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

If you have sold or transferred all your shares in **Chengdu Expressway Co., Ltd.**, you should at once hand this circular and the revised form of proxy and reply slip to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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Chengdu Expressway Co., Ltd. 成都高速公路股份有限公司

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

(Stock Code: 01785)

MAJOR TRANSACTION AND CONNECTED TRANSACTION ACQUISITION OF 51% EQUITY INTERESTS IN CHENGMING COMPANY

Financial Adviser to the Company



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



A letter from the Board is set out on page 5 to page 30 of this circular. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders is set out on page 31 to page 32 of this circular. A letter from the Independent Financial Adviser, Octal Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on page 33 to page 62 of this circular.

The EGM of the Company will be held at the meeting room of Chengdu Expressway Co., Ltd., 9th Floor, Chengnan Tianfu Building, No. 66 Shenghe 1st Road, High-Tech Zone, Chengdu, Sichuan Province, the People's Republic of China at 10:00 a.m. on Monday, 16 December 2019. The notice of the EGM and the form of proxy (the “**Original Form of Proxy**”) and reply slip for use at the EGM have been despatched by the Company on Friday, 1 November 2019.

The revised form of proxy for use at the EGM (the “**Revised Form of Proxy**”) is enclosed with this circular for your use. For holders of H Shares, if you have not yet lodged the Original Form of Proxy which was sent to you together with the notice with the Company's H Share registrar and if you wish to appoint proxy/proxies to attend the EGM on your behalf, you are requested to lodge the Revised Form of Proxy, together with the notarised copy of the power of attorney or other document of authorisation (if any) under which it is signed with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours prior to the time appointed for holding the EGM (or any adjournment thereof). In such case, the Original Form of Proxy should not be lodged with the Company's H Share registrar. If you have already lodged the Original Form of Proxy with the Company's H Share registrar, you should note that: if the Revised Form of Proxy is not lodged with the Company's H Share registrar before the closing time as mentioned above or if it is incorrectly completed, the Original Form of Proxy will be treated as a valid form of proxy lodged by you if correctly completed. If you have lodged the Revised Form of Proxy with the Company's H Share registrar before the closing time as mentioned above, the Revised Form of Proxy will revoke and supersede the Original Form of Proxy previously lodged by you provided that the Revised Form of Proxy is correctly completed.

29 November 2019

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DEFINITIONS

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

“Acquisition”	the acquisition of 51% equity interests in Chengming Company by the Company from Chengdu Expressway Construction in accordance with the Equity Transfer Agreement
“Annual Average Daily Traffic”	the summation of the product of daily traffic volume and mileage of each section, and divided by the sum of the mileage
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“average annual growth rate” or “Compound Annual Growth Rate”	$[(\text{Ending value}/\text{Starting value})^{(1/\text{years})} - 1] * 100\%$
“Board”	the board of Directors of the Company
“Chengdu Communications”	Chengdu Communications Investment Group Co., Ltd. (成都交通投資集團有限公司), a company established in the PRC with limited liability on 16 March 2007, which is one of the controlling shareholders of the Company
“Chengdu Expressway” or “Company”	Chengdu Expressway Co., Ltd. (成都高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed and traded on the Stock Exchange
“Chengdu Expressway Construction”	Chengdu Expressway Construction and Development Co., Ltd. (成都高速公路建設開發有限公司), a company established in the PRC with limited liability on 25 June 1996, which is one of the controlling shareholders of the Company
“Chengming Company” or “Target Company”	China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (中國水電建設集團四川成名高速公路發展有限公司), a company incorporated in the PRC with limited liability
“China Securities (International)” or “Financial Adviser”	China Securities (International) Corporate Finance Company Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Company in respect of the Acquisition
“Completion”	completion of the Acquisition

DEFINITIONS

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Concession Contract”	the concession contract entered into among Chengming Company, Chengdu Municipal People’s Government and Ya’an Municipal People’s Government on 21 December 2007
“Consideration”	consideration of the acquisition of 51% equity interests in Chengming Company, being RMB485,142,600, which shall be fully settled in cash
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“EGM”	the extraordinary general meeting of the Company to be held at the meeting room of Chengdu Expressway Co., Ltd., 9th Floor, Chengnan Tianfu Building, No. 66 Shenghe 1st Road, High-Tech Zone, Chengdu, Sichuan Province, the People’s Republic of China at 10:00 a.m. on Monday, 16 December 2019
“Enlarged Group”	the Group as enlarged by Chengming Company upon Completion
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Company and Chengdu Expressway Construction on 28 October 2019
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and are approved to be listed and traded on the Stock Exchange
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the Independent Board Committee comprising all independent non-executive Directors, being Mr. Shu Wa Tung, Laurence, Mr. Ye Yong and Mr. Li Yuanfu, to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	the Shareholders other than Chengdu Communications and Chengdu Expressway Construction
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Independent Valuer”	Tianyuan Appraisal Co., Ltd. (天源資產評估有限公司)
“Latest Practicable Date”	22 November 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-competition Agreement”	the non-competition agreement dated 29 June 2017 and entered into between the Company and Chengdu Communications in respect of the non-competition undertakings
“Prospectus”	the prospectus of the Company dated 28 December 2018
“Qionglai Expressway”	the section from Qionglai to Mingshan on the 318 national expressway
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) of the Company, including Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company

DEFINITIONS

“Traffic Study Report”	the traffic volume forecast study report issued by the Traffic Volume Expert on the independent traffic volume study of Qiongming Expressway
“Traffic Volume Expert”	Master Alliance (China) Limited
“Valuation Benchmark Date”	30 June 2019
“Valuation Report”	the valuation report on the value of the total shareholders’ equity of China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. involved in the proposed acquisition of equity interests by Chengdu Expressway Co., Ltd. issued by the Independent Valuer on 23 October 2019
“%”	per cent

LETTER FROM THE BOARD



Chengdu Expressway Co., Ltd. 成都高速公路股份有限公司

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

(Stock Code: 01785)

Executive Directors:

Mr. Tang Fawei (*General Manager*)
Mr. Zhang Dongmin
Ms. Wang Xiao
Mr. Luo Dan

Registered office:

1 Kexin Road
High-Tech Zone
Chengdu, Sichuan
PRC

Non-executive Directors:

Mr. Xiao Jun (*Chairman*)
Mr. Yang Bin

Principal place of business in Hong Kong:

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

Independent Non-executive Directors:

Mr. Shu Wa Tung, Laurence
Mr. Ye Yong
Mr. Li Yuanfu

29 November 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONNECTED TRANSACTION ACQUISITION OF 51% EQUITY INTERESTS IN CHENGMING COMPANY

I. INTRODUCTION

Reference is made to the announcement of the Company dated 28 October 2019 in relation to the Equity Transfer Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with details regarding the Equity Transfer Agreement and the transactions contemplated thereunder to enable you to make an informed decision while voting on the relevant resolution at the EGM.

LETTER FROM THE BOARD

II. ACQUISITION OF 51% EQUITY INTERESTS IN CHENGMING COMPANY

The Company entered into the Equity Transfer Agreement with Chengdu Expressway Construction on 28 October 2019, pursuant to which, the Company agrees to acquire and Chengdu Expressway Construction agrees to dispose of 51% equity interests in Chengming Company at a Consideration of RMB485,142,600, which will be fully settled in cash by the Company. Meanwhile, the Company also agrees to assume 51% of the debt due to Chengdu Expressway Construction by Chengming Company, being RMB393,750,600. Upon Completion of the Acquisition, Chengming Company will become a non-wholly-owned subsidiary of the Company.

1. The Equity Transfer Agreement

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

Date

28 October 2019

Parties

1. the Company (as the purchaser), a joint stock company incorporated in the PRC with limited liability and principally engaged in the operation, management and development of expressways located in and around Chengdu, Sichuan province.
2. Chengdu Expressway Construction (as the vendor), a company established in the PRC with limited liability and principally engaged in the construction and development of toll expressways, large-scale overpasses, stations, ancillary facilities and properties alongside toll expressways in Sichuan province, which is one of the controlling shareholders of the Company.

Chengdu Communications is the ultimate beneficial owner of both the Company and Chengdu Expressway Construction. Chengdu Communications directly and indirectly through Chengdu Expressway Construction holds 72.46% equity interests in the Company and directly holds all the equity interests in Chengdu Expressway Construction. Chengdu Communications is a company established in the PRC with limited liability and is primarily engaged in the investment in, the financing of and the construction, development, operation and management of transportation infrastructure in Sichuan province.

Assets to be acquired

According to the Equity Transfer Agreement, the Company agrees to acquire and Chengdu Expressway Construction agrees to disposal of 51% equity interests in Chengming Company. Meanwhile, the Company also agrees to assume 51% of the debt due to Chengdu Expressway Construction by Chengming Company.

LETTER FROM THE BOARD

Consideration

The Consideration for the acquisition of 51% equity interests in Chengming Company is RMB485,142,600. The above-mentioned Consideration was determined by the Company with reference to the valuation of the total shareholders' equity of Chengming Company as at the Valuation Benchmark Date, being RMB955,000,000 conducted by the Independent Valuer engaged by the Company as well as the Company's acquisition ratio, i.e. 51%, and after arm's-length negotiation with Chengdu Expressway Construction.

The Independent Valuer adopted the income approach in estimating the value of the total shareholders' equity of Chengming Company as at the Valuation Benchmark Date. Please refer to page 13 of this circular for the major assumptions adopted in the valuation. Ernst & Young, the Company's reporting accountants, has reported on the arithmetical accuracy of the calculations of the discounted cash flow forecast contained in the Valuation Report. The full text of the report from Ernst & Young is contained in Appendix VI to this circular. China Securities (International), the Company's financial adviser, has confirmed that the profit forecast was made by the Board after due and careful enquiry. The full text of the letter from China Securities (International) is contained in Appendix VI to this circular.

