY OPERATING AN  
EXPRESSWAY  
IN HENAN PROVINCE, THE PRC**

### INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the entering into of the SPA between the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor, the Company's controlling shareholder, and the transactions contemplated thereunder, details of which are contained in the circular of the Company to the Shareholders dated 2 November 2022 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As (i) the Vendor is a connected person of the Company; and (ii) the highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules for the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable and connected transaction of the Company which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and 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, namely Mr. FUNG Ka Pun, Mr. LAU Hon Chuen Ambrose and Mr. CHEUNG Doi Shu, has been established to advise the Independent Shareholders on the terms of the Acquisition and to recommend to the Independent Shareholders how to vote at the SGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

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## LETTER FROM THE IFA

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During the past two years, Somerley has acted as the independent financial adviser (the “**IFA Engagements**”) to the independent board committee and independent shareholders/unitholders of Yuexiu Real Estate Investment Trust (stock code: 00405, “**Yuexiu REIT**”) (and its trustee), Yuexiu Property Company Limited (stock code: 00123, “**Yuexiu Property**”), Yuexiu Services Group Limited (stock code: 06626, “**Yuexiu Services**”) in relation to connected transactions and continuing connected transactions and Chong Hing Bank Limited (stock code: 01111, “**CHB**”) in relation to its privatisation proposal. The Vendor is the controlling shareholder of each of the Company, Yuexiu Property, Yuexiu Services and CHB and the controlling unitholder of Yuexiu REIT. For details of those announced transactions for which we were engaged as the independent financial adviser in the past two years, please refer to Yuexiu REIT’s announcement dated 20 November 2020 and 24 October 2021, Yuexiu Property’s announcements dated 22 November 2020, 23 November 2020, 23 December 2020, 8 February 2021, 31 December 2021 and 5 January 2022, Yuexiu Services’ announcement dated 20 May 2022 and CHB’s announcement dated 18 May 2021. The above IFA Engagements were limited to providing independent financial advisory services to each of Yuexiu REIT, Yuexiu Property, Yuexiu Services and CHB pursuant to the Listing Rules, the Code on Takeovers and Mergers and the Code on Real Estate Investment Trusts, as the case may be, and Somerley, in return, received fixed normal advisory fees from them. Somerley is not aware of any circumstances as set out under Rule 13.84 of the Listing Rules which may cause it to have a conflict of interest in acting as the independent financial adviser regarding the Acquisition.

In formulating our opinion and recommendation, we have reviewed, among other things, the SPA, the annual report of the Company for the year ended 31 December 2021 (the “**Annual Report**”), the interim report of the Company for the six months ended 30 June 2022 (the “**Interim Report**”), the Traffic Study Report, the Valuation Report and the information set out in the Circular. We have also discussed with the management of the Group regarding the commercial and financial implications of the Acquisition on the Group.

We have relied on the information and facts supplied, and the opinions and intention expressed to us, by the Directors and management of the Group and have assumed that they are true, accurate and complete and will remain so up to the date of the SGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

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## LETTER FROM THE IFA

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### PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion and recommendation relating to the Acquisition, we have taken into account the following principal factors:

#### 1. Background of and rationale for the Acquisition

##### 1.1 The Group and the Purchaser

The Company is incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange with the stock code of 01052. The Group is principally engaged in investment, operation and management of toll expressways and bridges (the “Existing Toll Roads and Bridges”) in Guangdong Province and other high growth provinces in the PRC.

The Purchaser is a wholly-owned subsidiary of the Company and is an investment holding company.

Set out below is the summary of the financial information of the Group for the years ended 31 December 2020 and 2021 as extracted from the Annual Report and for the six months ended 30 June 2021 and 2022 as extracted from the Interim Report:

	For the six months ended		For the year ended	
	30 June		31 December	
	2022	2021	2021	2020
	( <i>unaudited</i> )	( <i>unaudited</i> )	( <i>audited</i> )	( <i>audited</i> )
	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	1,615,538	1,831,743	3,702,276	2,919,838
Net profit attributable to the Shareholders	295,318	467,699	1,464,984	160,491
		<b>As at</b>		
		<b>30 June</b>	<b>As at 31 December</b>	
		<b>2022</b>	<b>2021</b>	<b>2020</b>
		( <i>unaudited</i> )	( <i>audited</i> )	( <i>audited</i> )
		RMB'000	RMB'000	RMB'000
Total equity excluding non-controlling interests	11,223,434	11,511,515	10,424,891	

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## LETTER FROM THE IFA

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For the years ended 31 December 2020 and 2021, the Group recorded a revenue of RMB2,919.8 million and RMB3,702.3 million, respectively, representing a year-on-year increase of 26.8%. Such increase was mainly attributable to lower revenue in 2020 due to the implementation of temporary toll exemption measures by the Ministry of Transport of the PRC (the “**Toll Exemption Measures**”), which includes the extension of toll exemption for small passengers vehicles during the Spring Festival holiday by nine days and the exemption of toll collection for 79 days nationwide from 17 February 2020 to 5 May 2020 in response to the COVID-19 pandemic prevention and control. The net profit attributable to the Shareholders increased by 812.8% to RMB1,465.0 million in 2021, which was principally due to increase in revenue and the gain on disposal recognized as a result of the spin-off of the Han-Xiao Expressway (the “**Spin-off**”).

For the six months ended 30 June 2022, the Group’s revenue decreased by 11.8% year-on-year to RMB1,615.5 million and the Group recorded a net profit attributable to the Shareholders of RMB295.3 million as compared to net profit attributable to the Shareholders for the corresponding period in 2021 of RMB467.7 million. Such decreases were primarily due to the Spin-off, the results of which are no longer consolidated into but equity accounted for in the accounts of the Company and the implementation of strict lock down or control measures in various PRC cities due to COVID-19.

The total equity of the Group excluding non-controlling interests as at 31 December 2020, 31 December 2021 and 30 June 2022 were RMB10,424.9 million, RMB11,511.5 million and RMB11,223.4 million, respectively, representing a year-on-year increase of 10.4% in 2021 and a decrease of 2.5% from 31 December 2021 to 30 June 2022. The substantial increase in 2021 was largely due to an increase in retained earnings and the slight decrease in the first half of 2022 was mainly due to the final dividend for 2021 paid to the Shareholders is greater than the profit recorded for the six months ended 30 June 2022.

## LETTER FROM THE IFA

### 1.2 The Existing Toll Roads and Bridges

The Existing Toll Roads and Bridges are all located in the PRC, namely, (i) GNSR Expressway; (ii) Cangyu Expressway; (iii) Jinxiong Expressway; (iv) Changzhu Expressway; (v) Weixu Expressway (vi) Suiyuenan Expressway; (vii) Hancai Expressway; (viii) Han'e Expressway; (ix) Daguangnan Expressway; (x) Humen Bridge; (xi) Northern Ring Road; (xii) Shantou Bay Bridge; (xiii) Qinglian Expressway; (xiv) GWSR Expressway; and (xv) Han-Xiao Expressway (via Huaxia Yuexiu Expressway REIT). Apart from the Existing Toll Roads and Bridges, the Group also holds 45% equity interest in Guangzhou Pazhou Port. As advised by the management of the Group, the Group has completed the port construction and obtained the permit of port operations (港口經營許可證). The approval of the opening of the port of entry is being considered, and the Group will schedule a date for formal operation once it has obtained such approval. Details of the Existing Toll Roads and Bridges are set out below:

Existing Toll Roads and Bridges	Location	Attributable interests (%)	Remaining operating term (years) <sup>(1)</sup>	Toll mileage (km)	Revenue <sup>(2)</sup> in 2021 Amount (RMB'000)	Net profit <sup>(3)</sup> / share of results in 2021 Amount (RMB'000)
<b>Subsidiaries</b>						
GNSR Expressway	Guangzhou City, Guangdong	60.00	10.0	42.5	1,121,176	403,157
Cangyu Expressway	Wuzhou City, Guangxi	100.00	9.0	22.0	89,420	59,962
Jinxiong Expressway	Tianjian City, Tianjian	60.00	8.2	23.9	80,248	8,752 <sup>(4)</sup>
Changzhu Expressway	Changsha City, Hunan	100.00	18.7	46.5	268,735	112,675
Weixu Expressway	Xuchang City, Henan	100.00	13.9	64.3	349,218	148,212
Suiyuenan Expressway	Jingzhou City, Hubei	70.00	18.2	98.1	614,075	173,303
Hancai Expressway	Wuhan City, Hubei	67.00	16.7	36.0	258,070	58,263
Han'e Expressway	Wuhan City, Hubei	100.00	20.5	54.8	209,377	5,255
Daguangnan Expressway	Huanggang City, Hubei	90.00	20.4	107.1	450,087	160,134
<b>Associates and Joint Venture</b>						
Han-Xiao Expressway/ Huaxia Yuexiu Expressway REIT	Wuhan City, Hubei	30.00	15.0	38.5	209,348	100,359
Humen Bridge	Dongguan City, Guangdong	27.78 <sup>(5)</sup>	7.4	15.8	890,214	67,969



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**LETTER FROM THE IFA**

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Existing Toll Roads and Bridges	Location	Attributable interests  (%)	Remaining operating term (years) <sup>(1)</sup>	Toll mileage  (km)	Revenue <sup>(2)</sup> in 2021 Amount (RMB'000)	Net profit <sup>(3)</sup> / share of results in 2021 Amount (RMB'000)
Northern Ring Road	Guangzhou City, Guangdong	24.30	1.9	22.0	750,649	69,656
Shantou Bay Bridge	Shantou City, Guangdong	30.00	7.0	6.5	189,628	29,745
Qinglian Expressway	Qingyuan City, Guangdong	23.63	12.5	215.2	879,347	28,904
GWSR Expressway	Guangzhou City, Guangdong	35.00	9.0	42.1	509,220	76,917

*Notes:*

1. It is calculated based on the number of days between the approved last date for toll collection as stated in the Annual Report and 31 December 2021 divided by 365 days.
2. It refers to toll revenue for the Group's controlled expressway and revenue for the Group's associates and joint venture for 2021 (except for Han-Xiao Expressway). Due to the Spin-off, the Group ceased to have its control over Han-Xiao Expressway and its interest in Han-Xiao Expressway is reduced from 100% to 30%. Han-xiao Expressway's toll revenue accounted for the period was from 1 January 2021 to 6 December 2021.
3. After elimination of inter-company loan interests.
4. Excluding impairment loss of RMB43.8 million.
5. The profit-sharing ratio was 18.446% from 2010 onwards.

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## LETTER FROM THE IFA

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As at 31 December 2021, the Group controlled nine expressways in the PRC, namely, GNSR Expressway, Cangyu Expressway, Jinxiong Expressway, Changzhu Expressway, Weixu Expressway, Suiyuan Expressway, Hancai Expressway, Han'e Expressway and Daguangnan Expressway, with a remaining operating term from 8.2 to 20.5 years and a total attributable toll mileage of 416.6 km (total toll mileage was 495.2 km). Among these nine controlled expressways, GNSR Expressway recorded the highest attributable net profit of RMB403.2 million in 2021. The Group also owned 23.63%-35% equity interests in six expressways and bridges in the PRC, namely, Han-Xiao Expressway (via Huaxia Yuexiu Expressway REIT, which is held as to 30% by the Company, being its single largest unitholder), GWSR Expressway, Humen Bridge, Northern Ring Road, Shantou Bay Bridge and Qinglian Expressway with a remaining operating term from 1.9-15.0 years and a total attributable toll mileage of 88.8 km. Among these six non-controlled expressways and bridges, excluding Han-Xiao Expressway, GWSR Expressway recorded the highest share of results of RMB76.9 million in 2021.

### 1.3 *The Vendor*

The Vendor is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government. The scope of business of the Vendor includes, among other things, import and export of technologies and goods, investment with its own funds, enterprise management services and enterprise management consultancy services. As at the Latest Practicable Date, the Vendor is owned by the People's Government of Guangzhou\* (廣州市人民政府) as to approximately 90% and is the controlling shareholder of the Company holding approximately 44.20% of the issued share capital of the Company.

### 1.4 *The Acquisition*

A summary of the key terms of the SPA is set out as follows:

<b>Date</b>	:	17 October 2022 (after trading hours)
<b>Parties involved</b>	:	The Vendor and the Purchaser
<b>Interests to be acquired:</b>	:	Target Equities, representing the entire equity interest in the Target Company
<b>Total Consideration</b>	:	RMB1,098 million
<b>Payment terms</b>	:	Subject to the Conditions having been fulfilled (or having been waived), the Purchaser shall pay the Vendor the Total Consideration no later than the fifth working day after the Effective Date.

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## LETTER FROM THE IFA

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- Major condition precedent** : Completion is conditional upon, amongst others, the Company having issued the Circular and the Independent Shareholders having approved the transactions contemplated by the SPA.
- Warranties given by the Vendor** : The Vendor has warranted to the Purchaser that it will compensate all the losses suffered by the Purchaser if:
- I. the interest of the Purchaser in the Target Equities (or any part thereof) is prejudiced as a result of third party's claims arising from causes on the Vendor's part or causes on the Target Company's part prior to the Completion Date; or
  - II. the Toll Collection Right has been cancelled, deprived, terminated permanently or temporarily (other than temporary suspension, reduction or exemption of toll pursuant to the PRC laws and regulations or the PRC national policies) due to causes on the Vendor's part or causes on the Target Company's part prior to the Completion Date.
- Completion** : Subject to the fulfillment (or waiver, where applicable) of the Conditions, the Vendor and the Purchaser agree to submit relevant legal documents to the company registration authority for registration of the transfer of the Target Equities on the Submission Day and the Completion will take place on the date on which the Purchaser is registered as the shareholder of the Target Equities by the relevant company registration authority.

Under the SPA, Deductible Amounts may be deducted from the Total Consideration if the Vendor breaches its warranties or under other circumstances set out in the SPA, details of which are set out in section 2(i) of the letter from the Board. If the Total Consideration has not yet been paid, the Purchaser may deduct the Deductible Amounts and pay the balance (if any) to the Vendor. If the Total Consideration is not enough to set-off the Deductible Amounts and the amounts that the Vendor shall compensate the Purchaser, the Vendor is required to pay the shortfall to the Purchaser. If the Total Consideration has already been fully paid to the Vendor, the Vendor must repay such amounts equivalent to the Deductible Amounts and the amounts that the Vendor shall compensate the Purchaser.

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## LETTER FROM THE IFA

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For details of the principal terms of the Acquisition, please refer to section 2 of the letter from the Board.