Payment of Consideration

The Company shall settle the above-mentioned Consideration to Chengdu Expressway Construction in one lump sum within five business days from the satisfaction of all of the following conditions:

1. the Equity Transfer Agreement and the transactions contemplated thereunder are approved by Chengdu Communications;
2. the Equity Transfer Agreement and the transactions contemplated thereunder are approved by the Independent Shareholders at the general meeting of the Company;
3. a shareholder resolution is passed by Chengming Company to determine new register of members, the board of directors, supervisors and the new articles of association as agreed in the Equity Transfer Agreement; and
4. the representations and warranties made by Chengdu Expressway Construction are true, accurate and complete in all material aspects and Chengming Company remains in valid existence and there are no matters that have a material adverse impact on the Acquisition.

The above conditions are also conditions precedent to the Completion of the Acquisition and cannot be waived. As of the Latest Practicable Date, the condition numbered 1 had been satisfied.

The Company will finance the above-mentioned Consideration with the net proceeds from the global offering. According to the Prospectus, the Company intends to use approximately 70% of the net proceeds from the global offering in acquiring or investing in a high-quality expressway.

LETTER FROM THE BOARD

Completion

Within 20 business days from approval by the Independent Shareholders of the Equity Transfer Agreement and the transactions contemplated thereunder, the Company and Chengdu Expressway Construction shall procure Chengming Company to complete the registration formalities for the transfer of equity interests with the industrial and commercial registration authority where it is located. The date on which the industrial and commercial registration authority issues the renewed business license of Chengming Company after the equity transfer shall be the completion date of the Acquisition (the “**Completion Date**”).

Debt

The Company agrees to assume 51% (i.e. RMB393,750,600) of the debt due to Chengdu Expressway Construction by Chengming Company in an aggregate amount of RMB772,060,000. Within 20 business days from the Completion Date, the Company shall enter into a loan agreement with Chengming Company and settle such amount of RMB393,750,600 to Chengming Company, which will in turn repay it to Chengdu Expressway Construction.

The Company will finance the above-mentioned amount with the net proceeds from the global offering (being RMB76,573,400) and self-owned funds (being RMB317,177,200). As mentioned above, the Company intends to use approximately 70% of the net proceeds from the global offering in acquiring or investing in a high-quality expressway. Assuming 51% of the shareholder loan of Chengming Company is also part of the Acquisition. Accordingly, settling the above-mentioned shareholder loan with partial net proceeds from the global offering is in line with the intended use of proceeds.

According to the loan agreement entered into between Chengdu Expressway Construction and Chengming Company, the loan granted by Chengdu Expressway Construction to Chengming Company shall be for a term of 5 years, which shall commence from the date on which Chengdu Expressway Construction repaid the loan to the Previous Vendors (as defined on page 11 of this circular) and carry the interest rate subject to the benchmark interest rate for 5-year loans announced by the People’s Bank of China. Upon maturity of the loan, Chengming Company shall repay the principal and interest of the loan in one lump sum. For the loan to be granted by the Company to Chengming Company, the term and interest rate thereof is the same as those agreed between Chengming Company and Chengdu Expressway Construction but Chengming Company is required to pay the loan interest to the Company on a quarterly basis and repay the principal upon maturity of the loan. For Listing Rules implications with respect to the shareholder loan granted by the Company and Chengdu Expressway Construction to Chengming Company, please refer to the section headed “Listing Rules Implications” set out below.

LETTER FROM THE BOARD

Corporate Governance

Chengming Company will establish a board of directors, comprising five directors. Chengdu Expressway Construction is entitled to nominate two directors while the Company is entitled to nominate three directors. Directors shall be appointed by general meetings and the chairman shall be served by the director nominated by the Company, who shall also be the legal representative of Chengming Company. The board of directors is the decision-making body of Chengming Company and exercises the following functions and powers: (I) to convene the shareholders' general meetings and to report on its work to the shareholders' general meetings; (II) to implement the resolutions adopted by the shareholders' general meetings; (III) to determine Chengming Company's business plans and investment plans; (IV) to formulate Chengming Company's plans for annual financial budgets and final accounts; (V) to formulate Chengming Company's profit distribution plans and plans to cover losses; (VI) to formulate the plans for the increase or reduction of Chengming Company's registered capital and for the issuance of Chengming Company's bonds; (VII) to formulate plans for merger, division, dissolution or change of the corporate form of Chengming Company; (VIII) to decide on the establishment of Chengming Company's internal management organizations; (IX) to decide on the appointment or removal of Chengming Company's general manager and his/her remuneration, and, according to the nomination of the general manager, to decide on the appointment or removal of the deputy general manager and chief financial officer and their remunerations; (X) to formulate Chengming Company's basic management policies; (XI) other functions and powers as stipulated under the Company Law of the People's Republic of China. Of such functions and powers, matters in items (III), (IV), (V), (VI) and (VII) shall be passed by the affirmative votes of more than two-thirds of all directors while all other matters may be passed by the affirmative votes of a majority of all the directors.

Chengming Company will not establish a board of supervisors, but instead comprises two supervisors. Each of the Company and Chengdu Expressway Construction is entitled to nominate one supervisor candidate, who shall be appointed by general meetings.

The general manager shall be nominated by the Company and appointed by the board of directors in accordance with general procedures. The general manager shall be accountable to the board of directors and shall be responsible for Chengming Company's daily operation and management, in charge of Chengming Company's production, operation and management, and organizing the implementation of the resolutions of the board of directors and the implementation of Chengming Company's annual business plans and investment plans as well as other functions and powers delegated by the board of directors.

LETTER FROM THE BOARD

Validity of the Equity Transfer Agreement

The Equity Transfer Agreement shall take effect from the date on which all of the following conditions are satisfied:

1. the Equity Transfer Agreement and the transactions contemplated thereunder are approved by Chengdu Communications;
2. the Equity Transfer Agreement and the transactions contemplated thereunder are approved at the general meeting of the Company; and
3. a shareholder resolution is passed by Chengming Company to determine the new register of members, the board of directors, supervisors and the new articles of association as agreed in the Equity Transfer Agreement.

2. Information of Chengming Company

Chengming Company is a company established in the PRC with limited liability which owns the concession right of Qiongming Expressway. It is principally engaged in the management and operation of Qiongming Expressway. The registered capital and paid-in capital of Chengming Company is RMB100,000,000 and RMB100,000,000, respectively.

According to the Concession Contract, Chengdu Municipal Government and Ya'an Municipal Government granted Chengming Company the right to (1) invest in, construct, operate and manage the project; (2) occupy and utilise project lands; (3) earn profit from the project, including toll right, operating rights of advertisement and service facilities. The construction period is two years and the operation period commences from the project acceptance date and terminates on the date of the project's hand-over. The toll period of Qiongming Expressway is 28 years. During the toll period, Chengming Company is entitled to the toll right of Qiongming Expressway.

LETTER FROM THE BOARD

The audited total assets and net assets of Chengming Company as of 31 December 2018, prepared in accordance with the International Financial Reporting Standards, were RMB2,598,916,000 and RMB442,955,000, respectively. The audited total assets and net assets of Chengming Company as of 30 June 2019, prepared in accordance with the International Financial Reporting Standards, were RMB2,588,007,000 and RMB434,799,000, respectively. The financial information of Chengming Company for the two financial years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019, prepared in accordance with the International Financial Reporting Standards, is set out below:

	Year ended 31 December 2017 (audited) (RMB'000)	Year ended 31 December 2018 (audited) (RMB'000)	Six months ended 30 June 2019 (audited) (RMB'000)
Revenue	157,080	169,478	87,453
Net loss before tax	(24,353)	(15,236)	(5,009)
Net loss after tax	(25,312)	(20,053)	(8,156)

Chengdu Expressway Construction won the public bid regarding the disposal of Chengming Company on 26 December 2018 and then it entered into the equity transaction contract with Sinohydro Bureau 14 Co., Ltd., Sinohydro Bureau 7 Co., Ltd., Powerchina Roadbridge Group Co., Ltd. and Sinohydro Bureau 5 Co., Ltd. (the “**Previous Vendors**”) on 29 December 2018 to acquire the 100% equity interests in Chengming Company at a cash consideration of RMB842,700,000. According to the above-mentioned agreement, Chengdu Expressway Construction also assumed the debt due to the Previous Vendors by Chengming Company of RMB772,060,000. The Previous Vendors are all Independent Third Parties. The above events took place after the latest practicable date of the Prospectus, being 18 December 2018. Accordingly, the acquisition of Chengming Company by Chengdu Expressway Construction was not covered in the Prospectus.

LETTER FROM THE BOARD

On 15 January 2019, H Shares of the Company were listed on the Main Board of the Stock Exchange and the Non-competition Agreement came into effect on the same date. Since then, Chengdu Communications and Chengdu Expressway Construction have both complied with the Non-competition Agreement. The Group is primarily engaged in the operation, management and development of expressways in and around Chengdu, Sichuan province (the **“Principal Business of the Group”**). The four expressways currently owned by the Group all start from downtown Chengdu and extend radially to different directions outside Chengdu: (1) Chengguan Expressway starts from Chengdu City High-tech Zone and ends in Dujiangyan City, being the major thoroughfare to and out of downtown Chengdu from northwest of Chengdu; (2) Chengwenqiong Expressway starts from Qingyang District, Chengdu City and ends in Qionglai City, being the major thoroughfare to and out of downtown Chengdu from southwest of Chengdu; (3) Chengpeng Expressway starts from Xindu District, Chengdu City and ends in Pengzhou City, being the major thoroughfare to and out of downtown Chengdu from northern Chengdu; and (4) Chengdu Airport Expressway starts from the Chengdu South Railway Station overpass and ends at Shuangliu International Airport, being the major thoroughfare to and from the airport. As illustrated on page 23 of this circular, from the perspective of geographical location, Qiongming Expressway does not compete with any of the four expressways currently owned by the Group. First of all, due to divergence in direction, Chengwenqiong Expressway of the Group does not compete with the other three expressways of the Group and accordingly, Qiongming Expressway, from Qionglai City to Mingshan District, as the extension of Chengwenqiong Expressway, will not compete with the other three expressways of the Group. Second, as the extension of Chengwenqiong Expressway, Qiongming Expressway and Chengwenqiong Expressway are highly complementary and interdependent. For example, vehicles traveling from Chengdu City to Ya'an City must also go along Qiongming Expressway if they travel on Chengwenqiong Expressway, and thus there is no competition between the two expressways.

Although Qiongming Expressway does not compete with the four expressways currently owned by the Group, considering that Qiongming Expressway is one of the expressways near Chengdu and thus falls within the Principal Business of the Group, for the purpose of strict implementation and application of the Non-competition Agreement, on 19 April 2019, after settlement to the Previous Vendors of the consideration for acquisition of 100% equity interests in Chengming Company and becoming the *de facto* controller of Chengming Company, Chengdu Expressway Construction issued a letter to the Company regarding its acquisition of Chengming Company, and the Directors were informed in this regard. On 30 April 2019, all of the independent non-executive Directors considered and approved the Company to exercise its rights in accordance with the Non-competition Agreement to acquire equity interests in Chengming Company and achieve control. Subsequently, the Company launched the acquisition procedures of Chengming Company and engaged the Financial Adviser, the Independent Financial Adviser, reporting accountants, lawyers, valuer, the Traffic Volume Expert and other agencies through strict internal control process to conduct due diligence, audit and valuation on the Acquisition as well as negotiated with Chengdu Expressway Construction on the equity transfer. On 28 October 2019, after completion of all preparation works, with the official approval of the Board, the Company entered into the Equity Transfer Agreement with Chengdu Expressway Construction. Upon acquisition of Qiongming Expressway, the Company will achieve unified management on Chengwenqiong Expressway and Qiongming Expressway to improve service quality, which will benefit the competition against the surrounding expressway, i.e., Chengya expressway.

LETTER FROM THE BOARD

3. Forecast of the revenue of Qiongmíng Expressway in upcoming years in the Traffic Study Report

As stated on page 120 to page 126 of the Traffic Study Report in Appendix II to this circular, in order to realise the traffic volume forecast of Qiongmíng Expressway, the Traffic Volume Expert has established a traffic model and forecasted the traffic volume and revenue according to the following five major assumptions:

- (1) Existing traffic data: namely, the revenue including VAT and Station-to-station Origin-Destination (O-D) data from January 2016 to July 2019 for Qiongmíng Expressway;
- (2) Socio-economic development and future assumption: to study the future economic growth trend of the region to determine the future traffic growth of Qiongmíng Expressway, the Traffic Volume Expert assumed the GDP growth rate of the PRC, Sichuan province and its four cities for each year from 2018 to 2038, as listed in Table 4-2 of Appendix II;
- (3) Road network and other infrastructures: in order to analyse the future road network changes in Sichuan province, the Traffic Volume Expert added new expressway projects up to 2021 to the road network, and listed the impacts of infrastructure projects that are primarily under construction in Sichuan province and may affect Chengming Company;
- (4) Congestion delay and road capacity parameters: according to the designed speed, vehicle type composition, time distribution of traffic volume and other factors, after taking into account the congestion in the base year, the traffic capacity of Qiongmíng Expressway is assumed, as listed in Table 4-3 of Appendix II; and
- (5) Toll rates parameters: toll rate is one of the parameters that would affect traveller's route choice. In the traffic model, the actual toll rates in Sichuan province for different vehicle classes were inputted for traffic assignment to predict the traveller's route. The existing standard toll rates in Sichuan province are listed in Table 4-4 of Appendix II.

Based on the discussion with the Traffic Volume Expert, the Directors are of the view that the above assumptions are fair and reasonable.

LETTER FROM THE BOARD

According to the assumptions, the forecasted traffic volume and revenue of Qiongming Expressway is set out below:

Annual Average Daily Traffic (Base Case) on Qiongming Expressway (Vehicles/Day)

Year	PV1	PV2	PV3	PV4	PV5	Free (PV)
2019	10,589	74	150	55	0	317
2020	11,116	71	115	41	0	373
2021	12,694	81	133	48	0	443
2022	14,489	93	154	55	0	523
2023	15,800	100	168	60	0	570
2024	17,229	109	183	66	1	621
2025	18,783	118	199	71	1	676
2026	20,015	126	212	76	1	721
2027	21,329	134	226	81	1	767
2028	22,733	142	241	86	1	818
2029	24,228	151	256	92	1	871
2030	25,822	161	273	98	1	927
2031	26,901	167	285	102	1	966
2032	28,037	174	297	106	1	1,007
2033	29,220	182	309	111	1	1,049
2034	30,453	189	322	115	1	1,093
2035	31,738	197	335	120	1	1,139
2036	32,666	202	345	124	1	1,173
2037	33,610	208	355	128	1	1,206
2038	34,550	214	365	131	1	1,240

LETTER FROM THE BOARD

Year	GV1	GV2	GV3	GV4	GV5	Green Passage (GV)	Total⁽¹⁾
2019	862	394	93	279	998	649	14,460
2020	883	407	96	287	1,011	768	15,168
2021	1,015	467	110	330	1,163	877	17,361
2022	1,166	536	127	380	1,337	1,001	19,861
2023	1,275	586	138	415	1,461	1,094	21,667
2024	1,394	641	151	454	1,597	1,196	23,642
2025	1,523	700	165	496	1,745	1,307	25,784
2026	1,627	748	176	530	1,863	1,396	27,491
2027	1,737	799	188	565	1,989	1,490	29,306
2028	1,855	853	201	604	2,123	1,591	31,248
2029	1,980	910	214	645	2,267	1,699	33,314
2030	2,114	972	229	688	2,420	1,814	35,519
2031	2,206	1,014	239	718	2,525	1,892	37,016
2032	2,301	1,058	249	750	2,634	1,974	38,588
2033	2,401	1,104	260	782	2,748	2,060	40,227
2034	2,505	1,152	272	816	2,866	2,149	41,933
2035	2,613	1,202	283	852	2,989	2,242	43,711
2036	2,696	1,240	292	879	3,084	2,313	45,015
2037	2,780	1,280	302	906	3,181	2,383	46,340
2038	2,865	1,318	311	934	3,277	2,456	47,662

Source: Traffic Volume Expert, 2019

Note: PV: Passenger Car, GV: Truck
Vehicle classification please refer to Table 4-4 of the Traffic Study Report

(1) Annual Average Daily Traffic: the summation of the product of daily traffic volume and mileage of each section, and divided by the sum of the mileage.

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Daily and annual revenue (Base Case) on Qiongming Expressway

Year	Average Daily Revenue (RMB)	Annual Revenue Including VAT (RMB)	Annual Revenue Excluding VAT ⁽²⁾ (RMB)
2019	521,353	190,293,935	184,751,393
2020	567,676	207,769,255	201,717,723
2021	650,428	237,406,325	230,491,578
2022	744,812	271,856,338	263,938,192
2023	812,901	296,708,763	288,066,760
2024	887,172	324,704,941	315,247,516
2025	968,038	353,333,815	343,042,539
2026	1,032,422	376,834,032	365,858,283
2027	1,101,036	401,878,188	390,172,998
2028	1,174,289	429,789,611	417,271,467
2029	1,252,341	457,104,631	443,790,904
2030	1,335,582	487,487,550	473,288,883
2031	1,392,311	508,193,497	493,391,745
2032	1,451,747	531,339,318	515,863,416
2033	1,513,678	552,492,515	536,400,500
2034	1,578,176	576,034,359	559,256,659
2035	1,645,337	600,548,175	583,056,481
2036	1,695,163	620,429,813	602,359,042
2037	1,745,929	637,264,007	618,702,919
2038 ⁽¹⁾	1,796,386	558,676,182	542,404,060

Source: Traffic Volume Expert, 2019

Notes: (1) Annual revenue in 2038 is calculated until the end of concession in November

(2) Annual revenue excluding VAT is calculated by excluding the 3% VAT from the annual revenue including VAT

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4. Major assumptions adopted in the Valuation and summary of valuation results

(1) Major assumptions adopted in the Valuation

According to the Valuation Report, the valuation is based on a set of premises and assumptions. The major assumptions and premises of the valuation are as follows:

① Basic assumptions

- a. There are no major changes in the national macro-situation, and there are no major changes in the prevailing bank interest rates and tax policies;
- b. There is no significant change in the political, economic and social environment in the region where Chengming Company is located;
- c. It is assumed that Chengming Company's managers are responsible and its management is capable of discharging their duties;
- d. It is assumed that Chengming Company fully complies with all relevant laws and regulations;
- e. It is assumed that the accounting policies to be adopted by Chengming Company in the future are basically the same as those adopted in the preparation of the Valuation Report in all material aspects;
- f. It is assumed that Chengming Company's scope and mode of operation are consistent with the current direction based on the existing management mode and management level; and
- g. There are no other major adverse effects caused by unpredictable and force majeure factors.

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② *Specific assumptions*

- a. It is assumed that there is no significant change in the national basic policies for the expressway industry and the future development of the industry will be aligned with the overall changes in the national economy;
- b. It is assumed that Chengming Company's future human resources, management team and management level can maintain the current level except for matters that have been clearly adjusted;
- c. It is assumed that all cash flows related to operations will be generated evenly in the same year in which relevant revenues, costs and expenses are incurred;
- d. It is assumed that the financial and operational information provided by Chengming Company is accurate and the Independent Valuer depends to some extent on such information when reaching the valuation opinions;
- e. It is assumed that the major cost components of Chengming Company are stable, and will not be additionally increased or decreased due to equity transfer;
- f. It is assumed that Chengming Company's scope and mode of operation are consistent with the current direction based on the existing management mode and management level; and
- g. It is assumed that the traffic volume forecast report referred to is legal and valid.

LETTER FROM THE BOARD

(2) Summary of valuation results

Valuation summary

Unit: RMB0'000

Items	2019 July- December	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Operating revenue	9,697.19	20,180.77	23,058.16	26,402.82	28,815.68	31,533.75	34,313.25	36,594.83	39,026.30	41,756.15	44,388.09	47,337.89	49,348.17	51,595.34	53,649.05	55,934.67	58,314.65	60,244.90	61,879.29	54,247.91
Operating cost	4,709.95	8,969.17	10,424.34	11,424.05	12,159.72	12,963.38	13,833.28	14,324.96	14,570.60	15,363.68	15,858.85	17,510.92	18,146.44	18,813.88	19,508.33	20,231.49	20,984.86	21,545.69	22,107.90	26,351.02
Total profit	133.96	1,406.93	3,018.95	5,942.62	8,343.15	11,096.41	13,975.81	16,844.25	20,228.70	23,488.96	27,034.23	29,204.86	30,769.73	32,335.02	33,680.37	35,227.87	36,838.98	38,194.32	39,253.26	27,449.16
Net profit	133.96	1,406.93	3,018.95	5,942.62	7,077.56	9,392.81	10,823.53	12,361.46	14,850.43	17,110.14	19,571.76	20,989.13	22,019.80	23,043.62	23,896.09	24,893.77	25,932.28	26,824.24	27,491.89	18,099.55
Cash flows	193.46	173.75	175.67	175.94	116.2	185.71	185.53	137.23	123.36	175.22	196.35	27,116.28	37,030.55	38,672.14	40,193.39	41,875.65	43,631.58	45,051.75	46,261.27	37,842.27

Valuation results: market value of the total shareholders' equity as at 30 June 2019 is RMB955 million.