As mentioned in the letter from the Board, the Total Consideration, as determined after the Purchaser has taken into account the market value of the Target Equities as at 31 July 2022, the factors as discussed in section 7 in the letter from the Board, and arm's length negotiation between the Vendor and the Purchaser, represents a discount of approximately 1.17% to the market value of the Target Equities as at 31 July 2022 (in the amount of RMB1,111 million) appraised by Savills. The Total Consideration is payable in cash and the Company intends to finance the Total Consideration as to 60% by bank loan and 40% by internal resources, respectively.

### 1.5 The Target Company

As stated in the letter from the Board, the Target Company was established in the PRC on 27 November 2020 whose principal business is holding the Toll Collection Right and operating the Target Expressway. The Target Company acquired the Toll Collection Right in the Judicial Auction at the Judicial Auction Price of RMB2,483,390,000. The Target Company financed the Judicial Auction Price as to (a) RMB1,489,000,000 by bank loan, (b) RMB4,390,000 by shareholders' loan; and (c) RMB990,000,000 by the Target Company's paid-up capital. A summary of the financial information of the Target Company for the period commenced from the date of establishment of the Target Company up to 31 December 2020, the financial year ended 31 December 2021 and the seven months ended 31 July 2021 and 2022 as extracted from the letter from the Board is set out below:

	For the seven months ended		For the year	For the period
	31 July		ended	commenced
	2022	2021	31 December	from the date
	(unaudited)	(unaudited)	(audited)	of the
	RMB'000	RMB'000	RMB'000	establishment
				of the Target
				Company up
				to
				31 December
				2020
				(audited)
				RMB'000
Revenue	197,940	179,117	309,034	Nil <sup>(1)</sup>
Net profit/(loss)	25,572	18,138	27,323	(1,261)

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## LETTER FROM THE IFA

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	As at 31 July 2022 <i>(unaudited)</i> RMB'000	As at 31 December 2021 <i>(audited)</i> RMB'000	As at 31 December 2020 <i>(audited)</i> RMB'000
Total assets	2,457,124	2,530,446	2,533,077
Total liabilities <sup>(2)</sup>	1,446,887	1,536,517	1,544,338
Total equity	1,010,237	993,929	988,739

*Note:*

- as stated in the letter from the Board, the Target Company acquired the Toll Collection Right in the Judicial Auction. Under the applicable PRC laws, the Target Company was only entitled to the revenue derived from the Target Expressway from 26 December 2020, being the first day immediately following the day on which the Execution Order was served on the Target Company. However, the revenue derived from the Target Expressway from 26 December 2020 up to 31 December 2020 in the amount of RMB5,283,646.84 (before taxation) had not been recognised as the revenue of the Target Company under the PRC GAAP until 2021.
- It is calculated based on total assets less total equities.

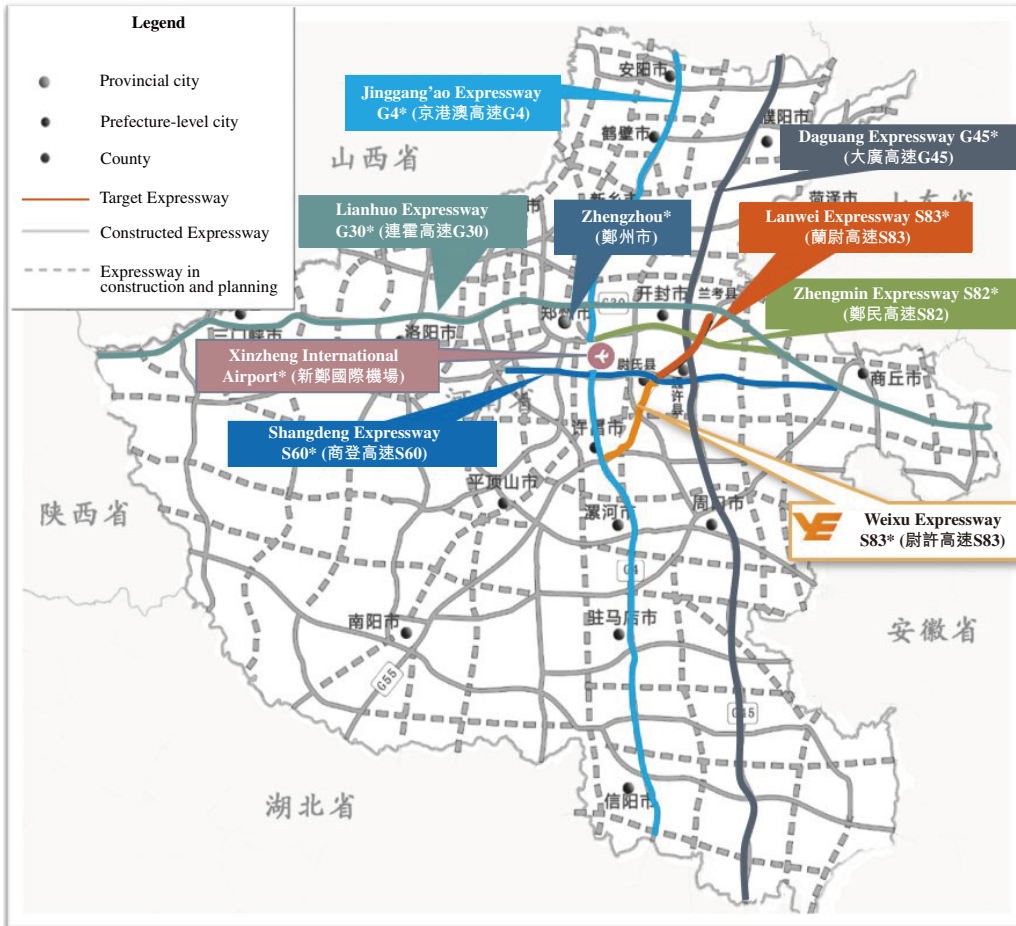
For the year ended 31 December 2021, the Target Company recorded a revenue of RMB309.0 million and a net profit of RMB27.3 million. For the seven months ended 31 July 2021 and 2022, the Target Company recorded a revenue of RMB179.1 million and RMB197.9 million, respectively, representing a year-on-year increase of 10.51% (or 13.78% if excluding the revenue of RMB5,283,646.84 (before taxation) originally derived in 2020 (see Note 1 to the above table)). We are advised by the management of the Group that, although the passenger vehicle traffic volume declined year-on-year for the seven months ended 31 July 2022 due to COVID-19, the Target Company recorded a year-on-year increase in revenue for the same period due to the implementation of the road traffic control measures for pandemic prevention purposes (e.g. set-up of check-points) in nearby areas in Henan Province in 1H2022 which led to an increase in traffic volume of trucks diverted to the Target Expressway and higher trucks toll rates as compared to those for the passenger vehicles.

According to the management of the Group, the total assets of the Target Company, largely comprises of intangible operating rights, slightly decreased from RMB2,530.4 million as at 31 December 2021 to RMB2,457.1 million as at 31 July 2022, mainly due to amortisation of intangible operating rights. The total liabilities of the Target Company, largely comprises of bank borrowings incurred to acquire the Target Expressway, decreased from RMB1,536.5 million as at 31 December 2021 to RMB1,446.9 million as at 31 July 2022 which was mainly due to repayment of a certain portion of the bank borrowings and settlement of certain construction payables. The total equity of the Target Company increased from RMB993.9 million as at 31 December 2021 to RMB1,010.2 million as at 31 July 2022.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

1.6 The Target Expressway

Set out below is a map illustrating the location of the Target Expressway and the nearby expressways:



The Target Expressway is an important component of Lannan Expressway\* (蘭南高速), one of the 16 expressways running from north to south vertically under the expressway network of Henan Province. It connects the section from Wanglou\* (王樓) to Lankao\* (蘭考) of the Rilan Expressway\* (日蘭高速) in the north, connecting Zhengmin Expressway\* (鄭民高速), Daguang Expressway\* (大廣高速) and Shangdeng Expressway\* (商登高速) and connects Weixu Expressway (尉許高速), one of the Group’s Existing Toll Roads and Bridges, in the south. The Target Expressway is an important part of the expressway network planned by Henan Province and an expressway connecting the hinterland of Zhongyuan\* (中原) and the coastal areas of Shandong Province. The Target Expressway is a two-way four-lane expressway and has a total length of 61.03 kilometers. According to the concession agreement relating to the Toll Collection Right entered into between Kaifeng City Transportation Bureau and the Target Company, the toll collection right period of the Target Expressway will end on 1 July 2034, and the remaining toll collection right period is about 12 years.

*1.7 Rationale of the Acquisition*

We have discussed with the management of the Group and are advised that the central core regions of the PRC with large populations and labour forces, such as Hubei, Hunan and Henan Province, are one of the key regions where the Group focuses on developing its toll expressways business and pursuing mergers and acquisitions of high-quality projects which is part of its regional expansion strategy.

The Target Expressway, being an important component of Lannan Expressway, is located in the core development region of Zhongyuan city cluster in Henan Province. Due to its geographical location, it is believed the Target Expressway will continue to benefit from the regional development strategic plans such as the “Rise of Central China” (中部崛起) and constructions of Zhongyuan city cluster and Zhengzhou Metropolitan Area\* (鄭州大都市區). Given the superb location of the Target Expressway, the management of the Group believes that the Acquisition will have a positive effect in strengthening the Group’s toll expressways business.

The Target Expressway is a 61.03 km long mature expressway which has been in operation for nearly 17 years since its opening for traffic in 2005. Upon completion of the Acquisition, the toll mileage of the Group’s controlled expressways will increase by 12.32% to 556.23 km. The Target Company recorded profits in the 2021 after obtaining the Toll Collection Right in the Judicial Auction in December 2020. Given the Target Company recorded profits for both the year ended 31 December 2021 and the seven months ended 31 July 2022 as illustrated in section 1.5 above, the management of the Group believes that the Target Company can bring profits to the Group starting from 2023 after the Acquisition. The management of the Group also believes that the Target Company will continue to bring impetus to the growth of the Group’s toll income and profits in the future.

Based on the information provided by the management of the Group, assuming that completion of the Acquisition was taken place as at 30 June 2022, having considered (i) the Target Company’s financial position as at 30 June 2022; (ii) the bank borrowings incurred by the Group for the Acquisition; (iii) the required cash amount for settling the Total Consideration and professional fee relating to the Acquisition; and (iv) recognition of fair value adjustment to the Target Company’s intangible operating rights of RMB125.5 million and corresponding deferred income tax liabilities of RMB31.4 million, it is estimated that the Group’s gearing ratio will increase from 48.4% as at 30 June 2022 to approximately 52.5%. In addition, taking into account the Target Company having been profitable, it is expected that after completion of the Acquisition, the earnings per Share will increase.

The Target Expressway directly connects to Weixu Expressway, one of the Group’s controlled expressways. Due to the close proximity of Weixu Expressway and the Target Expressway, the management of the Group believes that, upon Completion, unified operation and management can be achieved and a district

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## LETTER FROM THE IFA

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management model can be formed to provide economies of scale and be conducive in the enhancement of management efficiency.

Based on the above, we concur with the view of the Group's management that the Acquisition is in line with the Group's principal businesses and its long-term development strategy.

Please refer to the section 7 in the letter from the Board for further details.

## 2. Market outlook of toll road industry

### 2.1 *Macro overview of Henan Province*

According to the results of the Seventh National Population Census of the PRC, Henan Province is the third populous province in the PRC in 2020 with a total population of 99.4 million. In addition, according to the National Bureau of Statistics of China (國家統計局), Henan Province's gross domestic product ("GDP") amounted to RMB5.89 trillion in 2021. Based on the latest available information, Henan Province ranked 1st in terms of population and GDP amongst the six provinces in Central China.

Henan Province has always been one of the important national transportation hubs and national agricultural production bases. It is believed that various favourable and supportive policies announced by the Central Government and Henan Provincial Government such as the Promoting the Rise of the Central Region (2016-2025)\* (促進中部地區崛起規劃(2016至2025年)), the Development Plan for Cities in Central China\* (中原城市群發展規劃) and the Development Plan for Zhengzhou Metropolis (2018-2035)\* (鄭州大都市區空間規劃(2018—2035年)) can further promote economic activities in Central China including major cities in Henan Province like Zhengzhou, Kaifeng (開封) and Xuchang (許昌) and increase nearby traffic volume.

### 2.2 *Market overview of the cities along the Target Expressway*

We have discussed with Jie Cheng relating to the economic development of Henan Province and areas connected by/nearby the Target Expressway. According to the GDP data quoted from National Bureau of Statistics of China and the regional statistics bureaus provided by Jie Cheng, the GDP growth of Henan Province, Shandong Province, Kaifeng, Xuchang, Lankao, Tongxu (通許), Weishi (尉氏) and Heze (荷澤) for the past 10 years generally exceeded that of the PRC (except for 2020 and 2021 when many areas in Henan Province were affected by COVID-19 and stringent pandemic control measures and recorded lower GDP growth). As advised by Jie Cheng, pursuant to the Development Plan for Cities in Central China\*, the Central Government intends to set up an economic region in Central China involving 30 key cities across five provinces with Zhengzhou as its centre. In addition, pursuant to the Development Plan for Zhengzhou Metropolis (2018-2035)\*, Xuchang and Kaifeng will gradually be included as part of Zhengzhou Metropolis Area. It is believed that those plans can enhance economic and urban



integration among the planned cities in Central China to foster greater economic growth. Against this background and having considered the historical GDP trends and the National 14th Five-Year Plan (十四五規劃) and the GDP targets of the regions connected by/nearby the Target Expressway, Jie Cheng estimated that Kaifeng, Xuchang, Lankao, Tongxu, Weishi will enjoy higher economic growth than Henan and Shandong Province as a whole for the period from 2022 to 2035. In this regard, we have reviewed each of Kaifeng, Xuchang, Lankao, Tongxu, Weishi's government work report for 2022 and noted that their 2022 GDP targets are higher than those of Henan and Shandong Province as set out in the Outline of the 14th Five-Year Plan for National Economic and Social Development and Vision 2035 of Henan Province and Shandong Province.

Having considered the various favourable national policies which support the future development of Henan Province and the areas connected by/nearby the Target Expressway, we concur with the view of the management of the Group that the Group can be benefited from acquiring an income-producing expressway situated in Central China.

### **3. The Traffic Study Report**

#### ***3.1 Qualification and experience of the traffic consultant***

In assessing the expertise and independence of Jie Cheng, we have (i) reviewed the engagement letter between the Company and Jie Cheng; and (ii) conducted an interview with Jie Cheng to discuss, among other things, its experience on traffic consulting projects (including traffic volume and toll revenue projection) and relationship with the Group and the Vendor.