In the above valuation summary, the amount of “operating revenue” is the sum (as indicated from page 98 to page 101 of this circular) of revenue from the main business and other business as set out in the Valuation Report, of which the amount of “revenue from principal business” is the forecasted amount of the “annual revenue excluding VAT” (as indicated on page 16 of this circular) of Qiongming Expressway in the coming years as set out in the Traffic Study Report. “Operating cost” primarily represents, among others, depreciation, amortisation and operating service and maintenance costs. Depreciation and amortisation are forecasted based on the current provision policies of Chengming Company while operating service and maintenance costs are forecasted based on the relevant contracts entered into by Chengming Company after taking into account its actual operational conditions. While conducting the valuation, the Independent Valuer assumed that the forecasted data as set out in the Traffic Study Report would not deviate significantly from the actual traffic volume, the provision policies for depreciation and intangible assets amortisation would remain unchanged and the relevant operational and maintenance contracts would continue to be performed after expiration of current terms.

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The forecasted amount of the cost of operating services from July to December 2019 is calculated by the operation outsourcing contracts already entered into of RMB22.2698 million/year minus the amount incurred from January to June 2019; and the forecasted amount of maintenance cost from July to December 2019 is estimated based on the maintenance plan(s) of the second half of 2019 and the actual maintenance incurred in the first half of 2019.

For the forecast of cost of operating services for 2020 and onwards, as the General Office of the State Council issued the “Notice on Issuing the Implementation Plan for Deepening the Reform of Toll Expressway System and Cancelling Toll Stations at Provincial Boundaries (《關於印發深化收費公路制度改革取消高速公路省界收費站實施方案的通知》)” on 16 May 2019, stipulating that ETC application at expressway entrances shall achieve over 90% by the end of 2019, manual toll stations will be reduced in upcoming years and certain front-line staff of Chengming Company will thus be decreased, which will contribute to the reduction in outsourcing costs as compared to the existing outsourcing contract amount of RMB22.2698 million/year. In general, it is expected that annual cost of operating services of RMB20 million will be incurred in 2020 and onwards. For the forecast of maintenance cost, the expectation for 2020 and onwards is arrived at with reference to the average amount of the three years from 2016 to 2018 under the existing maintenance contract between Chengming Company and Rikaze Xingda Construction Co., Ltd. (日喀則興達建設有限公司) as well as an annual growth rate of 3% according to domestic inflation rate.

For the forecast of depreciation and amortisation in the “operating cost”, depreciation and amortisation are estimated based on the provision policy of Chengming Company during the reporting period. The accounting policies of Chengming Company are the same as those of the Company, i.e., accounting policy on depreciation of fixed assets is that depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life; while the accounting policy on the amortisation of service concession arrangements is that the amortisation of service concession arrangement is provided on a unit-of-usage basis to write off the costs of the arrangement, based on the share of traffic volume in a particular period over the projected total traffic volume throughout the periods for which the Target Company is granted to operate the service concession arrangement.

LETTER FROM THE BOARD

In addition, the Independent Valuer primarily relied on the forecast of the management of Chengming Company for the forecast of capital expenditure. Based on the characteristics of the expressway industry, as large amount of investment in road and building often takes place in the early stage of construction, in future forecast, capital expenditure primarily represents the expenditure for occasional overhaul and medium repair and equipment upgrading and renovation. According to the relevant operation and renovation plans of the management of Chengming Company, it is estimated that expenditure for overhaul of the expressway, ETC project renovation and greening improvement projects will be incurred in 2020, and road maintenance expenditures will also be incurred in 2029 and 2038, respectively before the expiration of the operational period. For the forecast of additional working capital, since the amount of additional working capital required by Chengming Company in the historical years was relatively small and stable, while conducting the valuation, the Independent Valuer assumed that the working capital would be generated without changing the capital turnover capacity on the base date.

In case of overhaul expenses, they will first be capitalised to the service concession arrangements and then reflected in the forecasted amount of costs with the year-by-year amortisation of service concession arrangements. For the related expenses of ETC project renovation and other projects, they will also first be capitalised to fixed assets and then reflected in the forecasted amount of costs with the year-by-year amortisation of fixed assets.

For details of the above forecasts, please refer to page 63 to page 115 of this circular.

Given that the assumptions adopted in the Valuation Report issued by the Independent Valuer correspond to the actual conditions and are in line with the assumptions generally adopted in the valuation of toll roads, the Directors consider that, the relevant valuation assumptions are fair and reasonable.

5. Reasons for and Benefits of Entering into of the Equity Transfer Agreement

Expressway management and operation is the core business of the Company. The acquisition of high-quality expressways is in line with the Company's development strategy and is also the fulfillment of the Company's commitment to investors in the Prospectus.

LETTER FROM THE BOARD

Qiongming Expressway, which is invested in and operated by Chengming Company, has a total length of 52.68 kilometres, two-way four lanes, a designed speed of 80km/h and a roadbed width of 24.5 metres. It commenced construction in June 2009, was completed on 30 October 2010 and opened to traffic on 8 November 2010, with total investment of RMB2.82162 billion and connects the section from Qionglai to Mingshan on the 318 national expressway through Dayi County (大邑縣) in Chengdu City, Qionglai City, Mingshan District (名山區) in Ya'an and ends in Xindian Interchange (新店互通立交橋). It links to seven scenic spots, i.e., Xiling Snow Mountain (西嶺雪山), Huashui Bay (花水灣), Tiantai Mountain (天台山), Pingle Ancient Town (平樂古鎮), Baizhang Lake (百丈湖), Bifeng Gorge (碧峰峽) and Zhougong Mountain (周公山). Leveraging a superior geographical location, it connects to Yunnan province via Chengya expressway – Yaxi expressway – Xipan expressway and to the Tibetan region via Chengya expressway – Yakang expressway – G318 nation expressway. The toll period of Qiongming Expressway is 28 years, starting from 8 November 2010 and terminating on 7 November 2038.

According to the Traffic Study Report, the full text of which is contained in Appendix II to this circular, the Annual Average Daily Traffic of Qiongming Expressway from 2016 to 2018 were 10,666, 12,345 and 13,340, respectively, with an average annual growth rate of 11.8%. According to the accountants' report, the full text of which is contained in Appendix IV-A to this circular, the audited toll income of Chengming Company from 2016 to 2018 was RMB128,202,000, RMB157,080,000 and RMB169,478,000, respectively, with an average annual growth rate of 15.0%. Based on the current development trend, the traffic volume and toll income can still maintain fast growth. According to the accountants' report, the full text of which is contained in Appendix IV-A to this circular, as of 31 December 2018, the audited total assets of Chengming Company were RMB2,598,916,000 and its total liabilities were RMB2,155,961,000. In 2018, the audited revenue of Chengming Company was RMB169,478,000 and the loss for the year was RMB20,053,000 due to the relatively high interest expenses on borrowings throughout the year (being RMB98,474,000).

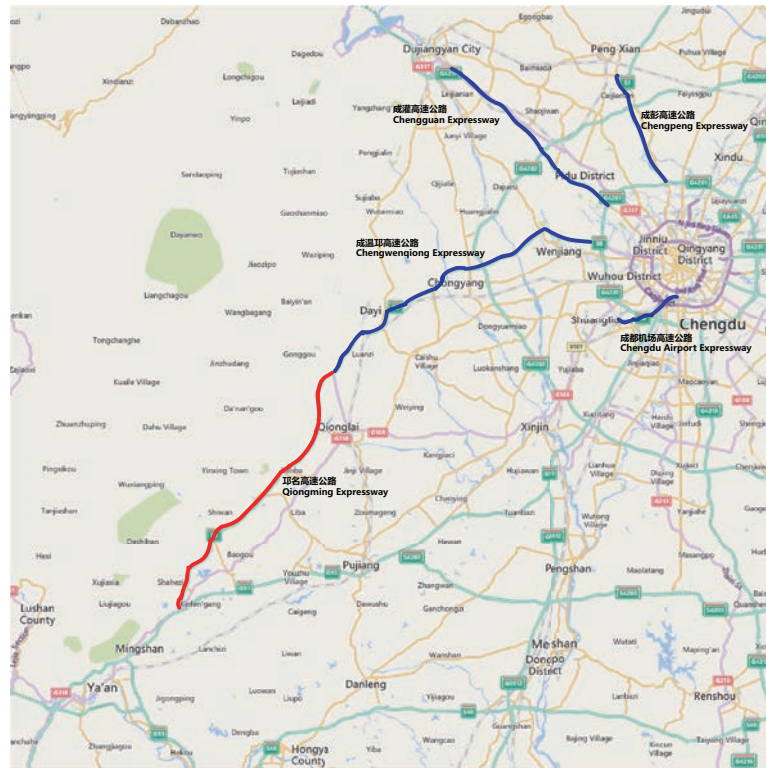
Although currently Chengming Company is in a loss-making status as stated above, in general, the transaction is in line with the Company's development strategy in the following four specific aspects:

- (1) The Company has been pursuing the development strategy with toll expressways as the focus. The Completion of the Acquisition will expand the Group's asset scale and market share in terms of major business in Sichuan province, which will help strengthen the Company's core advantages in the investment, operation and management of toll expressways and roads.
- (2) Since commencement of operation from November 2010, Qiongming Expressway has been in the "cultivation period" as commonly referred to in the expressway industry. Therefore, as of 30 June 2019, Chengming Company was in a loss-making status. However, it is noted that losses of Chengming Company are trending downwards year by year: during the three years from 2016 to 2018, losses were RMB60,065,000, RMB25,312,000 and RMB20,053,000, respectively, with an annual average loss reduction of 42.2% (calculated based on the average annual growth rate formula); for the six months ended 30 June 2019, loss was RMB8,156,000, representing a decrease of 32.1% over the same period last year. Based on the estimation, the internal rate of return for the Acquisition is 9.3%. The Directors believe that, upon Completion of the Acquisition, as Qiongming Expressway draws near the end of the "cultivation period", Chengming Company is expected to make a profit in 2020.
- (3) The remaining period of the concession right for Qiongming Expressway is 19 years, which will expire in November 2038. As compared with the rest of expressways owned by the Group, Qiongming Expressway boasts the longest remaining period of the concession right and thus will contribute to the Group's future long-term development.