Based on the above, we understand that (a) Jie Cheng has over 10 years of experience as traffic consultant and is led by Mr. Albert Cheung Chung Hoi, the Managing Director of Jie Cheng, who is a Fellow of the Hong Kong Institution of Engineers, Hong Kong Institution of Highways and Transportation and Institution of Highways and Transportation, UK, a Member of the Institution of Civil Engineers, UK and has 44 years of experience in conducting feasibility study, design, construction supervision and technical audit of infrastructure projects in the PRC and Hong Kong. In addition, Mr. Cheung has specialized in conducting due diligence study for toll expressways since 1990 and was the Project Director for a traffic consultant company assisting infrastructure companies seeking initial public offering ("IPO") listing on the Stock Exchange and participated in at least seven IPOs in Hong Kong; (b) the Jie Cheng team has independently and jointly completed over 100 traffic consulting projects and its traffic volume and toll revenue projection experience in Henan Province includes Luohe to Pingdingshan Expressway (漯河平頂山高速公路) in 2010, Weixu Expressway (尉許高速公路) in 2011 and Xin County section of Daguang Expressway (大廣高速新縣段) in 2020; and (c) Jie Cheng is a third party independent of the Group and the Vendor. We have also reviewed the terms of engagement including their scope of work which we consider that their scope of work is appropriate.

### 3.2 *Projection methodology*

We have reviewed and discussed with Jie Cheng the methodologies, bases and assumptions adopted to project the Target Expressway's traffic volume, toll revenue and operation and maintenance costs set out in the Traffic Study Report. We noted that Jie Cheng has, among other things, (i) collected economic data and development plan of Henan and Shandong Province and the Target Expressway's key neighbouring area and the historical traffic and toll revenue data of the Target Expressway; (ii) reviewed relevant policies and toll rates of Henan Province published by the regulatory authorities, including the Henan Province Expressway Network Planning (2021-2035) (河南省高速公路網規劃(2021-2035)); (iii) analysed the data in (i) and (ii) above; and (iv) built traffic forecast models under conservative and optimistic scenarios to estimate traffic volume and toll revenue of the Target Expressway and projected an operation and maintenance costs forecast of the Target Expressway.

In estimating the traffic volume and toll revenue of the Target Expressway, Jie Cheng has considered, among other things, the traffic patterns of the Target Expressway, the GDP growth of key areas where the Target Expressway connects, the road capacity of the Target Expressway and nearby expressways, toll rates for passenger vehicles and trucks and changes in expressway network (such as the commencement of operation of new expressways). In estimating the operation and maintenance costs, Jie Cheng has considered, among other things, the historical operation and maintenance costs of the Target Expressways, unit costs for maintenance works, current road condition and maintenance schedule of the Target Expressway and data from its in-house database.

Based on the Traffic Study Report, we noted that (i) the average toll revenue growth rate (average of the toll revenue growth rate under the optimistic and conservative scenario) for 2022, 2023 and 2024 are 7.2%, 3.0% and 5.5%, respectively; (ii) the toll revenue of the Target Expressway was affected by COVID-19 in recent years but is gradually recovering and is expected to return to the level prior to the outbreak of COVID-19 by the end of 2024; (iii) the average toll revenue is expected to grow at a compound annual growth rate of around 4% for 2022-2033; and (iv) the average toll revenue growth rate for 2026 is estimated to be 0.8%, which is relatively low as compared to other years during the forecast period, primarily due to commencement of operation of certain sections of Puyang Yangxin Expressway (陽新高速) connecting Henan Province and Hubei Province and Lankao Shenqiu Expressway (蘭沈高速) within Henan Province at the end of 2025.

As advised by Jie Cheng, when determining the AADT growth rate and in arriving the estimated toll revenues for 2022 and 2023, they have (a) considered the impact brought by COVID-19 and the road traffic control measures for pandemic prevention purposes implemented in nearby areas in Henan Province in 1H2022 on the Target Expressway (i.e. an increase in truck traffic volume as a result of route diversion and a decrease in passenger vehicle traffic volume); (b) built in a 10% reduction of truck toll rates for the fourth quarter of 2022 based on the decision

made in the regular meeting of the State Council held in late September 2022; and (c) assumed that the impact of the COVID-19 pandemic will slow down in 2023, passenger vehicles will resume normal growth and some trucks will return to local roads due to the cancellation of pandemic prevention and control measures, resulting in high traffic growth but low toll revenue growth. In addition, according to Jie Cheng, save for the aforementioned, there is no other major road works and factors that will significantly affect the Target Expressway's traffic volume and they consider the forecast traffic growth will largely be in-line with the declining trend of the estimated GDP growth of relevant areas. Moreover, we have discussed with and are advised by Jie Cheng and the management of the Group that 10% reduction of truck toll rates for the fourth quarter of 2022 is a temporary measure initiated by the State Council to support economic stability and growth. Furthermore, Jie Cheng has confirmed with us that the adopted methodologies, bases and assumptions are commonly used for traffic volume and toll revenue projection and the Traffic Study Report is prepared in accordance with the forecasting procedures that is in-line with market practice and similar to those that Jie Cheng employed for other toll road traffic studies in the PRC.

Taking into account the above and on the basis that nothing has come to our attention that will cause us to doubt the reasonableness of the Traffic Study Report, we are of the view that the adopted methodologies, bases and assumptions stated therein are in-line with market practice.

#### **4. The Valuation Report**

The Company has engaged Savills as the independent valuer to appraise the market value of the Target Equities. As stated in the Valuation Report, the market value of the Target Equities as at 31 July 2022 was RMB1,111 million (the "**Appraised Value**").

##### *4.1 Qualification and experience of the Valuer*

In assessing the expertise and independence of Savills, we have (i) reviewed the engagement letter between the Company and Savills; and (ii) conducted an interview with Savills to discuss, among other things, its experience on toll road valuation and relationship with the Group and the Vendor.

Based on the above, we understand that Savills (i) is an established appraisal firm with extensive experience in undertaking appraisals and had conducted various toll road valuation projects in the past; and (ii) a third party independent of the Group and the Vendor. Moreover, after having reviewed the terms of its engagement (including the scope of work), we consider that their scope of work is appropriate.

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## LETTER FROM THE IFA

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### 4.2 Valuation methodologies

We have reviewed with Savills the valuation methodologies stated in the Valuation Report and are advised that they have considered the income approach, market approach and cost approach in assessing the market value of the Target Equities. Among the three valuation methods, income approach is adopted given (i) such approach is commonly used to value assets that have income streams; (ii) the close relationship between cash flow and value of the Target Expressway; and (iii) the availability of a cash flow forecast confirmed by the Company's management and primarily substantiated by the Traffic Study Report. Savills does not consider it is appropriate to adopt cost approach as it does not capture the Target Company's future earning potential and market approach (using comparable companies) as each expressway is unique on its own (i.e. different traffic characteristics, concession terms, asset conditions and cost structure). Nonetheless, Savills referenced to the Judicial Auction Price of RMB2,483,390,000 when the Target Company acquired the Toll Collection Right (the "Prior Transaction") in late 2020 to cross check the reasonableness of the value of the Target Equities (i.e. market approach).

Since the Prior Transaction only involved the acquisition of the Toll Collection Right, in order to compare on a like-for-like basis, Savills has adjusted the Appraised Value by adding and subtracting the following balance sheet items as at 31 July 2022 to arrive at the Toll Collection Right:

	<i>RMB million</i>
The Appraised Value	1,111
Add: bank borrowings	1,429
net non-operating liabilities	10
Less: cash and cash equivalents	(160)
net working capital (excluding (i) net non-operating liabilities; and (ii) cash and cash equivalents)	(8)
	<hr/>
<b>Total value of the Toll Collection Right</b>	<b>2,382</b>
	<hr/> <hr/>

*Note: the above calculation is for illustrative purpose only and the related figures have not been reviewed or audited by the auditor of the Company. Accordingly, they do not represent the actual financial position of the Target Company when consolidated into the Company's account upon completion of the Acquisition.*

Based on the above, the total value of the Toll Collection Right as implied by the Appraised Value amounts to approximately RMB2,382 million, which is 4.1% lower than the Judicial Auction Price. We have discussed with the Company and Savills in relation to the decrease of the value of the Toll Collection Right from December 2020 to July 2022 and noted that the remaining operating period of the Target Expressway when the Toll Collection Right was acquired in the Prior Transaction was about 13 years and 6 months, whereas the remaining operating

period as at the Valuation Date was about 11 years and 11 months. We are advised by Savills that shorter remaining operating period for a mature expressway with modest projected growth would result in a lower value and relatively low growth in toll revenue during the remaining operating period. Savills has further stated in the Valuation Report that since the toll revenue is the primary source of value of the Target Company, shorter remaining operating period as at Valuation Date means fewer toll revenue generated from remaining operating period compared to the date of the Prior Transaction. The compound annual revenue growth rate from 2022 to 2033 is expected to be around 4% according to the financial forecast for the purpose of this valuation and it is another reason causing the discount. Savills considers the Appraised Value to be reasonable despite the 4.1% discount to the Judicial Auction Price. Our discussion in this regard is set out in section 4.3 below.

Having considered the reasons for adopting the income approach and the bases and assumptions used for valuing the Target Equities as discussed in below section, we are of the view that the chosen valuation method in arriving the Appraised Value, which has been cross-checked with the Judicial Auction Price, is in line with market practice.

#### **4.3 Valuation bases and assumptions**

After having discussed with Savills the adopted bases and assumptions, we understand discounted future free cashflow to equity (“FFCE”) instead of discounted future free cashflow to firm (“FFCF”) calculation was used due to the fact that the computation of FFCF requires a constant gearing ratio which is not applicable to the Target Expressway given that there is a clear debt repayment schedule and such schedule will alter the capital structure over time.

We are advised by Savills that the Capital Asset Pricing Model (the “CAPM”) is used to estimate an appropriate discount rate of the Target Equities or the cost of equity, which is determined based on (i) Hong Kong listed toll road company median beta (as they operate in the same industry and country as the Company) and (ii) Hong Kong based risk-free rate and market risk premium (as Hong Kong listed toll road companies, including the Company itself, rely on Hong Kong equity and debt market as an important source of finance). Furthermore, we have reviewed and discussed with Savills the list of comparable companies set out in the Valuation Report in Appendix I to the Circular used to determine the beta and debt-to-equity ratio, being the requisite components for the computation of the CAPM. Based on our discussion with Savills, we understand that they have conducted a search on the Bloomberg terminal to identify and select companies which are listed on the Stock Exchange principally engaged in toll expressway business similar to that of the Group with at least 50% of their revenue are generated from operating toll roads in the PRC according to the most recent financial reports. Based on the above criteria, Savills has identified 8 comparable companies.

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## LETTER FROM THE IFA

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In addition, we have further discussed with Savills about the specific assumptions and general assumptions adopted in the Valuation Report and noted that (i) the specific assumptions are mostly related to reliance on Jie Cheng's projections and assumptions set out in the Traffic Study Reports as well as the loan repayment schedule and the details of the transactions provided and confirmed by the management of the Group and 1% liquidity premium is added to the discount rate by Savills to reflect the applicable discount for lack of marketability to the equity value of the Target Company as at the Valuation Date; and (ii) the general assumptions are common assumptions adopted in business valuation including but not limited to no major changes in the existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation. We are not aware of any material facts which may lead us to doubt the principal bases or assumptions adopted for the valuation.

In order to compare the Appraised Value on a like-for-like basis, we have considered the actual investment cost of the Vendor in the Target Company as well as the value of the Target Equities as at 31 December 2020 based on the same valuation method, projection data and basis and assumptions in arriving at the Appraised Value (the "2020 Implicit Target Equities Value"). Based on the information provided by the management of the Group, the total paid-in capital of RMB990 million (the "Paid-in Capital") was made by the Vendor into the Target Company. We have reviewed Savills' analysis on the change in market value of the Target Equities from the Valuation Date back to 31 December 2020 (i.e. around the time when the Target Company acquired the Toll Collection Right in the Judicial Auction). Based on the same valuation method, projection data and basis and assumptions as for the Appraised Value, the 2020 Implicit Target Equities Value would be RMB1,007 million as at 31 December 2020, which is RMB17 million higher than the Paid-in Capital. However, it is noted that the Total Consideration is RMB13 million lower than the Appraised Value. Having considered the Vendor's effort in obtaining the Toll Collection Right in 2020 and improving the operating and financial performance of the Target Company, we consider the difference of RMB4 million to be acceptable.

We are advised by Savills that the 2020 Implicit Target Equities Value does not represent a valuation of the Target Equities as at 31 December 2020 as it has incorporated hindsight with information available as of 31 July 2022, which might not be available as at 31 December 2020 and has not adopted the appropriate basis and assumptions under the circumstances as of 31 December 2020 that would be different from those as of 31 July 2022.

### **5. Financial effects of the Acquisition**

Independent Shareholders should note that the discussion below is for illustrative purposes only and may not necessarily represent the actual financial position and performance of the Group as a result of the Acquisition in the future.

### 5.1 *Net assets*

According to the Interim Report, the net assets of the Group as at 30 June 2022 was approximately RMB14,239.7 million. Based on the financial information (which is prepared in consistent with the Group's accounting policy) provided by the management of the Group, assuming that completion of the Acquisition was taken place as at 30 June 2022 and taking into account (i) the Target Company was acquired at the Total Consideration of RMB1,098.0 million; (ii) the net assets of the Target Company as at 30 June 2022 was approximately RMB1,003.9 million; (iii) recognition of fair value adjustment to the Target Company's intangible operating rights of RMB125.5 million and corresponding deferred income tax liabilities of RMB31.4 million; and (iv) professional fee relating to the Acquisition of RMB2.0 million, the Acquisition is not expected to result in material change in the net assets value of the Group.

### 5.2 *Earnings*

Based on the Interim Report, the Group recorded a net profit attributable to the Shareholders for the six months ended 30 June 2022 of approximately RMB295.3 million. Based on the financial information (which is prepared in consistent with the Group's accounting policy) provided by the management of the Group, assuming that completion of the Acquisition was taken place as at 1 January 2022, having considered (i) the net profit attributable to the Target Company for six months ended 30 June 2022; and (ii) the estimated external financing costs for the payment of the Total Consideration and professional fee relating to the Acquisition of RMB13.9 million, the Group's earnings is expected to increase slightly.

### 5.3 *Gearing*

According to the Interim Report, the Group's gearing ratio (calculated based on net debt divided by total capital) as at 30 June 2022 was 48.4%. Based on the financial information (which is prepared in consistent with the Group's accounting policy) provided by the management of the Group, assuming that completion of the Acquisition was taken place as at 30 June 2022, having considered (i) the Target Company's financial position (including its borrowings, lease liabilities, cash position and total equity) as at 30 June 2022; (ii) the bank borrowings incurred by the Group for the Acquisition (the "Acquisition Loan"); (iii) the required cash amount for settling the Total Consideration and professional fee relating to the Acquisition; and (iv) recognition of fair value adjustment to the Target Company's intangible operating rights of RMB125.5 million and corresponding deferred income tax liabilities of RMB31.4 million, it is estimated that the Group's gearing ratio will increase slightly to approximately 52.5%.

#### 5.4 Working capital

As stated in the letter from the Board, as at 30 June 2022, the Group and the Target Company had a net current liability position of RMB3,586.9 million and a net current asset position of RMB138.5 million, respectively. Based on the financial information (which is prepared in consistent with the Group's accounting policy) provided by the management of the Group, assuming that completion of the Acquisition was taken place as at 30 June 2022, taking into account (i) the net current asset position of the Target Company as at 30 June 2022; (ii) the Acquisition Loan; and (iii) the required cash amount for settling the Total Consideration and the expected professional fees relating to the Acquisition, it is expected that the net current liabilities of the Group as enlarged by the Acquisition (the "**Enlarged Group**") would increase by RMB302.7 million. However, the Directors are confident that the Enlarged Group will have sufficient working capital in the next 12 months from the date of the Circular having considered the forecast cash flows including the bank borrowings and facilities available to the Group, the issuance of super short-term commercial paper and/or corporate bonds by the Company and the internally generated funds from operations.

We have been provided with and reviewed the working capital projection of the Enlarged Group from July 2022 to November 2023. It is noted that the working capital projection has, among other things, (i) built in a drawdown of (a) the Acquisition Loan; and (b) RMB2,350 million from the Group's existing bank borrowings and facilities; and (ii) assumed RMB4,000 million will be raised by way of issuance of (a) the remaining quota to issue the super short-term commercial paper of RMB3,500 million by the Company in accordance with the registration notice issued by the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to the Company for the issuance of super short-term term commercial paper for a maximum amount of RMB4,000 million; and/or (b) corporate bonds by the Company in accordance with approval letters from the China Securities Regulatory Commission (中國證券監督管理委員會) for a maximum amount of RMB8,000 million. As shown in the projection, the Enlarged Group is expected to have sufficient working capital from July 2022 to November 2023. In addition, we have reviewed the existing bank borrowing and facilities available to the Group and nothing has come to our attention that will cause us to doubt the reasonableness of the working capital statement made by the Directors as set out in the letter from the Board. Furthermore, the Company announced on 26 October 2022 that it has applied to the National Association of Financial Market Institutional Investors for the unified registration of multiple types of debt financing instruments for a maximum amount of RMB12,000 million which, as advised by the management of the Group, is an additional source of financing to meet its funding needs in the future.



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## LETTER FROM THE IFA

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In addition, we have been provided with and reviewed the commitment letter from a PRC bank in relation to the project acquisition loan for the Acquisition. Pursuant to the letter, the PRC bank conditionally agreed to provide the Acquisition Loan in an amount of not more than RMB1,000 million for a maximum of seven years at the bank's most favourable interest rate. As advised by the management of the Group, the Company intends to finance 60% of the Total Consideration by the aforementioned Acquisition Loan at an interest rate which is estimated to be not more than 3.6% and the balance by internal resources. The final terms and conditions of the Acquisition Loan will be finalized prior to the Completion.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the SPA and the transactions contemplated thereunder (including but not limited to the Acquisition) are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the SPA and the transactions contemplated thereunder (including but not limited to the Acquisition).

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Jenny Leung**  
*Director*

*Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and have participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*



The Directors  
Yuexiu Transport Infrastructure Limited  
17A Yue Xiu Building,  
160 Lockhart Road,  
Wanchai, Hong Kong

17 October 2022

Dear Sirs,

## **VALUATION OF 100% EQUITY INTEREST IN HENAN YUEXIU LANWEI EXPRESSWAY COMPANY LIMITED**

In accordance with your instructions, we have undertaken a valuation on behalf of Yuexiu Transport Infrastructure Limited (the “**Company**”) to determine the Market Value (as defined below) of 100% equity interest (the “**Equity**”) in Henan Yuexiu Lanwei Expressway Company Limited (“**YXLW**”) as at 31 July 2022 (the “**Valuation Date**”).

### **1. BRIEF DESCRIPTION OF LANWEI COMPANY**

On 19 December 2020, Guangzhou Yue Xiu Holdings Limited, through its wholly-owned subsidiary YXLW, acquired the toll collection right of Henan Lanwei Expressway (“**Lanwei Expressway**”) in a judicial bidding at the consideration of RMB2,483.39 million (“**Prior Transaction**”). Lanwei Expressway is a section of the Rizhao-Nanyang Expressway, one of the 28 national planned core highways, and is also an important component of the expressway network planned by Henan Province.

Lanwei Expressway, which starts in Lankao County, Kaifeng City, Henan Province, passes through Tongxu County and ends at Weishi County, intersects with Lianhuo Expressway, Zhengmin Expressway and Daguang Expressway, and is directly connected to Henan Weixu Expressway, a project wholly-owned by the Company. Lanwei Expressway is an important corridor connecting Henan Province and Shandong Province. Lanwei Expressway has a total length of 61.03 kilometers. It was constructed in accordance with the construction standard of a two-way four-lane expressway with a designed speed of 120 kilometers per hour. The operating period will expire on 1 July 2034, and the remaining operation term is about 11 years and 11 months as at the Valuation Date.

## **2. PURPOSE OF VALUATION AND STANDARD OF VALUE**

The purpose of this valuation is to express an independent opinion of the Market Value of 100% equity interest in YXLW as at the Valuation Date stated above for the purpose of acquisition of the equity interest in YXLW (“**Acquisition**”) by the Company or its subsidiary.

Our valuation is prepared in accordance with the International Valuation Standards (“**IVS**”) published by International Valuation Standards Council.

According to International Valuation Standards (“**IVS**”), Market Value is defined as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We acknowledge that this report may be made available to the Company for public circulation purpose. We however assume no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

## **3. SOURCES OF INFORMATION**

For the purpose of our valuation, we have relied on the following major documents and information in the valuation analysis. Certain documents and information have been provided by the Company. Other information are extracted from public sources. We have discussed with the management of the Company and Jie Cheng Consultants Limited (“**Jie Cheng**”) to assess the reasonableness and fairness of the documents and information adopted by us. While we have satisfied ourselves with the reasonableness and fairness of the documents and information adopted, we expressly disclaim any responsibility or liability for the accuracy of the said documents and information. The major documents and information include but not limited to:

- Background information of the Lanwei Expressway and YXLW’s business operations and relevant corporate information;
- Audited financial statements and historical financial information of YXLW and Lanwei Expressway;
- Registrations, legal documents, permits and licenses related to YXLW;
- Capital expenditure forecast of YXLW by Jie Cheng;
- Loan repayment assumptions of YXLW based on discussion of the Company;

- The economic outlook in general and the specific economic environment and elements affecting YXLW, industry and market;
- Traffic Study Report on Lanwei Expressway issued by Jie Cheng;
- Information on valuation of other toll road companies as disclosed in recent acquisitions by Hong Kong listed companies;
- Bloomberg Database; and
- Equity risk premium database published by Professor Aswath Damodaran of New York University in July 2022.

#### **4. SCOPE OF WORK PERFORMED**

Our work included analysis of YXLW's background, historical and projected financial information, and other relevant information of YXLW and Lanwei Expressway, as well as discussions with the management of Company and Jie Cheng regarding YXLW and Lanwei Expressway's business operations and other material information. We have also discussed with Jie Cheng on the bases and assumptions underlying the traffic and maintenance cost projections of Lanwei Expressway. We understand that Jie Cheng prepared the Traffic Study Report based on the following factors:

- The historical gross domestic product ("GDP"), planning data and the forecast GDP of the respective provinces, cities and counties connected by Lanwei Expressway;
- The historical passenger and goods traffic data for each cross section of Lanwei Expressway;
- The historical toll revenue on Lanwei Expressway;
- The historical exit and entrance traffic data from all toll stations for Lanwei Expressway;
- The historical OD traffic data for Lanwei Expressway;
- Documents approving the existing toll rates of Henan Province;
- Henan Provincial Highway Network Planning issued by Henan Provincial People's Government; and
- Other relevant national specifications.

We further understand that Jie Cheng prepared their cost projections on the following basis:

- The cost projections are prepared based on the principles of coherence, balance and reasonableness;
- The cost projections assume YXLW will maintain the provided management structure and staff salary level by the Company;
- The cost projections have considered both historical expenditure level and future owner's maintenance strategy;
- The number of employees of YXLW may be adjusted according to the actual operation needs, the expenses such as employees' compensation and resettlement should be paid accordingly, which are not taken into account in the projection; and
- The cost projections have not considered possible impact from special circumstances such as extreme weather, epidemic control and statutory order.

We are of the view that Jie Cheng's basis of preparation of the Traffic Study Report is reasonable and therefore have adopted the assumption that the traffic and maintenance cost projections provided by Jie Cheng are reliable, reasonable and legitimate and have relied to a considerable extent on the projections by Jie Cheng in arriving at our opinion of value. Please refer to the Traffic Study Report for more detailed discussion, assumptions and analyses by Jie Cheng.

## **5. VALUATION METHODOLOGY AND BASIS**

In conducting the valuation, we have considered three generally accepted approaches, including income approach, market approach and cost approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the specific characteristics of the subject of the valuation and the commonly adopted practice.

### **5.1 Market approach**

According to the IVS, the market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

In the business valuation context, the market approach valuation shall analyse recent transaction(s) in the equity interest of the valuation subject and/or comparable companies and benchmark the valuation subject with the selected comparable(s).

We are aware that YXLW acquired the toll collection right of Lanwei Expressway in a judicial bidding at the consideration of RMB2,483.39 million on 19 December 2020. We will consider the reasonableness of our valuation of the Equity with reference to the transaction price of the judicial bidding as a market approach cross check.

The market approach using comparable companies is not adopted in this valuation as Lanwei Expressway has its own traffic characteristics, concession terms, asset conditions and cost structure which are difficult to have appropriate comparable valuation multiples for valuation purpose.

## 5.2 Cost approach or Asset approach

According to the IVS, the cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

In the business valuation context, cost approach is often presented as summation method, in which Market Value of the business entity is derived from the sum of Market Value of its existing assets less the Market Value of its liabilities.

The asset approach is not adopted to value YXLW because it cannot capture the future earning potential of YXLW from operation.

## 5.3 Income approach

According to the IVS, the income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

In the business valuation context, under income approach, value of the business entity is derived primarily from the present value (“PV”) of its future cash flow, typically through the use of discounted cash flow (“DCF”) method.

Given the close relationship between cash flow and value of a company, and the availability of a cash flow forecast confirmed by the Company’s management and primarily substantiated by the Traffic Study Report, we have adopted the income approach as the primary approach to estimate the Market Value of YXLW.

## **6. IMPLEMENTATION OF DCF METHOD FOR VALUATION OF YXLW**

### **6.1 Basis of cash flow**

Under DCF method, it is possible to use free cash flow to firm (“FCFF”) or free cash flow to equity (“FCFE”) to value a company. The differences between FCFF and FCFE is that FCFF reflects the value of debt as at the Valuation Date in the net debt adjustment in arriving at the equity value, whereas FCFE considers debt financing and repayment explicitly over the projection period in the cash flow projection in arriving at the equity value. Also, FCFF is discounted to PV using weighted average cost of capital (“WACC”), while FCFE is discounted to PV using cost of equity.

Based on our discussion with the management of the Company and our understanding of the existing financing of the Targets, we have selected FCFE as the basis of cash flow due to the following reasons:

- i. As the toll collection right of Lanwei Expressway is of limited period of operation up to expiry of toll collection right, the associated loans have to be repaid over time within the toll collection period. Therefore, the underlying assumption of long term optimal capital structure in the adoption of WACC is not applicable; and
- ii. YXLW has known debt repayment schedule which are integral to the valuation of YXLW. We also note that the timing of debt repayment would have significant impact on the Market value of YXLW and only the use of FCFE can reflect such value.

The FCFE for each year is calculated as follows where each component is discussed in the next section:

Free Cash Flow to Equity (FCFE) = Net Profit + Depreciation and Amortisation – Capital Expenditure – Change in Net Working Capital + Loan Drawdown – Loan Repayment

### **6.2 Financial Projections**

The forecast financial projections of YXLW are principally based on the following components with the forecast shown in Appendix 1.

### **6.3 Revenue**

The forecast revenue comprises solely toll revenue. The toll revenue is determined by toll rate and traffic flow, in which we have relied on the forecast from the Traffic Study Report. The toll revenue adopted in the DCF is exclusive of value added tax.

Jie Cheng simulated two scenarios of forecast, being the “Optimistic” and “Conservative” scenarios. The “Optimistic” scenario projects a faster growth in annual average daily traffic (“AADT”) over the toll collection period. The “Conservative” scenario assumes a slower growth in AADT over the remaining concession period than the “Optimistic” scenario. Jie Cheng prepared projections of the traffic volume and the toll income under both scenarios with respect to Lanwei Expressway across the toll collection period. As we understand from Jie Cheng that both cases are considered equally likely based on information as at the Valuation Date, we have adopted the averages of the “Optimistic” and “Conservative” scenarios prepared by Jie Cheng as the toll income stream (“**Base Case**”) for Lanwei Expressway.

Please refer to the Traffic Study Report for the basis and details of the “Optimistic” and “Conservative” scenarios prepared by Jie Cheng.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Revenue	128	335	354	371	374	392	411	428

RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034
Revenue	446	465	484	501	260

#### 6.4 Tax surcharges

The tax surcharges include construction tax and education supplementary tax and are calculated based on the respective applicable tax rate on the value added tax from toll revenue for YXLW.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Tax surcharges	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(2)

RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034
Tax surcharges	(2)	(2)	(2)	(2)	(1)



### 6.5 Cost of revenue

Cost of revenue comprises the direct operating cost and the repair and maintenance expense based on forecasts from the Traffic Study Report. The direct operating cost principally consists of labour cost, being the wages and salaries of the staff. Repair and maintenance expenses includes road maintenance cost. Expenses projected by Jie Cheng that are expected to be qualified for capitalisation as intangible assets by YXLW are reclassified to capital expenditure. Portion of expenses from periodical overhaul that does not quality for capitalisation will be recognised as cost of revenue here. Depreciation and amortisation are projected separately in the model.