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- (4) As Qiongming Expressway is interconnected with Chengwenqiong Expressway and will be operated and maintained by the Group upon Completion of the Acquisition, it is beneficial to save management costs.

The location of Qiongming Expressway is illustrated below:



The Directors (excluding the independent non-executive Directors, whose opinions are included in the Letter from the Independent Board Committee) are of the view that, the Equity Transfer Agreement is entered into on normal commercial terms and while the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms and conditions thereof are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

6. Effect of the Acquisition on the Company's Earnings, Assets and Liabilities

Upon Completion of the Acquisition, the Company will hold 51% equity interests in Chengming Company and therefore Chengming Company will become a non-wholly-owned subsidiary of the Company and will be consolidated into the accounts of the Group. Through the Acquisition, the Company can achieve an increase in expressway operation and management mileage, expand asset scale, and realise sustainable development. At the same time, the Company may consolidate its core advantages in investment, management and operation of the expressway industry, and the Group's core competitiveness can be enhanced.

LETTER FROM THE BOARD

Impact on Assets and Liabilities

According to the unaudited pro forma financial information of the Enlarged Group, the full text of which is set out in Appendix V to this circular, assuming the Acquisition had been completed on 30 June 2019, the impact of the Acquisition on the total assets, total liabilities and other items of the Group would be as follows:

Unit: RMB'000

	Unaudited consolidated assets and liabilities of the Group as at 30 June 2019	Unaudited consolidated pro forma assets and liabilities of the Enlarged Group as at 30 June 2019	Change in value	Percentage (%)
Total assets	6,024,540	8,258,127	2,233,587	37.1%
Total liabilities	2,724,070	4,612,518	1,888,448	69.3%
Net assets	3,300,470	3,645,609	345,139	10.5%
Interest-bearing bank and other borrowings	1,398,000	2,989,623	1,591,623	113.9%
Cash and cash equivalents	2,082,457	1,321,064	(761,393)	(36.6%)

According to the unaudited pro forma financial information of the Enlarged Group, the full text of which is set out in Appendix V to this circular, the Acquisition has a relatively significant impact on the Group's cash and cash equivalents in terms of assets. Assuming the Acquisition had been completed on 30 June 2019, the Group's cash and cash equivalents as of 30 June 2019 would decrease from RMB2,082,457,000 to RMB1,321,064,000.

The Acquisition has a relatively significant impact on the Group's borrowings in terms of liabilities. Assuming the Acquisition had been completed on 30 June 2019, the Group's interest-bearing bank and other borrowings as of 30 June 2019 would increase from RMB1,398,000,000 to RMB2,989,623,000. Although the Group's liabilities would be increased as a result of the increase in borrowings, its gearing ratio would still be in a reasonable range. As set out in the Valuation Report, the cash flow of Chengming Company will be increased with the improvement of traffic volume on Qiongming Expressway. The Group intends to early repay the principal of the loan with surplus funds to reduce interest expense and enhance profitability.

Assuming the Acquisition had been completed on 30 June 2019, net assets of the Group as of 30 June 2019 would increase from RMB3,300,470,000 to RMB3,645,609,000 and the Group's gearing ratio (being total liabilities divided by total assets) would increase from 45.2% to 55.9%.

LETTER FROM THE BOARD

Impact on Earnings

Qiongming Expressway operated by Chengming Company is invested and constructed in the mode of build-operate-transfer (BOT). Although it is currently in a loss-making status due to relatively high interest expenses on borrowings arising out of investment and construction, according to the information provided by Chengming Company, the Traffic Study Report and the Valuation Report, the traffic volume and toll income of Qiongming Expressway have been on an upward trend since its opening to traffic on 8 November 2010 and are expected to continue to maintain such trend in the future and Chengming Company is expected to make profits from 2020. In addition, after taking over Qiongming expressway, the Group can also leverage internal overall management to reduce the existing operating costs, so as to improve profitability. Therefore, the Directors believe that the Acquisition will have a positive impact on the Group's long-term financial performance, thus benefiting the Company and the Shareholders as a whole.

The investment research of Qiongming Expressway commenced in 2004 and the engineering feasibility study was completed in May 2006. Subsequently, as authorised by the Sichuan provincial government, the investment and construction of Qiongming Expressway was implemented by the Chengdu Municipal People's Government and Ya'an Municipal People's Government under the mode of "build-operate-transfer" (BOT). In August 2007, China Hydropower Group Ltd. became the bid winner of the BOT mode through BOT legal person public bidding conducted by the Chengdu Municipal People's Government and Ya'an Municipal People's Government. After that, China Hydropower Group Ltd. contributed to establish Chengming Company in November 2007 and Chengming Company entered into the Concession Contract with the Chengdu Municipal People's Government and Ya'an Municipal People's Government in December 2007 for the investment in, construction, operation, maintenance and management of Qiongming Expressway. As at the Latest Practicable Date, save as and except for Chengming Company which is wholly-owned by Chengdu Expressway Construction and Chengdu Communications which is wholly-owned by the State-owned Assets Supervision and Administration Commission of Chengdu Municipal Government, the parties to the Concession Contract do not have any business with, shareholding in and contractual obligations towards the Company and its connected persons.

LETTER FROM THE BOARD

7. Operation and Management of Chengming Company

Chengming Company currently entrusts the operation and management of Qiongming Expressway to Powerchina Expressway Operation Management Co., Ltd. (“**Powerchina Management**”), an Independent Third Party. Term of the relevant operation and management entrustment contract commenced from 1 December 2017 and will expire on 30 November 2019. Chengming Company does not propose to renew such contract with Powerchina Management upon its expiration. The Group preliminarily plans to continue to outsource the operation and management of Chengming Company upon Completion of the Acquisition, and entrust it to one of the Group’s professional operation and management company (the “**Management Company**”), which will be held as to 100% by the Company and is yet to be established. As Chengming Company will become a connected subsidiary of the Company upon Completion of the Acquisition, the transaction of outsourcing the management and operation of Chengming Company to the Management Company upon its establishment will constitute a connected transaction of the Company under the Listing Rules, and the Company will comply with all the applicable requirements under Chapter 14A of the Listing Rules in due course. The Company expects that the operation and management service fees to be paid by Chengming Company to the Management Company will not exceed RMB20 million each year, which represents approximately 1.09% of the Company’s audited consolidated revenue for 2018. The specific amount of the operation and management service fees is subject to arm’s length negotiation between the parties and will be announced by the Company in due course.

Although the management of the four expressways of the Group has been conducted by the Company and three of its subsidiaries independently since commencement of operation instead of being outsourced, the Group intends to gradually entrust the operation and management of the expressways of the Group to the above-mentioned Management Company after its establishment, i.e., the expressway companies of the Group will no longer set up operation and management teams but instead will be subject to the integrated management of the Management Company to be established. This will facilitate the Group to manage the relevant personnel of each subsidiary in an integrated manner, achieving unified allocation and precise arrangement, so as to reduce operating costs through the integration of overall resources, the advantages of synergy and economy of scale, the standardisation of internal management and the joint external procurement.

8. Matters Concerning the Land Use Rights of the Service Areas of Chengming Company

On 27 December 2012, Chengming Company entered into the “Agreement of Construction and Operational Rights Transfer (Lease) of 4 Petrol and Gas Stations in Qionglai and Mingshan Service Areas, and of Pingle Service Area (including Petrol and Gas Stations) on National Highway 318 Qionglai to Mingshan Expressway (《國道318線邛崃至名山高速公路邛崃、名山服務區內2對4座加油加氣站及平樂服務區(含加油加氣站)建設與經營權轉讓(租賃)協議》)” with Sichuan Xuyang Petrochemical Trading Co., Ltd., (“**Xuyang Company**”). The agreement stipulates that: the operating lands for petrol and gas stations in the service areas of Qionglai and Mingshan will be changed from the original use period of 28 years of allocation (劃撥) land to 40 years of state-owned land for commercial use. The extended 12-year land use right will be leased to Xuyang Company; and Chengming Company transfers the 28-year operational rights of Pingle service area and supporting facilities, and the 40-year land use right to Xuyang Company. Xuyang Company takes charge of the investment and construction of Pingle service area.

LETTER FROM THE BOARD

According to the opinions of the PRC lawyers of the Company, Chengming Company's rights to transfer the operational right of the above service area and to lease the land-use right are derived from the 28-year service concession period obtained by Chengming Company through the Concession Contract and the 40-year land-use right of the state-owned construction land obtained through the relevant land grant contract, so Chengming Company is entitled to conduct the above transfer or lease within the scope of its rights. However, according to the Concession Contract entered into among Chengming Company, Chengdu Municipal People's Government and the Ya'an Municipal People's Government, "project lands" should be transferred to the Chengdu Municipal People's Government and the Ya'an Municipal People's Government without compensation after the expiration of the 28-year operation period. It is unclear which land is required to be handed over after the expiration of the operation period as it is unclear if the term "project lands" refers to land obtained through allocation (劃撥) or land obtained through government grant (出讓). The five commercial lands occupied by the petrol stations that are within the scope of the valuation were obtained through two ways, government grant or bidding, auctions and listing. Chengming Company entered into five State-owned Construction Land Use Right Grant Contracts (《國有建設用地使用權出讓合同》) with Qionglai Municipal Bureau of Land and Resources and Ya'an Municipal Bureau of Land and Resources Mingshan Branch on 25 December 2012 and 3 December 2013, respectively to agree that the grant period of the commercial lands involved in the above-mentioned service area shall be 40 years. If the commercial lands are required to be handed over at the expiration of the concession period, the government will violate the stipulations of the aforementioned land grant contracts. Therefore, there is uncertainty about the land lease in relation to the service areas of Qiongmeng Expressway between the expiration date of the concession right and the expiration date of land use right in practice. According to the Concession Contract, matters in relation to handing over shall be settled by Chengming Company through negotiation with the Chengdu Municipal People's Government and Ya'an Municipal People's Government during the "transitional period" which is the last three years of the concession period. However, such uncertainty as set out above will not directly render the agreement with Xuyang Company to be invalid after expiration of the concession period.