Labour cost is expected to increase to reflect necessary increase estimated by Jie Cheng due to increase in headcounts to handle increase in traffics and inflation.

Repair and maintenance expenses are incurred for regular inspection, daily road service maintenance, bridge maintenance etc. It is assumed to increase to reflect necessary increase estimated by Jie Cheng due to increase of damages as a result of aging of facilities and increased usage and inflation.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Cost of revenue	(13)	(30)	(32)	(34)	(40)	(43)	(45)	(47)

RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034
Cost of revenue	(42)	(51)	(54)	(48)	(29)

### 6.6 Management and other operating expenses

Management and other operating expenses comprise administrative expenses which include wages and salaries of administration staff and other administrative expenses and are calculated based on forecast in the Traffic Study Report. Selling and distribution expenses are assumed to be minimal and insignificant based on the historical financial information and the business nature.

The wages and salaries of administration staff are expected to increase to reflect necessary increase estimated by Jie Cheng due to increase in headcounts to handle increase in traffics and inflation. Other administrative expenses are assumed to increase throughout the toll collection period due to inflation and traffic growth.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Administrative and other operating expenses	(5)	(11)	(12)	(12)	(12)	(13)	(13)	(13)
RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034			
Administrative and other operating expenses	(13)	(14)	(14)	(14)	(9)			

## 6.7 Finance cost and Loan repayment

The finance cost represents the interest expenses calculated based on the interest rate and outstanding principal according to the borrowing and repayment projection confirmed by the Company. The interest rates are assumed to be fixed for the respective loans during the toll collection periods in the absence of any foreseeable change as at the Valuation Date.

The borrowing and repayment projection is confirmed by the Company based on the repayment schedule of the bank loans of RMB1,429 million of YXLW with interest rate at 4.165% which is in line with the cost of debt of YXLW with reference to its current cost of debt and interest rate term structure prevailing as at the Valuation Date and indicated rate from bank as at the Valuation Date.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Loan repayment	(60)	(137)	(154)	(154)	(154)	(154)	(154)	(154)
RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034			
Loan repayment	(154)	(154)	-	-	-			

### 6.8 Income tax

The effective income tax rate adopted is 25% which is the statutory corporate income tax rate of China.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Income tax	(0)	(8)	(12)	(17)	(17)	(22)	(28)	(33)

RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034
Income tax	(41)	(47)	(54)	(55)	(26)

### 6.9 Capital expenditure, depreciation and amortisation

In addition to regular repairs and maintenance, periodic major overhaul is projected by Jie Cheng to take place every 5 years which corresponds to the year of state inspection, with the first being 2025, in order to restore Lanwei Expressway to satisfactory condition. There are also other major overhauls in specific years (such as 2022, 2023, 2024, and 2033) based on Jie Cheng's discussion with YXLW management. These costs are capitalised and depreciated in the remaining operation period.

YXLW recognised the concession rights as intangible assets on their financial statements which are subject to amortisation. The carrying amount is based on the tax deductible value according to the Company.

Depreciation and amortisation are projected on the following basis:

- (i) Depreciation: straight-line method, depreciation period of 8 years, residual value of 0%;
- (ii) Amortisation: straight-line method over the toll collection period for the carrying value as of the Valuation Date, residual value of 0%.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
Capital expenditure	(50)	(71)	(28)	(24)	(1)	(1)	(1)	(1)
Depreciation and amortisation	(82)	(205)	(211)	(215)	(216)	(216)	(217)	(217)

RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034
Capital expenditure	(25)	(2)	(2)	(40)	(1)
Depreciation and amortisation	(215)	(203)	(198)	(215)	(118)

### 6.10 Change in net working capital

As the business nature of toll road operation does not typically incur significant inventory, receivable and payable across years, YXLW is not expected to incur significant change in net working capital across years despite the forecast increase in toll revenue and the periodical increase in capital expenditure. Based on the discussion with management of the Company, the additional requirement for net working capital during the projection period is expected to be limited and insignificant. Therefore, existing net working capital of RMB8 million will be released only at the end of the toll collection right of Lanwei Expressway.

### 6.11 Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) Margin

Based on the above assumptions, the EBITDA margin of YXLW are projected to be relatively stable from 85.03% to 87.34% as Lanwei Expressway is relatively mature.

RMB (million)	August to December 2022	January to December 2023	January to December 2024	January to December 2025	January to December 2026	January to December 2027	January to December 2028	January to December 2029
EBITDA	109	293	309	324	320	335	352	366
EBITDA margin	85%	87%	87%	87%	86%	86%	86%	86%

RMB (million)	January to December 2030	January to December 2031	January to December 2032	January to December 2033	January to June 2034
EBITDA	389	398	414	437	221
EBITDA margin	87%	86%	86%	87%	85%

### 6.12 Discount rate

In estimating an appropriate discount rate for YXLW, we have used the Capital Assets Pricing Model (the “CAPM”) to estimate the cost of equity for the discounting of FCFE to PV taking into consideration of pertinent factors which primarily include the following:

- the market and the business risks of YXLW;

- the general economic outlook as well as specific investment environment for the business;
- the nature and current financial status of YXLW;
- the historical performance of YXLW;
- the market expectation and required rate of return for similar business; and
- the assumptions as stated in the Specific and General Assumptions of this report.

Under CAPM, cost of equity is the sum of the risk-free rate and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the cost of equity of YXLW may be subject to other firm specific risk factors (e.g. size premium) that are independent of the general market. The discount rate is determined by the then prevailing risk-free rate, required market return, estimated beta of YXLW and firm specific risk factors prevailing as at the Valuation Date and is tabulated below:

Item	31 July 2022	Note
Unlevered beta	0.29	Median of comparable companies' 2-year weekly beta from Bloomberg
Debt-to-equity ratio	89.4%	Median of comparable companies' debt-equity ratio
Levered beta	0.49	Based on re-leveraging formula
Risk free rate	2.66%	Yield of Hong Kong Government Bond approximating the remaining operation term of YXLW
Equity risk premium	6.85%	Equity risk premium of Hong Kong in July 2022 sourced from Aswath Damodaran
Country risk premium	0.15%	Differential between country risk premium of Hong Kong and China in 2022 sourced from Damodaran
Size premium	2.1%	2022 data published by Kroll Cost of Capital Navigator
Liquidity premium	1.0%	Valuer's judgment with reference to rate adopted in market toll road acquisitions and company specific factors
Cost of equity	9.3%	CAPM formula

$$Ke = R_f + \beta \times ERP + \alpha$$

Where:

$R_f$	=	risk free rate
$ERP$	=	equity risk premium
$\beta$	=	the beta factor
$\alpha$	=	firm specific risk factors (alpha)

We note that there were numerous acquisitions of toll roads in China by various Hong Kong listed toll road companies (including the Company itself), which in turn rely on the Hong Kong equity and debt market as a source of finance. We therefore consider that Hong Kong companies are market participants in the transaction of toll roads in China for the purpose of Market Value estimation. As such, we have adopted a Hong Kong based risk free rate, market risk premium and adjusted for the operation risk in China for YXLW through the country risk premium.

As in typical business valuation practice, in determining the beta and debt-to-equity ratio, we have considered the information of comparable companies operating toll roads in China with more than 50% of its revenue source from toll road operation according to the most recent financial reports and listed in Hong Kong identified from a search on Bloomberg terminal. While the comparable companies may not operate in the same location as YXLW, they operate in the same industry and country as YXLW within the same regulatory framework, therefore considered suitable for our discount rate analysis in the absence of better alternatives for estimation of industry risk level applicable to YXLW. The selected companies are tabulated below:

Company Name	Ticker	Description	Unlevered Beta	Debt-to-equity ratio
Jiangsu Expressway Company Limited	177 HK EQUITY	Jiangsu Expressway Company Limited operates highway businesses. The company provides toll highway investment, construction, and maintenance services. Jiangsu Expressway also conducts highway passenger transportation, refueling, catering, car repair, and advertisement businesses.	0.43	55.3%
Shenzhen Expressway Company Limited	548 HK EQUITY	Shenzhen Expressway Company Limited constructs, manages and operates toll highways and expressways in China.	0.24	165.7%
Zhejiang Expressway Co., Ltd.	576 HK EQUITY	Zhejiang Expressway Co., Ltd., through its subsidiaries, designs, constructs, operates, and manages high grade roads, as well as develops and operates certain ancillary services, such as technical consultation, advertising, automobile servicing, and fuel facilities.	0.20	340.3%

Company Name	Ticker	Description	Unlevered Beta	Debt-to-equity ratio
Anhui Expressway Co. Ltd.	995 HK EQUITY	Anhui Expressway Co. Ltd. principally holds, operates and develops toll expressways and highways in Anhui province in China.	0.38	55.3%
Shenzhen Investment Holdings Bay Area Development Company Limited	737 HK EQUITY	Shenzhen Investment Holdings Bay Area Development Company Limited provides infrastructure construction services. The company provides highway construction, bridge construction, and other related services. Shenzhen Investment Holdings Bay Area Development offers services in China.	0.42	16.9%
Yuexiu Transport Infrastructure Ltd.	1052 HK EQUITY	Yuexiu Transport Infrastructure Ltd., through its subsidiaries, invests in, develops, operates, and manages toll highways, expressways, and bridges in China.	0.19	264.8%
Qilu Expressway Company Limited	1576 HK EQUITY	Qilu Expressway Company Limited operates as an expressway operator. The company offers expressway construction, maintenance, operation, management, and other services. Qilu Expressway provides its services in China.	0.35	70.8%
Chengdu Expressway Co. Ltd.	1785 HK EQUITY	Chengdu Expressway Company Limited offers transportation infrastructure construction services. The company provides highway construction, bridge construction, and other related services. Chengdu Expressway also operates engineering construction and financial investment businesses.	0.21	108.1%

Source: Bloomberg

**6.13 Discounted Cash Flow**

Based on the above financial forecast and discount rate, we have adopted mid-period discounting to discount the FCFE to PV on the assumption that the toll revenue is collected throughout the year and therefore the cash flow is on average to be discounted in mid-period as opposed to end of period.

The net present value (“NPV”) of the FCFE for each period is added to arrive at the NPV from the DCF. Further adjustment for non-working capital items such as cash and cash equivalents, prepayment, receipt in advance, intercompany receivables and payables, other receivables and other payables as at the Valuation Date are made to the NPV to arrive at the Market Value of the 100% equity interest of YXLW. We then adjusted that by the corresponding equity stake to be valued in arriving at our opinion.

The discounted cash flow calculation for the FCFE to YXLW and Market Value of the respective equity interest is set out in Appendix I.

**7. SENSITIVITY ANALYSES**

We consider the Market value of YXLW most sensitive to discount rate and the toll revenue (based on the different scenarios depicted by Jie Cheng). The resultant sensitivity analyses are shown below:

**Sensitivity analysis for Market Value of 100% equity interest in YXLW**

Scenario	Cost of equity					Cost of equity				
	8.3%	8.8%	9.3%	9.8%	10.3%	8.30%	8.80%	9.30%	9.80%	10.30%
Optimistic	1,302	1,263	1,226	1,191	1,156	17%	14%	10%	7%	4%
Conservative	1,058	1,027	996	967	939	-5%	-8%	-10%	-13%	-16%
Base	1,180	1,145	1,111	1,079	1,048	6%	3%	0%	-3%	-6%

**8. CROSS CHECK WITH MARKET APPROACH**

The Prior Transaction constitutes a recent transaction in the toll collection right of Lanwei Expressway, which may reflect the Market Value at the time of transaction. Analysis of change in Market Value from then to the Valuation Date is a common cross check in business valuation.

As the consideration of Prior Transaction was the acquisition of the toll collection right of Lanwei Expressway without debt, we have to add back the bank loan balance of YXLW and adjust for net working capital in our cross check of the reasonableness of our valuation of the Equity using income approach on asset-to-asset basis. Based on the Market Value of the Equity at RMB1,111 million from the income approach, cash and cash equivalents of RMB160 million, non-operating liabilities of RMB10 million, the bank loan balance of RMB1,429 million and the net working capital balance of RMB8 million, the



total value of the toll collection right of Lanwei Expressway (“**Total Value**”) amounts to approximately RMB2,382 million.

Based on the information from the Company, YXLW acquired the toll collection right of Lanwei Expressway in a judicial bidding on 19 December 2020 at the consideration of RMB2,483 million. The Total Value of RMB2,382 million represents a discount of 4.1% to the transaction price in the Prior Transaction. Based on the discussion with the Company and our analysis, we understand that the value difference between the Prior Transaction and the Valuation Date pertains to shorter remaining operating period and relatively low growth in toll revenue during the remaining operating period. The remaining operating period was about 13 years and 6 months at the time of YXLW’s acquisition of the toll collection right of Lanwei Expressway, whereas the remaining operating period is 11 years and 11 months as at the Valuation Date. On the other hand, since the toll revenue is the primary source of value of YXLW, shorter remaining operating period as at Valuation Date means fewer toll revenue generated from remaining operating period compared to the date of Prior Transaction. The compound annual revenue growth rate from 2022 to 2033 is expected to be around 4% according to the financial forecast for the purpose of this valuation and it is another reason causing the discount.

Given the above, we consider our valuation of YXLW to be reasonable despite the 4.1% discount over the transaction price in the Prior Transaction.

## **9. REMARKS**

Unless otherwise stated, all monetary amounts are stated in Renminbi.

Figures may not sum due to rounding.

This report is issued subject to our Assumptions and Limiting Conditions as attached.

## **10. SPECIFIC ASSUMPTIONS**

A number of specific assumptions have been made in the preparation of the reported figures. The major specific assumptions are set out below:

- The future financial performance of YXLW will be in line with the traffic and maintenance cost projections provided by Jie Cheng with the assistance of the management of the Company at the required rate of return;
- The toll rate and charging mechanism will remain unchanged over the remaining toll collection period for Lanwai Expressway as forecasted by Jie Cheng;
- The financial and operational information provided and confirmed by the Company are accurate. YXLW will have sufficient financial support as required to remain operating as a going concern;
- YXLW will repay its bank loans at the time, amount and interest rate agreed in the loan contract provided by the Company;

- The capital expenditure and maintenance cost forecast are sufficient for maintaining Lanwai Expressway at satisfactory conditions for the forecast traffic and the regulatory requirement, there are no hidden or unexpected conditions associated with the assets or liabilities of YXLW that might adversely affect the reported value;
- As the equity of YXLW is not publicly listed and not readily marketable (i.e. illiquid) as at the Valuation Date, we have added a 1.0% premium to the discount rate to reflect the applicable Discount for Lack of Marketability (“DLOM”) to the equity value of YXLW as at the Valuation Date with reference to the circumstances of the YXLW, market factors and the DLOM adopted in other acquisitions of toll road companies in China; and
- Since the stake involving YXLW is controlling stake, discount for lack of control is not necessary.