9. Listing Rules Implications

As at the Latest Practicable Date, Chengdu Expressway Construction is a controlling shareholder of the Company. Accordingly, it is a connected person of the Company under the Listing Rules and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction and connected transaction of the Company under the Listing Rules. Therefore, it shall comply with (i) the requirements applicable to major transaction under Chapter 14 of the Listing Rules; and (ii) the reporting, announcement, circular and independent shareholders' approval at general meeting requirements under Chapter 14A of the Listing Rules.

As Mr. Xiao Jun, a non-executive Director, is also a director of Chengdu Communications, which holds 100% equity interests in Chengdu Expressway Construction, he is therefore deemed to be materially interested in the Equity Transfer Agreement and the transactions contemplated thereunder. Accordingly, he has abstained from voting on the relevant resolution at the Board meeting. Save as disclosed above, no other Directors have material interests in the transactions and are required to abstain from voting on the relevant resolution at the Board meeting.

LETTER FROM THE BOARD

Upon Completion of the Acquisition, the Company will hold 51% equity interests in Chengming Company and Chengdu Expressway Construction, a controlling Shareholder of the Company will hold 49% equity interests in Chengming Company. Therefore, Chengming Company will become a connected subsidiary of the Company.

In respect of the shareholder loan granted to Chengming Company by Chengdu Expressway Construction upon Completion of the Acquisition (being RMB772,060,000 before debt repayment by Chengming Company to Chengdu Expressway Construction with the loan from the Company, and RMB378,309,400 after debt repayment by Chengming Company to Chengdu Expressway Construction with the loan from the Company), as it is conducted on normal commercial terms or better and not secured by the assets of the Group, according to Rule 14A.90 of the Listing Rules, it is therefore fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements relating to connected transactions under Chapter 14A of the Listing Rules.

In respect of the shareholder loan to be granted to Chengming Company by the Company upon Completion of the Acquisition, being RMB393,750,600, the Company expects that it will be conducted on normal commercial terms or better and is in line with the equity interests then directly held by the Company in Chengming Company (i.e. the Company will directly hold 51% equity interests in Chengming Company and assume 51% of the total shareholder loan of Chengming Company). Accordingly, according to Rule 14A.89 of the Listing Rules, it is fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements relating to connected transactions under Chapter 14A of the Listing Rules.

According to the information currently available to the Company, it is expected that immediately after the Completion of the Acquisition, except for the shareholder loans granted to Chengming Company by Chengdu Expressway Construction and the Company, neither the connected persons of the Company nor the Group has any other continuing transactions with Chengming Company.

Upon Completion of the Acquisition, in the event that the Group and/or the connected persons of the Company propose(s) to conduct new transaction(s) with Chengming Company, such as the entrustment of operation and management of Qiongzhusi Expressway to the Management Company by Chengming Company, the Company will comply with and fulfill all applicable requirements under the Listing Rules.

LETTER FROM THE BOARD

III. THE EGM

Notice, Form of Proxy And Reply Slip of the EGM

The EGM of the Company will be held at the meeting room of Chengdu Expressway Co., Ltd., 9th Floor, Chengnan Tianfu Building, No. 66 Shenghe 1st Road, High-Tech Zone, Chengdu, Sichuan Province, the People's Republic of China at 10:00 a.m. on Monday, 16 December 2019. The notice of the EGM, the form of proxy (the “**Original Form of Proxy**”) and reply slip for use at the EGM have been despatched by the Company on Friday, 1 November 2019.

The revised form of proxy for use at the EGM (the “**Revised Form of Proxy**”) is enclosed with this circular for your use. As compared with the Original Form of Proxy, the column of “Abstain” is added in the Revised Form of Proxy in accordance with the Articles of Association of the Company. Other than such change, the rest of the Revised Form of Proxy is the same as that of the Original Form of Proxy.

For holders of H Shares, if you have not yet lodged the Original Form of Proxy which was sent to you together with the notice with the Company's H Share registrar and if you wish to appoint proxy/proxies to attend the EGM on your behalf, you are requested to lodge the Revised Form of Proxy, together with the notarised copy of the power of attorney or other document of authorisation (if any) under which it is signed with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours prior to the time appointed for holding the EGM (or any adjournment thereof). In such case, the Original Form of Proxy should not be lodged with the Company's H Share registrar.

If you have already lodged the Original Form of Proxy with the Company's H Share registrar, you should note that: if the Revised Form of Proxy is not lodged with the Company's H Share registrar before the closing time as mentioned above or if it is incorrectly completed, the Original Form of Proxy will be treated as a valid form of proxy lodged by you if correctly completed. If you have lodged the Revised Form of Proxy with the Company's H Share registrar before the closing time as mentioned above, the Revised Form of Proxy will revoke and supersede the Original Form of Proxy previously lodged by you provided that the Revised Form of Proxy is correctly completed.

Shareholders shall produce their identity documents and supporting documents in respect of the Shares of the Company held when attending the EGM. If corporate Shareholders appoints authorised representative to attend the EGM, the authorised representative shall produce his/her identity documents and a notarially certified copy of the relevant authorisation instrument signed by the board of directors or other authorised parties of the corporate shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the Shareholders or their attorney when attending the EGM.

LETTER FROM THE BOARD

Closure of the Register of Members

For the purpose of holding the EGM, the register of members of Shares (the “**Register of Members**”) will be closed from Saturday, 16 November 2019 to Monday, 16 December 2019 (both days inclusive), during which period no transfer of Shares can be registered. In order to be qualified to attend and vote at the EGM, for holders of H Shares, all transfer documents accompanied by the relevant Share certificates must be lodged with the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as practicable and in any event no later than 4:30 p.m. on Friday, 15 November 2019. The Shareholders whose names appear on the Register of Members on Saturday, 16 November 2019 are entitled to attend and vote at the EGM.

Abstention of Shareholders from Voting

According to the Listing Rules, any Shareholder with a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and his close associates shall abstain from voting on the resolution approving such transaction at the EGM. Accordingly, Chengdu Communications and Chengdu Expressway Construction will abstain from voting on the resolution regarding the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, Chengdu Communications and Chengdu Expressway Construction held an aggregate of 1,200,000,000 Shares of the Company, representing approximately 72.46% of the issued share capital of the Company, and controlled or were entitled to control over the voting rights in respect of their Shares in the Company.

To the best knowledge, information and belief of the Directors, having made all reasonable enquires, except for Chengdu Communications and Chengdu Expressway Construction, no other Shareholder has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and is required to abstain from voting on the relevant resolution at the EGM.

IV. RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee, the full text of which is set out on page 31 to page 32 of this circular, containing its advice to the Independent Shareholders regarding the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) the letter from the Independent Financial Adviser, the full text of which is set out on page 33 to page 62 of this circular, containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Equity Transfer Agreement and the transactions contemplated thereunder as well as the principal factors and reasons considered in arriving at its opinion; and (iii) the Appendices set out in this circular.

The Directors (including independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

By order of the Board
Chengdu Expressway Co., Ltd.
Xiao Jun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Chengdu Expressway Co., Ltd.

成都高速公路股份有限公司

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

(Stock Code: 01785)

29 November 2019

To the Independent Shareholders,

MAJOR TRANSACTION AND CONNECTED TRANSACTION ACQUISITION OF 51% EQUITY INTERESTS IN CHENGMING COMPANY

We refer to the circular of the Company dated 29 November 2019 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to form the Independent Board Committee, to consider whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder, the details of which are set out in the Letter from the Board, are fair and reasonable so far as the Independent Shareholders are concerned and to advise you in this regard.

Octal Capital Limited has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the Equity Transfer Agreement and the transactions contemplated thereunder. The details of the opinion of Octal Capital Limited and the principal factors considered when arriving at such opinion are set out in the Letter from the Independent Financial Adviser on page 33 to page 62 of the Circular.

Your attention is also drawn to the Letter from the Board on page 5 to page 30 and other information set out in the appendices of the Circular.

Having taken into account the terms and conditions of the Equity Transfer Agreement and the transactions contemplated thereunder, the interests of the Independent Shareholders and the opinion from the Independent Financial Adviser, we are of the view that, the Equity Transfer Agreement is entered into on normal commercial terms and while the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms and conditions thereof are fair and reasonable and in the interests of the Company and its Shareholders in a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully
For and on behalf of
the Independent Board Committee of
Chengdu Expressway Co., Ltd.
Mr. Shu Wa Tung, Laurence, Mr. Ye Yong and
Mr. Li Yuanfu
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

29 November 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR TRANSACTION AND CONNECTED TRANSACTION ACQUISITION OF 51% EQUITY INTERESTS IN CHENGMING COMPANY

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Equity Transfer Agreement, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the Circular to the Shareholders dated 29 November 2019 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

The Company entered into the Equity Transfer Agreement with Chengdu Expressway Construction on 28 October 2019, pursuant to which, the Company agrees to acquire and Chengdu Expressway Construction agrees to dispose of 51% equity interests in Chengming Company at a consideration of RMB485,142,600, which will be fully settled in cash by the Company. The Company also agrees to assume 51% of the debt due to Chengdu Expressway Construction by Chengming Company, being RMB393,750,600. Upon the Completion, Chengming Company will become a non-wholly-owned subsidiary of the Company.