## 11. GENERAL ASSUMPTIONS

A number of general assumptions have been made in the preparation of the reported figures. The assumptions are:

- There will be no major changes in existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation;
- The long term inflation rate, interest rate and currency exchange rate will not differ materially from those presently prevailing;
- YXLW will retain sufficient management and technical personnel to maintain its ongoing operations;
- There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will significantly affect the existing business;
- YXLW’s businesses are unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements. All applicable laws and regulations have been and will be complied with;
- The business is not and will not be subject to any unusual or onerous restrictions or encumbrances which may render YXLW’s default against its outstanding commitment or obligations; and
- Any potential bad debt of YXLW will not materially or significantly affect the value of YXLW.

## 12. LIMITING CONDITIONS

We understand that you will perform additional separate due diligence before making any transaction decision related to YXLW. You will not solely rely on our opinion regarding any transaction related to YXLW. Our report will be used for internal reference purpose only and cannot replace any managerial decision or judgment of the Company's management. Our work does not constitute any buy or sell recommendation.

No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is beyond what is customarily expected on valuers' capacity or expertise. We are not in a position to, nor have been instructed to, comment on the lawfulness of the businesses and YXLW's possession of the assets. In the course of our valuation, we have assumed that the assets have obtained all required registration and are freely transferable in the market without any significant obstacles.

We have not carried out any structural or civil engineering survey and are not therefore able to confirm if Lanwei Expressway is free from structural defects and would not assume any adverse impact from such matters.

We have been provided with extracts of copies of relevant documents and financial information relating to YXLW. We have relied upon the aforesaid information and certain data from various databases in forming our opinion of the Market Value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. Our work has relied to a considerable extent on the information provided by the Company and does not constitute an audit and no assurance is given by us to the information supplied to us. Details of our principal information sources are set out in the report and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work. We have made relevant inquiries and obtained further information as we considered necessary for the purpose of this valuation, we however cannot guarantee the reliability or accuracy of the information sources. We have no responsibility to doubt the truthfulness and accuracy of the said information which is material to the valuation. We have also been confirmed by the Company that no material facts related to this valuation have been omitted from the information provided.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Furthermore, the assumptions adopted are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, YXLW and us. While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the change of the business, economic environment, competitive uncertainties or any other abrupt alternations of external factors. We must emphasise that the realisation of any prospective financial information set out within our report is dependent on the continuing validity of the assumptions on which it is based. We accept no responsibility for the realisation of any prospective

financial information. Actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and the differences may be material.

In accordance with our standard practice, we must state that this report and valuation is for the purpose of incorporation into the public announcement and circular of the Company in connection with the Acquisition and the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

Neither the whole, nor any part of this report and valuation, nor any reference thereto may be included in any documents, circular or statement without our written approval of the form and context in which it will appear.

We shall be under no obligation to update our report in respect of events or information which come to our attention subsequent to the date of this report. Notwithstanding this, we reserve the right, should we consider it necessary, to revise our valuation in light of any information which existed at the Valuation Date but which becomes known to us subsequent to the date of this report.

We shall not testify or attend in court due to this exercise, with reference to the valuation described herein. Should there be any further services required, the corresponding expenses and provision of services will be reimbursed from the Company and such additional work may incur without prior notification.

### **13. MANAGEMENT CONFIRMATION OF FACTS**

A draft of this report and our calculation has been sent to management of the Company. They have reviewed and orally confirmed to us that facts as stated in this report and calculation are accurate in all material respects and that they are not aware of any material matters relevant to our engagement which have been excluded.

### **14. CONFIRMATION OF INDEPENDENCE**

We hereby confirm that we have neither present nor prospective interests in the Company, YXLW and their respective holding companies, subsidiaries and associated companies, or the value reported herein.

**15. OPINION OF VALUE**

Based on the method employed and analysis stated above and in the appendix, we are of the opinion that the Market Value of Equity in YXLW as at Valuation Date is **RMB1,111,000,000 (RENMINBI ONE BILLION ONE HUNDRED AND ELEVEN MILLION ONLY)**.

We emphasise that the above value is especially dependent on the future traffic and toll rate in the regions YXLW operate and the ability of YXLW to repay their debt and operate as a going concern. Any unexpected significant changes impacting the traffic or toll rates in the regions or future delay or failure in debt servicing or could have a significant impact to the value of YXLW subsequent to the Valuation Date.

As requested by the Company for the internal reference only, the internal rate of return for the Acquisition based on the FCFE and the total consideration of RMB1,098 million for YXLW is estimated at 9.50%.

*The outbreak of the COVID-19, declared by the World Health Organisation as a 'Global Pandemic' on the 11 March 2020, has impacted many aspects of daily life and the global economy. As of the date of the report, it is uncertain for how long such interruption will last and as to the extent of the impact on the economy. Due to the volatility and uncertainty caused by the pandemic, the valuation may subject to significant and unexpected change. Given the unknown future impact that COVID-19 might have on the financial market and the difficulty in differentiating between short term impacts and long-term structural changes, we recommend that you keep the valuation contained within this report under frequent review.*

*Our opinion of value is made as at the Valuation Date only. Any value changes subsequent to the Valuation Date could be material depending on facts and circumstances.*

Yours faithfully,

For and on behalf of

**Savills Valuation and Professional Services Limited**

**Wiley W.F. Pun**

*HKICPA CICPA (non-practising) PRM*

*Director*

Encl.

## Appendix I — DCF calculation

## Discounted cash flow model (FCFE)

<i>In RMB million</i>	5 months 31/12/2022	12 months 31/12/2023	12 months 31/12/2024	12 months 31/12/2025	12 months 31/12/2026	12 months 31/12/2027	12 months 31/12/2028	12 months 31/12/2029	12 months 31/12/2030	12 months 31/12/2031	12 months 31/12/2032	12 months 31/12/2033	6 months 30/6/2034
Sales	128	335	354	371	374	392	411	428	446	465	484	501	260
Cost of revenue	(13)	(30)	(32)	(34)	(40)	(43)	(45)	(47)	(42)	(51)	(54)	(48)	(29)
Tax surcharges	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(1)
Admin. Expenses	(5)	(11)	(12)	(12)	(12)	(13)	(13)	(13)	(13)	(14)	(14)	(14)	(9)
Depreciation & amortisation	(82)	(205)	(211)	(215)	(216)	(216)	(217)	(217)	(215)	(203)	(198)	(215)	(118)
EBIT	26	88	98	110	104	119	135	149	174	194	216	222	103
Interest	(25)	(56)	(50)	(43)	(37)	(30)	(24)	(18)	(11)	(5)	-	-	-
EBT	2	32	48	66	67	88	111	132	163	189	216	222	103
Less: tax	(0)	(8)	(12)	(17)	(17)	(22)	(28)	(33)	(41)	(47)	(54)	(55)	(26)
Add: depreciation and amortisation	82	205	211	215	216	216	217	217	215	203	198	215	118
Less: capex	(50)	(71)	(28)	(24)	(1)	(1)	(1)	(1)	(25)	(2)	(2)	(40)	(1)
Less: change in WC	-	-	-	-	-	-	-	-	-	-	-	-	8
Bank loan repayment	(60)	(137)	(154)	(154)	(154)	(154)	(154)	(154)	(154)	(154)	-	-	-
FCFE	(27)	21	66	86	111	127	144	160	158	190	359	341	202
Partial period	0.42	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50
Discount period	0.21	0.92	1.92	2.92	3.92	4.92	5.92	6.92	7.92	8.92	9.92	10.92	11.67
Discount factor	0.9815	0.9215	0.8431	0.7714	0.7057	0.6457	0.5907	0.5405	0.4945	0.4524	0.4139	0.3787	0.3543
Present value	(26)	19	55	66	79	82	85	86	78	86	148	129	72

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**APPENDIX I            VALUATION REPORT ON THE TARGET EQUITIES**

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**DCF valuation summary**

	<i>RMB million</i>
NPV from DCF	961
Add: Cash	160
Less: non-operating liabilities	<u>(10)</u>
<b>Market value of 100% equity interest in YXLW</b>	<b><u><u>1,111</u></u></b>

*(note: figures may not sum due to rounding)*

*The following is the text of a letter, prepared for inclusion in this circular, received from Jie Cheng Consultants Limited in connection with the traffic forecasts for the Lanwei Expressway.*

杰誠顧問有限公司  
Jie Cheng Consultants Limited



Room 602,  
Chung Wai Commercial Building,  
447-449, Lockhart Road,  
Hong Kong

2 November 2022

The Directors  
Yuexiu Transport Infrastructure Limited

Dear Sirs,

**YUEXIU TRANSPORT INFRASTRUCTURE LIMITED**  
**SUMMARY OF**  
**THE TRAFFIC STUDY ON LANWEI EXPRESSWAY,**  
**HENAN PROVINCE**

**1. INTRODUCTION**

In accordance with your instruction to Jie Cheng Consultants Limited (hereinafter referred to the “**Consultants**”) to conduct a Traffic, Operation and Maintenance Costs Estimate Study for the tolled Lanwei Expressway in Henan Province (hereinafter referred to “the Expressway” or “Lanwei Expressway” (蘭尉高速)), the People’s Republic of China for the Yuexiu Transport Infrastructure Limited (hereinafter referred to the “**Company**”) for the purpose of valuation of the Lanwei Expressway and the inclusion in the Company’s circular of even date. This report summarizes the results and findings based on the technical analysis conducted.

Lanwei Expressway is part of Lankao to Nanyang Expressway (one of the 16 north south expressway network in Henan Province). The Expressway connects to Wanglan Expressway at the north and extends to the border between Henan and Shangdong Provinces with further connections with Zhengmin Expressway, Daguang Expressway and Shangdeng Expressway. The southern end of the Expressway connects to Weixu Expressway. The Lanwei Expressway is a 61.03 km dual 2-lane expressway with a design speed of 120 km/h. It has 9 long bridges, 22 medium size bridge, 21 small bridges, 21 grade separated interchanges, 4 interchanges, and 3 toll stations at Er Lang Miao, Tong Xu and Wei Shi. Total investment is RMB2.228 billion.

Lanwei Expressway was constructed from 2003 to 2005 and was opened to traffic in 2005.



In accordance with the provisions of the concession agreement of the project, the concession period of the Expressway will be ceased on 1 July 2034.

The location of Lanwei Expressway is given in Figure 1.



Figure 1 Location of Lanwei Expressway

In accordance with your instruction, the Consultants have conducted a professional site visit from 8 March to 11 March 2021 and collected information including the adjacent road network (including those under construction), industry development layout and other relevant information. The management has confirmed that all relevant information and data have been provided to the Consultants. Based on their analysis on the information collected during and after the site visit, the Consultants has conducted the traffic and toll revenue forecast and the operation and maintenance costs estimate of Lanwei Expressway during the concession period from 2022 to 1 July 2034, and completed the traffic study report on Lanwei Expressway.

The Consultants completed the Study with a fair, independent, scientific, professional, diligent and prudent approach. The findings of the Study are based on the first hand information, reasonable assumptions and a widely accepted traffic forecast methodology. The Study can be used by the investor as the basis for valuation of their investment.

## 2. OBJECTIVE AND SCOPE OF SERVICES

According to the Consultancy Agreement between the Consultants and the Company, the content of the Study includes:

- A traffic and toll revenue forecast for Lanwei Expressway from 1 January 2022 to 1 July 2034; and
- The operation and maintenance costs estimate for Lanwei Expressway from 1 January 2022 to 1 July 2034.

The detail scope of services includes:

- Forecast the regional economic development trend;
- Analyze trends of regional traffic growth;
- Understand future development of road network in the adjoining area;
- Develop a traffic forecast model;
- Screen, collate and calibrate the basic data; and
- Prepare an operation and maintenance costs estimate forecast.

## 3. BASIC INFORMATION AND DATA

The Study was carried out based on the following information :

- The historical GDP and relevant planning data of Henan Province, Kaifeng, Xuchang, Lankao, Tongxu, Weishi, Shangdong Province and Heze;
- The traffic and toll revenue data of Lanwei Expressway provided by the management company, including:
  - (1) Monthly traffic data for vehicles using toll stations of Lanwei Expressway from January 2007 to July 2022;
  - (2) Average daily cross-section traffic of Lanwei Expressway per month from January 2018 to December 2019 and from May 2020 to July 2022;
  - (3) Monthly toll revenue report of Lanwei Expressway from November 2005 to July 2022;

- (4) ETC toll revenue distribution of Lanwei Expressway from January 2021 to July 2022;
  - (5) OD matrix of vehicles using the exit toll stations of Lanwei Expressway from 17 June 2019 to 23 June 2019;
  - (6) OD matrix of vehicles using the exit toll stations of Wanglan Expressway on 23 June 2019;
- Toll rates tables of Lanwei Expressway applicable before 1 January 2020;
  - The “Notice on the Adjustment Scheme for Vehicle Toll Charge and Toll Standard of Expressways in Henan Province (《關於調整我省高速公路車輛通行費計費方式及收費標準有關事項的通知》)” jointly published by the Henan Province Transportation Bureau, the Henan Province Development and Transform Commission and the Henan Province Finance Bureau in December 2019;
  - The “Notice on the Continuation of the Application of Current Toll Charge and the Toll Standard of Expressways in Henan Province (《關於繼續執行我省高速公路車輛通行費計費方式及收費標準的通知》)” jointly published by the Henan Province Transportation Bureau, the Henan Province Development and Transform Commission and the Henan Province Finance Bureau in January 2021;
  - The “Notice on Application of Differential Expressway Toll Charge for Goods Vehicle in Henan Province (《關於我省實施高速公路貨車通行費差異化政策的通知》)” jointly published by the Henan Province Transportation Bureau, the Henan Province Development and Transform Commission and the Henan Province Finance Bureau concerning in January 2021;
  - Henan Province Expressway Network Planning 2021 – 2035;
  - Shangdong Province Expressway Network Medium to Long Term Planning 2014 – 2030;
  - Anhui Province Expressway Network Planning;
  - Hubei Province Expressway Network Planning; and
  - Other relevant national specifications.