As at the Latest Practicable Date, Chengdu Expressway Construction is a controlling shareholder of the Company. Accordingly, it is a connected person of the Company under the Listing Rules and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratios (as defined under the Listing Rules) of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction and connected transaction of the Company under the Listing Rules. Therefore, it shall comply with (i) the requirements applicable to major transaction under Chapter 14 of the Listing Rules; and (ii) the reporting, announcement, circular and independent shareholders’ approval under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Shu Wa Tung, Laurence, Mr. Ye Yong and Mr. Li Yuanfu, has been established to advise the Independent Shareholders whether the terms of the Equity Transfer Agreement are fair and reasonable and are on normal commercial terms, and whether the Equity Transfer Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, we were not connected with the Company or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. In the last two years, we did not have any engagement with the Company, the Directors, the chief executive of the Company, the substantial shareholders of the Company or Chengdu Expressway Construction. Apart from normal professional fees paid or payable to us in connection with the appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, Chengdu Expressway Construction, its subsidiaries or their respective controlling shareholders that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Acquisition pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Equity Transfer Agreement including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Chengdu Expressway Construction and Chengming Company, and any of their respective subsidiaries and their respective associates, nor have we carried out any independent verification of the information supplied to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

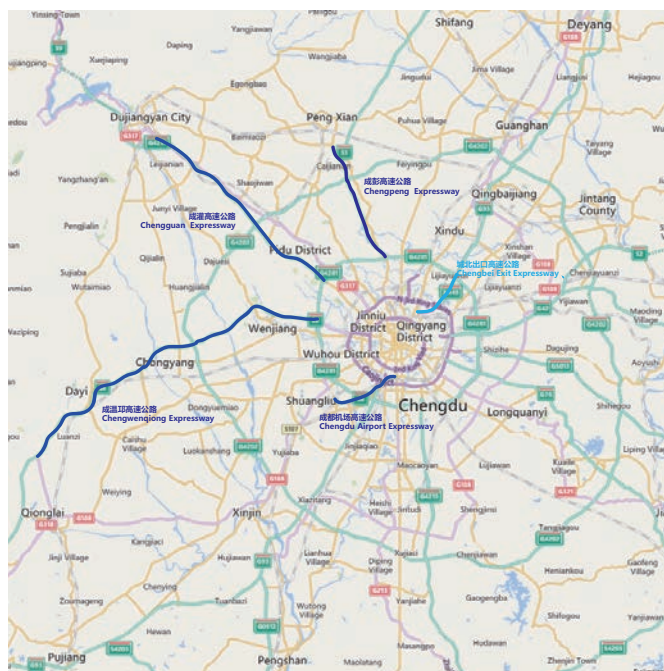
I. Background of and reasons of entering into the Equity Transfer Agreement

1. Information of the Company, Chengdu Expressway Construction and Chengming Company

a) The Company

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange since 15 January 2019. It is principally engaged in the operation, management and development of expressways located in and around Chengdu City, Sichuan Province, the PRC. As illustrated below, the Company's expressway network includes four expressways, namely the Chengguan Expressway, Chengpeng Expressway, Chengwenqiong Expressway and Chengdu Airport Expressway, all of which started in different locations of Chengdu to various destinations outside Chengdu as below, and invest in 40% equity interests of Chengbei Exit Expressway.

	Expressway	Starting Point	Destination	Direction of the route
1.	Chengguan Expressway	Chengdu High-Tech Zone	Dujiangyan City	Northwest of Chengdu
2.	Chengpeng Expressway	Xindu District	Pengzhou	North of Chengdu
3.	Chengwenqiong Expressway	Qinyang District	Qionglai City	Southwest of Chengdu
4.	Chengdu Airport Expressway	Chengdu South Railway Station	Shuangliu International Airport	To and from the Shuangliu International Airport



Source: the Company

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below summarizes the financial information of the Group for the three years ended 31 December 2016, 2017 and 2018 (“**FY2016**”, “**FY2017**” and “**FY2018**”, respectively) and the six months ended 30 June 2018 and 2019 (“**1H2018**” and “**1H2019**”, respectively) as extracted from the Prospectus, the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”) and the interim report of the Company for the six month ended 30 June 2019 (the “**2019 Interim Report**”):

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue					
<i>Toll income</i>	787.6	840.4	985.9	435.4	532.3
<i>Construction revenue in respect of service concession arrangements</i>	397.6	943.9	844.3	844.3	–
	1,185.2	1,784.3	1,830.2	1,279.7	532.3
Earnings before interests, tax, depreciation and amortisation (“ EBITDA ”)	657.6	633.8	758.9	339.3	430.0
Earnings before interests and tax (“ EBIT ”)	530.5	500.5	594.8	268.1	338.2
Net profit after tax	324.4	367.8	446.0	203.1	248.9
Toll income					

As set out in the above table, the revenue of the Group was mainly contributed by toll collection operation, which accounted for approximately 66.5%, 47.1% and 53.9% of the total revenue for FY2016, FY2017 and FY2018, respectively. All revenue of 1H2019 was contributed by the toll collection operation as no revenue from the construction services was generated due to no new expansion projects during 1H2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below summarizes the toll income and the average daily traffic volume of the Group which derives from operation of the four self-owned expressways for FY2016, FY2017, FY2018, 1H2018 and 1H2019.

	<i>Length (km)</i>	Toll income			Average daily traffic volume			Toll income			Average daily traffic volume		
		Year ended 31 December			Year ended 31 December			Six months ended 30 June			Six months ended 30 June		
		2016	2017	2018	2017	2018	2018	2018	2019	% change	2018	2019	% change
Expressway		<i>RMB million</i>			<i>No. of vehicles</i>			<i>RMB million</i>			<i>No. of vehicles</i>		
Chengguan Expressway	40.44	294.3	310.9	330.5	6.3%	5.6%	6.3%	162.8	145.2	(10.8)%	42,290	39,209	(7.3)%
Chengpeng Expressway	21.32	106.4	66.6	113.2	70.0%	(37.4)%	70.0%	13.7	112.9	724.1%	11,236	48,554	332.1%
Chengwenjiang Expressway	65.60	259.5	320.3	398.1	24.3%	23.4%	24.3%	189.1	203.4	7.6%	51,945	56,130	8.1%
Chengdu Airport Expressway	11.98	127.4	142.6	144.1	1.1%	11.9%	1.1%	69.8	70.9	1.6%	42,464	43,480	2.4%
Total	139.34	787.6	840.4	985.9	17.3%	6.7%	17.3%	435.4	532.3	22.3%	147,935	187,373	26.7%

Source: Prospectus, 2018 Annual Report and 2019 Interim Report

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The toll income increased by approximately RMB52.8 million or 6.7% between FY2016 and FY2017 and approximately RMB145.5 million or 17.3% between FY2017 and FY2018. The growth on the toll income was mainly attributable to (i) the growth in traffic volume of the expressways operated by the Group during FY2017 and FY2018; (ii) the traffic restoration on the previously closed sections during FY2017; and (iii) the change in toll collection model of Chengpeng Expressway and Chengwenqiong Expressway in which the Company received toll income based on the actual traffic toll, instead of a fixed lump-sum amount. As set out in the above table, the revenue growth from the four self-owned expressways were in line with the growth in traffic volume.

The revenue from Chengpeng Expressway decreased by approximately 37.4% in FY2017 and increased by approximately 70.0% in FY2018 due to (i) traffic restoration on the previously closed sections on 12 July 2018; (ii) the change in toll collection model in which the Company received toll income based on the actual traffic toll, instead of a fixed lump-sum amount; and (iii) an increase in toll for different types of vehicles. The revenue from Chengwenqiong Expressway increased by approximately 23.4% and 24.3% in FY2017 and FY2018, respectively due to an increase in batch payments income under the New Batch Payment Agreements and traffic restoration upon the completion of the Riyue Avenue expansion project.

The toll income for the six months ended 30 June 2019 recorded an increment of approximately 22.3% as compared to the same period of 2018. The growth in revenue is in line with the trend of traffic volume which has increased by approximately 26.7%. However, the toll income and traffic volume of Chengguan Expressway recorded a reduction by approximately 10.8% and 7.3%, respectively due to the commencement of operation of certain parts of Chengdu Ring Expressway, traffic diversion of Chengpeng Expressway and environmental regulation in Aba prefecture.

Construction revenue in respect of service concession arrangement

Construction revenue in respect of service concession arrangement and the relevant cost of sales are recognized in the same amount due to the accounting treatment of service concession arrangements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the 2018 Annual Report, it is clearly stipulated in the “Thirteenth Five-Year” Plan on Comprehensive Traffic Transport Development of Sichuan Province (《四川省“十三五”綜合交通運輸發展規劃》) that the construction of the westbound and northwest bound expressways to and from Sichuan Province and the expressways along the Yangtze River should be sped up. An expressway network featuring “three rings and fifteen lanes” will be constructed during the “Thirteenth Five-Year” period in Chengdu City and such development will strengthen the traffic infrastructure in Chengdu City, and the Group will potentially benefit from such development. The operation and management of newly constructed expressways also provides new business opportunities for the Group. Meanwhile, the wide application of new technologies, such as application of 5G technology will enhance the information exchange of expressways and the big data information collection. The Group can provide more comprehensive services, improve traffic efficiency, enhance the level of automation of transportation services and make better traffic management decisions. Given the positive outlook of toll road business and the Group’s leading position in the toll road operation industry in Chengdu City, the Directors are of the view that the Group will enjoy the benefits from the transportation policy of Sichuan Province.

As set out in the table below, the major items of the consolidated financial statement of the Company as at 30 June 2019 are summarized as below

	As at
	30 June 2019
	<i>RMB million</i>
	(unaudited)
Service concession arrangements	3,260.7
Cash and cash equivalents	2,082.5
Other assets	681.4
Total Assets	6,024.6
Interest-bearing bank and other loans	1,398.0
Other liabilities	1,326.1
Total Liabilities	2,724.1
Net Assets	3,300.5

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's total assets mainly include service concession arrangements in relation to the operation right of the Group's expressways, which amounted to approximate RMB3,260.7 million as at 30 June 2019 and represented approximately 54.1% of the total assets. The Group has cash and cash equivalents of approximately RMB2,082.5 million (including approximately RMB801.9 million of the net proceeds from the Company's global offering), representing approximately 34.6% of the total assets.