#### 4. TRAFFIC FORECASTING METHODOLOGY

The traffic and revenue forecast adopted by the Consultants are based on conventional method widely adopted for forecasting of traffic of similar toll expressway in the PRC. The traffic forecasting methodology for the Study is given in Figure 2.

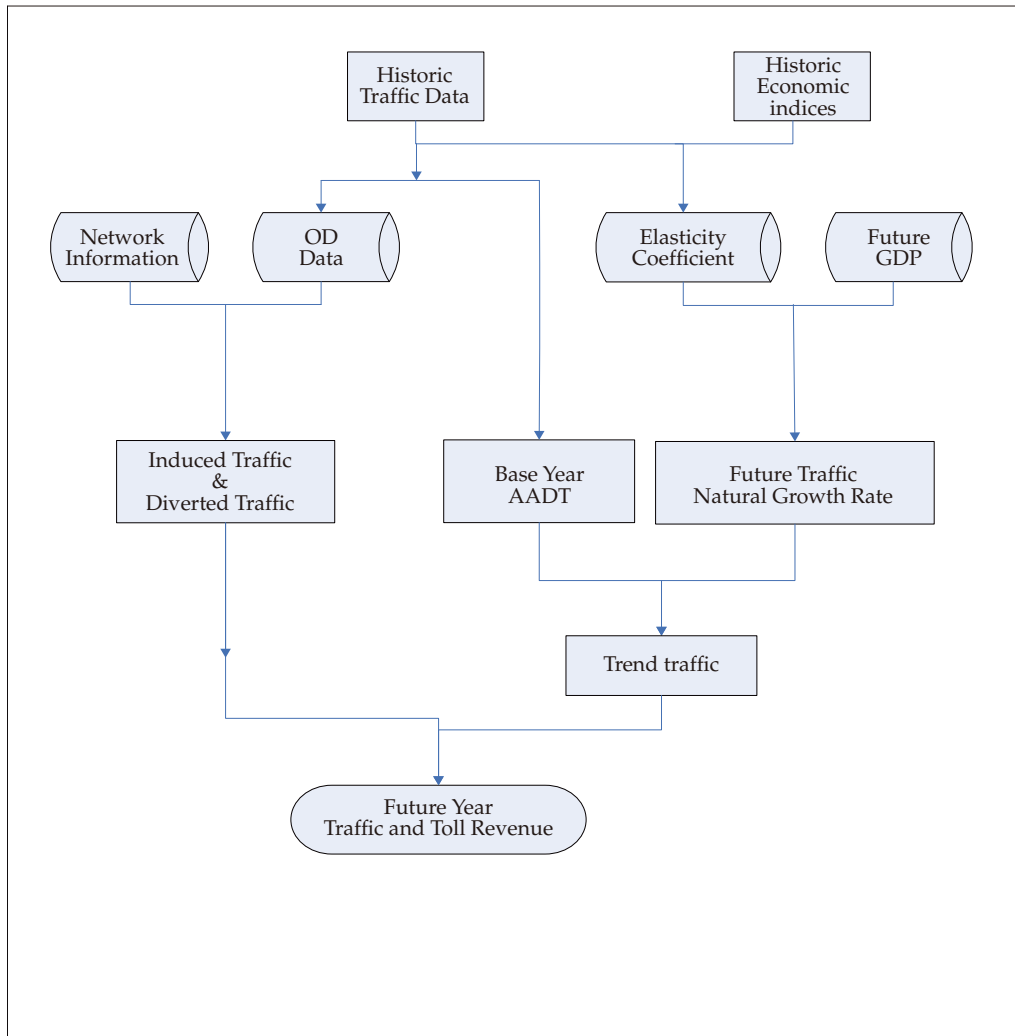


Figure 2 Traffic and Toll Revenue Forecast Procedure

Notes:

- OD Data

O means "Origin" and D means "Destination" of a vehicle and a pair of OD data can be used to determine the route chosen by a vehicle.

- AADT

AADT is "Average Annual Daily Traffic" and when multiplied by the calendar days of a given year will give the annual traffic volume.

## 5. MAJOR ASSUMPTIONS

### 5.1 Factors affecting the result of the traffic forecast

5.1.1 The Consultants have based on published data from the national authority and the research results from international organizations to predict the future GDP growth rates. However, the GDP growth rates in future years would be affected by the trend of the international economic development, macro economical 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.

5.1.2 From 1 December 2010, PRC has adopted the policy to allow goods vehicles carrying agricultural products to use toll expressway free of charge. There are currently 11% of toll free goods vehicles using the Expressway. If the toll-free policy for goods vehicles carrying agricultural products is to be adjusted and the toll-free traffic is converted to the tolled traffic, the toll revenue for the Expressway will increase.

5.1.3 In 2012, the State Council announced the implementation of toll-free policy for small passenger cars using tolled expressway during major holidays, which was finalized to be effective from the National Day in 2012. Passenger vehicles with less or equal to 7 seats using all the tolled expressway will not be charged any toll during the Spring Festival, Qingming Festival, Labor Day and National Day plus any other holiday associated with the above four festivals as announced by the General Office of the State Council every year. If there is any adjustment of this toll free policy in the future, the toll revenue will change accordingly.

5.1.4 Any change in the expressways network adjacent to Lanwei Expressway will result in an adjustment in traffic using Lanwei Expressway. Based on the information collected by the Consultants, the following new expressways are planned for completion:

- Puyang (Henan) to Yangxin (Hubei) Expressway ("**Yangxin Expressway**"), which run through four provinces) to be completed and open at the end of 2025;
- Lankao to Shenqiu Expressway ("**Lanshen Expressway**") to be completed and open at the end of 2025.

This is the judgment made by the Consultants based on the information collected from the relevant planning data. If the actual opening time or the reconstruction and expansion schedule changes, the traffic flow and toll revenue of Lanwei Expressway will also change, which may be different from the forecast.

- 5.1.5 In December 2019, Henan Province published the “Notice on the Adjustment Scheme for Vehicle Toll Charge and Toll Standard of Expressways in Henan Province (《關於調整我省高速公路車輛通行費計費方式及收費標準有關事項的通知》)”. The notice stated that the adjustment was made to the vehicle toll charge and toll standard of expressways in Henan Province. Furthermore, the notice specified that the adjusted toll charge and toll standard would be implemented from 1 January 2020 for one year. In January 2021, Henan Province issued the “Notice on the Continuation of the Application of Current Toll Charge and the Toll Standard of Expressways in Henan Province (《關於繼續執行我省高速公路車輛通行費計費方式及收費標準的通知》)” which confirmed the continual application of the toll charge method and toll standard since 2020. In January 2021, Henan Province published the “Notice on Application of Differential Expressway Toll Charge for Goods Vehicle in Henan Province (《關於我省實施高速公路貨車通行費差異化政策的的通知》)”. The notice outlined the application of differential toll charge for goods vehicles using all expressways in Henan Province. The Consultants have assumed that the current toll charge policy would continue till the end of the concession period. The toll revenue will be changed if the government makes any adjustment to the toll charge policy.
- 5.1.6 In Henan Province, a 5% discount of the toll charge is given to vehicles which pay their toll fee by ETC. About 74% of vehicles in PRC have used ETC to pay their toll fee and about 75% of vehicles used ETC to pay their toll fee for the Expressway. This percentage has been stable for some time. The Consultants have assumed that the same percentage of vehicles would continue to use ETC till the end of the concession period. If the promotion of ETC usage has deviated from the assumption or the discount rate is adjusted, the toll revenue will be adjusted accordingly.
- 5.1.7 Covid-19 pandemic has a substantial negative impact on the general economy in China in 2020. The traffic volume and, as a result, toll revenue for expressways in China has decreased. Since Q4 of 2020, the economy has recovered and most economic indices have gradually improved. The Consultants have assumed that the current economic trend would continue. However, the actual outcome will be affected by the same or similar contingency factors.

## 5.2 Road capacity

The Consultants have adopted the definition of the six level of service as defined in the PRC Highway Engineering Technical Standard (JTGB01-2014) for the estimation of road traffic capacity for the Expressway. For each level of service, a different Road Traffic Capacity is defined which signifies the traffic volume that can travel on the road according to the traffic condition.

The services for highways are divided into six levels. A description of the six levels of service is given in Table 1.

*Table 1 Definition of Levels of Service*

<b>Level of Service</b>	<b>Definition</b>
Level 1	Free traffic flow; drivers are not affected by other drivers and enjoy a high degree of freedom in the choice of travel speed and movement.
Level 2	Relative free traffic flow; drivers maintain a relatively high degree of freedom in the choice of travel speed and movement whilst being required to be aware of other drivers.
Level 3	In the upper half of the stable traffic flow, the interaction between vehicles becomes larger, the travel speed is influenced by other vehicles, and the driver should be careful when changing lanes.
Level 4	In the lower half of the stable traffic flow, vehicle movement is obviously affected by the other vehicles in the traffic flow, the travel speed and the degree of freedom of the driver are heavily limited.
Level 5	In the upper half of the traffic congestion flow, the vehicle movement is heavily limited.
Level 6	The lower half of the traffic congestion flow, traffic movement is generally congested; traffic volume is higher than the allowable capacity.

Examples of each level of service are shown in Figure 3 to Figure 8.

In this study, the Road Traffic Capacity of the Highway was estimated at a level of service 5 as defined in Highway Engineering Technical Standard (JTGB01-2014).

In addition, the Road Traffic Capacity calculation is estimated from a number of variables such as peak hour factors, directional factors and vehicle compositions. In this Study, these factors are determined from traffic volume and vehicles composition data from toll system, road geometry, design speed, future traffic trend and other relevant references used in similar studies.



Figure 3 Level of Service 1



Figure 4 Level of Service 2



Figure 5 Level of Service 3



Figure 6 Level of Service 4



Figure 7 Level of Service 5



Figure 8 Level of Service 6



The Road Traffic Capacity is derived from the formula below:

$$C_D = [C_B \times (V/C) \times N \times F_W \times F_P \times F_{hv}] / PHF / F_D$$

Where:

- $C_D$  – Design Road Traffic Capacity in Passenger Car Unit (PCU);  
 $C_B$  – Basic traffic capacity per lane, 2,100PCU/h;  
 $V/C$  – Level of Service;  
 $N$  – Number of traffic lanes in one direction;  
 $F_W$  – Correction factor for the effect of road width and marginal strip width on traffic capacity;  
 $F_P$  – Correction factor for the effect on drivers on the traffic capacity;  
 $F_{hv}$  – Correction factor for the effect of heavy vehicles on traffic capacity;  
 $PHF$  – Peak Hour Factor;  
 $F_D$  – Directional Flow Factor.

According to the calculation method of the above road capacity and the comprehension of the surrounding condition of the project by the Consultants, the level of service 5 standard is adopted, and the capacity is calculated as follows: 87,000PCU/Day.

(The aforesaid PCU refers to the conversion of various passenger cars and trucks into standard equivalent passenger cars based on the correction factor. For example, a 20-seat passenger car is converted to 1.5 PCU.)

### 5.3 Toll rates

#### 5.3.1 Toll rates for different types of vehicles using Lanwei Expressway

Table 2 Toll Rate for Different Vehicle Classification of Lanwei Expressway

PV class	Passenger Vehicles		Truck class	Trucks	
	Classification Standard	Toll Rate (RMB/vehicle.km)		Total Number of Axles (including floating axles)	Toll Rate (RMB/vehicle.km)
1	≤9 seats	0.45	1	2	0.50
2	10~19 seats	0.65	2	2	1.5
3	≤39 seats	0.85	3	3	1.9
4	≥40 seats	1	4	4	2.2
–	–	–	5	5	2.4
–	–	–	6	6	2.6

Notes:

- Class 1 Truck is two axles truck with a length less than 6,000 mm and with total permissible weight less than 4,500 kg;
- Class 2 Truck is two axles truck with a length not less than 6,000 mm or with total permissible weight not less than 4,500 kg.

### 5.3.2 Differential toll charges

Table 3 Preferential toll charge standards for trucks using the Lanwei Expressway

Standard charge rate for Class 1 truck		Class 2 trucks	Class 3 trucks	Class 4 trucks	Class 5 trucks	Class 6 trucks
Standard charge rate of the road	RMB0.50/vehicle.km	62.67%	74.21%	83.64%	82.08%	93.08%

Notes:

- The preferential toll charge policy shown in the table above is applicable to all sections of Lanwei Expressway.
- The vehicle types shown in the table above refer to the Class 2, Class 3, Class 4, Class 5 and Class 6 trucks in Toll Charge [Table 2]. There is no preferential toll for Class 1 trucks.
- The percentage shown in the above table refers to the ratio of the toll charge of a type of truck under the toll differential toll charge policy to the toll charge standard shown in the Toll Charge [Table 2].

### 5.3.3 Discount for vehicles using ETC

In Henan Province, a discount of 5% of the toll charge is given to vehicles using the non-stop toll fee paying system, ETC (Electronic Toll Collection) to pay for their toll fee.

### 5.3.4 Discount for the fourth quarter of 2022

According to the national policy, a discount of 10% of the toll charge is given to goods vehicles for the fourth quarter of 2022.

## 6. HISTORICAL TRAFFIC VOLUME AND REVENUE

Table 4 low shows the historical revenue and traffic volume of Lanwei Expressway

Table 4 Historical revenue and traffic volume

Year	Revenue (RMB in million)	AADT (vehicles per day)
2019	364.74	19,416
2020	257.11	14,583
2021	313.02	14,482

Note:

A new toll vehicle classification was implemented from 2020, so traffic volume from 2020 cannot be compared with that before 2020.

## 7. TRAFFIC VOLUME AND TOLL REVENUE FORECAST RESULT

The base year for the forecast is 2021. Tables 5 to 8 show the results of the forecast:

*Table 5 Average Annual Daily Traffic for Lanwei Expressway (unit: vehicles per day)*

<b>Year</b>	<b>Optimistic Case</b>	<b>Conservative Case</b>
2022	14,598	13,754
2023	16,724	15,459
2024	17,837	16,335
2025	18,987	17,228
2026	19,612	17,466
2027	20,799	18,358
2028	22,017	19,262
2029	23,268	20,179
2030	24,550	21,108
2031	25,861	22,047
2032	27,198	22,993
2033	28,559	23,945
2034	29,940	24,899

*Table 6 Annual Average Traffic Growth Rates for Lanwei Expressway*

<b>Year</b>	<b>Optimistic Case</b>	<b>Conservative Case</b>
2022	0.80%	-5.03%
2023	14.56%	12.40%
2024	6.66%	5.67%
2025	6.45%	5.47%
2026	3.29%	1.38%
2027	6.05%	5.11%
2028	5.86%	4.92%
2029	5.68%	4.76%
2030	5.51%	4.60%
2031	5.34%	4.45%
2032	5.17%	4.29%
2033	5.00%	4.14%
2034	4.84%	3.98%

Table 7 Annual Toll Revenue for Lanwei Expressway (unit: RMB in million)

Year	Optimistic Case	Conservative Case
2022	345	326
2023	356	335
2024	377	352
2025	397	368
2026	404	367
2027	424	383
2028	446	400
2029	466	415
2030	488	431
2031	510	447
2032	533	464
2033	554	479
2034	288	247

Table 8 Annual Toll Revenue Growth Rate for Lanwei Expressway

Year	Optimistic Case	Conservative Case
2022	10.22%	4.15%
2023	3.19%	2.76%
2024	5.90%	5.07%
2025	5.31%	4.55%
2026	1.76%	-0.27%
2027	4.95%	4.36%
2028	5.19%	4.44%
2029	4.48%	3.75%
2030	4.72%	3.86%
2031	4.51%	3.71%
2032	4.51%	3.80%
2033	3.94%	3.23%
2034	–	–

Note:

Toll revenue growth rate for 2034 is not presented since only 6 months of toll is collected.

Explanation on forecast result:

- Forecast period: toll period of 365 days applies to 2022-2033 except that toll period of 366 days applies to leap year. Toll period of 182 days applies to 2034.
- All sections of Lanwei Expressway have not reached their road traffic capacity up to the end of operating period.

- The Consultant assumes that the impact of the Covid-19 pandemic will slow down in 2023. Passenger cars will resume normal growth resulting in a high growth rate of passenger cars. Some goods vehicles will return to local roads due to the cancellation of pandemic prevention and control measures resulting in negative growth. As a result, the unit toll charge rate per vehicle has dropped. The net effect is a high growth rate for traffic but a low growth rate for toll revenue.

## 8. FORECAST FOR OPERATION AND MAINTENANCE COSTS

The Consultants carried out an operating and maintenance costs forecast of the project from 2022 to 2034 with reference to the following information primarily:

- 1) Historical operation and maintenance costs;
- 2) Unit cost of local maintenance works;
- 3) Maintenance quantity of Lanwei Expressway;
- 4) Visual inspection of the current state of the maintenance works during the site visits conducted from 8 to 11 March 2021 by the Consultants;
- 5) Internal database of the Consultants collected during the past 10 years of project evaluation.

Operation costs include labor costs and administration costs. Labor costs include salary, bonus and welfare payable to the Company's staff. Administration costs cover the cost to maintain normal operation of the Company, such as office expenses, utilities, administrative cost for the road network center, renovation fee and other miscellaneous costs, etc.

In order to forecast operation costs, the Consultants analyzed historical data, developed future management structure and appropriate remuneration of the Company and determined reasonableness and value of various management costs.

Maintenance costs are divided into routine maintenance costs and special maintenance costs. Routine maintenance works are conducted regularly to maintain the Expressway at a suitable operating condition and to delay the development of defects.

Special maintenance works refer to maintenance works in a larger scale of road pavement, bridge and tunnel structures, electrical and mechanical facilities in order to address various quality issues occurred.

National inspection are conducted on all expressways in China every five years. Therefore, during the forecast, special maintenance costs are added for such years to ensure that the quality of the Expressway will pass the national inspection.

The Consultants adopted the preventative maintenance principle in the maintenance costs forecast in order to minimize the total maintenance costs during the entire operating period and to maintain a balanced level of the maintenance costs in past years.

An annual inflation of 2% is adopted in forecast.

The operation and maintenance costs of the forecast is given in Table 9:

*Table 9 Operation and Maintenance Costs of Lanwei Expressway (Unit: RMB in million)*

<b>Year</b>	<b>Operation and Maintenance Costs</b>	<b>Year</b>	<b>Operation and Maintenance Costs</b>
2021	82.0	2028	59.0
2022	94.0	2029	61.6
2023	112.6	2030	80.5
2024	71.3	2031	66.8
2025	69.9	2032	69.5
2026	53.9	2033	102.7
2027	56.4	2034	38.8

*Notes on the forecast:*

- The operation and maintenance costs for 2021 was actual cost;
- The operation and maintenance costs for 2021, 2022, 2023 and 2024 include costs for major maintenance of the project;
- The operation and maintenance costs for 2025 and 2030 include costs of increased maintenance for national inspection of expressways;
- The operation and maintenance costs for 2033 include fees increased for project handover;
- The operation and maintenance costs for 2034 are reduced accordingly since the concession period will end in late June.

**9 CONCLUSION**

The Traffic, Operation and Maintenance Costs Forecast Report for the Lanwei Expressway is prepared using generally accepted professional practices. The forecast results can be used by the Yuexiu Transport Infrastructure Limited as a reference to make investment decision for the Lanwei Expressway. Full details, including the analysis and explanation, of the study are presented in the “Henan Province Lanwei Expressway Traffic Consultation Evaluation Report.”

Yours sincerely,

**Jie Cheng Consultants Limited**  
**Albert Cheung Chung Hoi**  
*Managing Director*

Mr Albert Cheung Chung Hoi is the Managing Director of Jie Cheng Consultants Limited. He is a Fellow of Hong Kong Institution of Highways and Transportation, Fellow of the Institution of Highways and Transportation in the UK, Fellow of Hong Kong Institution of Engineers and Member of Institution of Civil Engineers in the UK. He has 44 years of experience in conducting feasibility study, design, construction supervision and technical audit of infrastructure projects in Mainland China and Hong Kong. Mr. Albert Cheung Chung Hoi has specialized in conducting due diligence study for toll highways since 1990. He used to be the Project Director of a traffic consulting engineering company assisting infrastructure companies seeking IPO listing in the Hong Kong. He has participated in at least seven IPO listing in Hong Kong.

## 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 Group. 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 OF DIRECTORS 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 and, in respect of equity derivatives, underlying shares in, and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Enlarged Group which were required 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 they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or, which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

### (a) Interests in the Shares, underlying Shares and/or debentures of the Company

Name of Director	Capacity	Number of Shares held (long position)	Number of underlying Shares held	Number of Shares held (short position)	Approximate % of shareholding in the total issued Shares
Mr. He Baiqing	Beneficial owner	52,000	1,371,993 (Note 1)	Nil	0.09
Mr. Cai Minghua	Beneficial owner	Nil	519,131 (Note 2)	Nil	0.03
Mr. Lau Hon Chuen Ambrose	Beneficial owner	195,720	Nil	Nil	0.01
Mr. Cheung Doi Shu	Beneficial owner	500,000	Nil	Nil	0.03



*Notes:*

1. These are Shares issuable to Mr. He Baiqing upon exercise of the share options granted to him pursuant to the share option scheme of the Company the exercise price of which is HK\$4.43 and the exercise period of which is 25 June 2023 to 24 June 2031.
2. These are Shares issuable to Mr. Cai Minghua upon exercise of the share options granted to him pursuant to the share option scheme of the Company the exercise price of which is HK\$4.45 and the exercise period of which is 9 July 2023 to 8 July 2031.

**(b) Interests in associated corporation**

Name of Director	Name of associated corporation	Capacity	Approximate % of shareholding in the total issued Shares	Number of Shares held (long position)	Number of Shares held (short position)
Mr. Li Feng	Yuexiu Property Company Limited	Beneficial owner	0.001	34,580	Nil
Mr. Lau Hon Chuen Ambrose	Yuexiu Property Company Limited	Beneficial owner	0.031	968,240	Nil

Save as disclosed above, as at the LPD, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Enlarged Group which would have 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 they have taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### 3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the LPD, so far as is known to the Directors or chief executives of the Company, the following persons (other than the Directors and chief executives of the Company) had, or was deemed or taken to have, an interest or short position in the shares or 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 who were 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 the general meetings of the Company:

Name of substantial Shareholder	Capacity	Long/ Short position/ Lending pool	Number of Shares	Approximate % of shareholding in the total issued Shares
Vendor ( <i>Note 1</i> )	Interest of controlled corporations	Long position	739,526,200	44.20
Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu Enterprises”) ( <i>Notes 1 &amp; 2</i> )	Beneficial owner and interest of controlled corporations	Long position	739,526,200	44.20
Grace Lord Group Limited (“Grace Lord”) ( <i>Note 2</i> )	Beneficial owner	Long position	303,159,087	18.12
Housemaster Holdings Limited (“Housemaster”) ( <i>Note 2</i> )	Beneficial owner	Long position	367,500,000	21.96

*Notes:*

1. The entire issued shares of Yue Xiu Enterprises are owned by the Vendor. By virtue of the SFO, the Vendor was deemed to be interested in the interest of Yue Xiu Enterprises in the Shares as described in note 2 below.
2. Yue Xiu Enterprises was interested in an aggregate of 739,526,200 Shares (long position) of which 8,653 Shares were held by it as beneficial owner. By virtue of the SFO, Yue Xiu Enterprises is also deemed to be interested in the balance of 739,517,547 Shares (long position) through its wholly-owned subsidiaries, namely, Housemaster, Grace Lord, Greenwood Pacific Limited, Yue Xiu Finance Company Limited and Dragon Year Industries Limited.

Save as disclosed above, as at the LPD, so far as is known to the Directors or chief executives of the Company, there was no person (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, had direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all

circumstances at general meetings of the Company, or were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

As at the LPD, (i) Mr. Li Feng, a Director, was also a director of each of Grace Lord and Housemaster, the chief capital officer of the Vendor and Yue Xiu Enterprises; and (ii) Ms. Chen Jing, a Director, was also a director of each of Grace Lord and Housemaster, the chief financial officer and general manager of the finance department of the Vendor and Yue Xiu Enterprises. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

#### **4. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

- (a) As at the LPD, none of the Directors or the directors of the Target Company had, or have had, any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which 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 consolidated financial statements of the Group were made up.
- (b) There was no contract or arrangement subsisting as at the date of this circular in which any of the Directors or the directors of the Target Company was materially interested and which is significant in relation to the business of the Enlarged Group.

#### **5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

#### **6. SERVICE CONTRACTS**

As at the LPD, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group which does not expire or is not determinable by any member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

#### **7. NO MATERIAL ADVERSE CHANGE**

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

**8. EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given opinions or advice contained in this circular or references to their names have been made in this circular:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified Public Accountants
Jie Cheng	Independent professional traffic consultant
Savills	Independent professional business valuer
Somerley	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the above experts:

- (a) did not have any shareholding, directly or indirectly, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group; and
- (b) did not have 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 were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter(s), report(s), opinion and/or the references to its name in the form and context in which they appear.

**9. GENERAL**

The English text of this circular shall prevail over the Chinese text.

**10. DOCUMENT ON DISPLAY**

Copy of the SPA is available on (i) the website of the Company ([www.yuexiutransportinfrastructure.com](http://www.yuexiutransportinfrastructure.com)); and (ii) the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) during the period of 14 days from the date of this circular.

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## NOTICE OF SGM

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# 越秀交通基建有限公司

## Yuexiu Transport Infrastructure Limited

(Incorporated in Bermuda with limited liability)  
(Stock Code: 01052)

### NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Yuexiu Transport Infrastructure Limited (the “Company”) will be held at Plaza I-IV, Basement 3, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 18 November 2022 at 10:30 a.m. to consider and, if thought fit, approve, with or without modifications, the following resolution as an ordinary resolution. Unless otherwise indicated, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 2 November 2022 to which this notice forms part.

### ORDINARY RESOLUTION

“THAT:

- (a) the agreement dated 17 October 2022 and entered into between Guangzhou Yue Xiu Holdings Limited\* (廣州越秀集團股份有限公司) (“Vendor”) and Yuexiu (China) Transport Infrastructure Investment Company Limited\* (越秀(中國)交通基建投資有限公司) (“Purchaser”), pursuant to which, among other things, the Vendor shall sell and the Purchaser shall purchase 100% of the equity interest in Henan Yuexiu Lanwei Expressway Company Limited\* (河南越秀蘭尉高速公路有限公司) at the consideration of RMB1,098,000,000 (a copy of the aforesaid agreement has been produced before the meeting, marked “A” and initialled by the Chairman of the meeting for the purpose of identification) and the transactions provided or contemplated thereunder be and are hereby approved, confirmed and ratified in all respects; and
- (b) any one or more Directors be and are hereby authorised for and on behalf of the Company to sign, execute, perfect, perform and deliver all such other agreements, instruments, deeds and documents and do all such acts or things and take all such steps as he/they may in his/their absolute discretion consider to be necessary or expedient to implement or give effect to or otherwise in connection with or incidental to the agreement set out in paragraph (a) above and all the transactions contemplated thereunder and to agree to such variations, amendments or waivers as are, in his/their opinion, in the interests of the Company and its shareholders.”

By order of the Board  
**Yuexiu Transport Infrastructure Limited**  
**YU Tat Fung**  
*Company Secretary*

Hong Kong, 2 November 2022

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## NOTICE OF SGM

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*Notes:*

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited with Tricor Abacus Limited, the Company's Hong Kong branch share registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for holding of the meeting (or adjourned meeting thereof).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any Share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such Share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the Share(s) shall be accepted to the exclusion of the votes of the other joint registered holders.
6. The register of members of the Company will be closed from Wednesday, 16 November 2022 to Friday, 18 November 2022, both days inclusive, during which period no transfer of Shares will be registered. The record date for ascertaining shareholders' entitlement to attend and vote at the SGM will be Friday, 18 November 2022. For the purpose of ascertaining the shareholders' eligibility to participate in the meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged for registration with Tricor Abacus Limited, the Company's Hong Kong branch share registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Tuesday, 15 November 2022.
7. In consideration of the continuing risk posed by the coronavirus disease (COVID-19) and to manage the potential health risks of persons attending the SGM, the Company will implement certain precautionary measures at the SGM. For further details, please refer to the circular of the Company dated 2 November 2022.

*As at the date of this notice, the Board comprises:*

*Executive Directors* : *LI Feng (Chairman), HE Baiqing, CHEN Jing and CAI Minghua*

*Independent Non-executive Directors* : *FUNG Ka Pun, LAU Hon Chuen Ambrose and CHEUNG Doi Shu*