The Group's total liabilities mainly include the interest-bearing bank and other loans, which was amounted to RMB1,398.0 million, representing approximately 51.3% of the total liabilities as at 30 June 2019. As disclosed in the 2018 Annual Report, the interest-bearing bank and other loans have remaining terms ranged from around 1 year to 17 years with the range of effective interest rate between 4.41% and 4.90%.

b) Chengdu Expressway Construction

Chengdu Expressway Construction is a company established in the PRC with limited liability and is principally engaged in the construction and development of toll expressways, large-scale overpasses, stations, ancillary facilities and properties alongside toll expressways in Sichuan Province. Chengdu Expressway Construction which is one of the controlling shareholders of the Company.

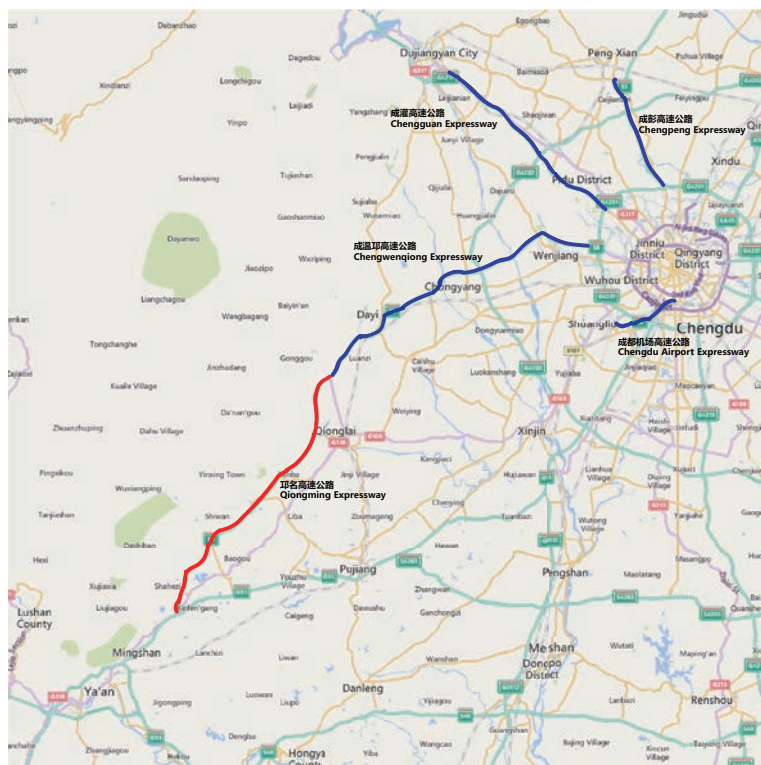
c) Chengming Company

Chengming Company is a company established in the PRC with limited liability and is principally engaged in the management and operation of Qiongmeng Expressway. As of the Latest Practicable Date, Chengming Company is a wholly-owned subsidiary of Chengdu Expressway Construction.

Qiongmeng Expressway is an extension of Chengwenqiong Expressway which is operated and managed by the Group. Qiongmeng Expressway is a two-way four lanes expressway with a total length of 52.68 kilometres and maximum designed speed of 80km/h and it was opened to traffic in November 2010. Qiongmeng Expressway connects the section from Qionglai to Mingshan on 318 national expressway through Dayi County (大邑縣) in Chengdu City, Qionglai City, Mingshan District (名山區) in Ya'an and ends in Xindian Hutong Interchange (新店互通立交橋). Qiongmeng Expressway is one of the core routes to tourist areas, including Xiling Snow Mountain (西嶺雪山), Huashui Bay (花水灣), Tiantai Mountain (天台山), Pingle Ancient Town (平樂古鎮), Baizhang Lake (百丈湖), Bifeng Gorge (碧峰峽) and Zhougong Mountain (周公山). Qiongmeng Expressway connects Yunnan province via Chengya Expressway – Yaxi Expressway – Xipan Expressway and the Tibetan region via Chengya Expressway – Yakang Expressway – G318 National Expressway. Qiongmeng Expressway has five toll stations and five service areas, including two gas stations. Chengming Company has obtained the toll collection right of Qiongmeng Expressway up to 7 November 2038.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the expressway network of the Group as discussed in the above section, Qiongming Expressway did not overlap with the routes, the starting point and the destination of the Group's four expressways and the target users of Qiongming Expressway are differentiated from the target users of the Group's expressways based on the route of each expressway. Moreover, Qiongming Expressway is an extension of Chengwenqiong Expressway connecting Chengdu City to Ya'an City when the vehicles travel through Chengwenqiong Expressway. In view of location and routes of the Group's four expressways and Qiongming Expressway, we consider that Qiongming Expressway is not in competition with the Group's expressway network.



Source: the Company

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below summarizes the major financial information of Chengming Company for the three years ended 31 December 2018 and the six months ended 30 June 2019 prepared in accordance with the International Financial Reporting Standards as disclosed in Appendix IV-A in this Circular:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)	(unaudited)	(audited)
<i>Average daily traffic volume (number of vehicles per day)</i>	10,666	12,345	13,340	13,060	13,957
Revenue	128.2	157.1	169.5	79.3	87.5
Earnings before interests, tax, depreciation and amortisation (“EBITDA”)	96.5	130.7	142.9	68.0	72.9
Earnings before interests and tax (“EBIT”)	46.8	74.8	83.2	38.6	42.0
Net loss after tax	(60.1)	(25.3)	(20.1)	(12.0)	(8.2)
Net cash flows from operating activities	106.8	120.5	146.1	72.9	64.5

The revenue increased from approximately RMB128.2 million to RMB169.5 million from the year ended 31 December 2016 to the year ended 31 December 2018, representing a compound annual growth rate (“CAGR”) of approximately 15.0%. The revenue of Chengming Company increased by approximately RMB8.2 million to approximately RMB87.5 million for 1H2019 as compared to that for the six months ended 30 June 2018. The increase in revenue was mainly driven by the increase in traffic volume of Qiongmeng Expressway.

The operating cost of Chengming Company mainly includes the amortisation of service concession arrangement which amounted to approximate RMB41.5 million, RMB47.9 million, RMB51.6 million and RMB27.0 million during the three years ended 31 December 2018 and the six months ended 30 June 2019, representing approximately 32.4%, 30.5%, 30.5% and 30.9% of the total revenue for the respective years/period. Cost of sales of Chengming Company mainly refers to the operating and maintenance cost of Qiongmeng Expressway, which amounted to approximately RMB31.0 million, RMB26.8 million, RMB27.0 million and RMB14.3 million, representing 24.2%, 17.1%, 15.9% and 16.4% of the total revenue for the respective years/period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the three years ended 31 December 2018 and the six months ended 30 June 2019, the interest expenses in relation to the interest-bearing bank and other borrowings amounted to RMB101.7 million, RMB99.1 million, RMB98.5 million and RMB47.0 million, representing approximately 79.3%, 63.1%, 58.1% and 53.8% of the total revenue for the respective years/period. Since Chengming Company incurred interest expenses of around RMB100 million for each of the past three years and around RMB50 million in the first half year of 2019, Chengming Company recorded loss after tax of approximately RMB60.1 million, RMB25.3 million, RMB20.1 million and RMB8.2 million during the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively. Excluding the income tax and the above-mentioned interest expenses, Chengming Company could achieve a profitable position of approximately RMB46.8 million, RMB74.8 million, RMB83.2 million and RMB42.0 million during the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively. The management of the Company explained that the toll road business usually records losses in the early years due to the finance costs of the bank borrowings and begins to generate profit when the bank borrowings are gradually repaid and the interest expenses will be reduced. We calculated EBITDA of Chengming Company, which amounted to approximately RMB96.5 million, RMB130.7 million, RMB142.9 million and RMB72.9 million during three years ended 31 December 2018 and the six months ended 30 June 2019, representing the operating profit of Chengming Company excluding two major non-cash expenses items, which are depreciation and amortisation, finance cost and enterprise income tax. EBITDA reflected that Chengming Company can almost generate sufficient profits to cover its financing cost and we consider that EBITDA is another perspective to analyse the profitability of a company which is a common business tool for profitability analysis. We also looked into the net cash flows from operating activities which amounted to RMB106.8 million, RMB120.5 million, RMB146.1 million and RMB64.5 million for the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively. The positive net cash inflow from operating activities of Chengming Company is able to cover the interests of bank and other borrowings. We understood from the management of the Company that, after the Completion, Chengming Company will reserve the idle cash for repayment of the bank borrowings and the loan due to Chengdu Expressway Construction and the Company, and in turn reduce Chengming Company's leverage and interest burden. The bank borrowings and the loan due to Chengdu Expressway Construction and the Company are expected to be fully repaid on or before 2027 and 2030, respectively. Based on (i) the loan repayment schedule; and (ii) the growing trend of toll revenue, we understood from the management of the Company that Chengming Company is expected to turn around.

After the Completion, Chengming Company would become a non-wholly-owned subsidiary of the Company, and its financial statements will be consolidated with the Company. The interest-bearing loans due to the Company by Chengming Company amounted to approximately RMB393.8 million and the relevant annual interest expenses are considered as inter-company transactions and will be fully eliminated in the consolidated financial statement of the Company. From the perspective of the Company, Chengming Company's interest burden is relatively lower after the Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below summarizes the major items of the statement of the financial position of Chengming Company as at 30 June 2019 prepared in accordance with the International Accounting Standards:

	As at
	30 June 2019
	<i>RMB million</i>
	<i>(audited)</i>
Service concession arrangements	2,400.3
Cash and cash equivalents	117.5
Other assets	70.2
Total Assets	2,588.0
Bank borrowings	1,213.3
Loan due to Chengdu Expressway Construction	772.1
Other liabilities	167.8
Total Liabilities	2,153.2
Net Assets	434.8

Chengming Company's total assets mainly include service concession arrangement in relation to the operation right of Qiongming Expressway for a period of 28 years, which was amounted to RMB2,400.3 million as at 30 June 2019, representing approximately 92.7% of the total assets. Chengming Company has cash and cash equivalents of approximately RMB117.5 million as at 30 June 2019, representing approximately 4.5% of the total assets.

As at 30 June 2019, Chengming Company's total liabilities mainly include the interest-bearing bank borrowings of approximately RMB1,213.3 million and loan due to Chengdu Expressway Construction of approximately RMB772.1 million, in aggregate representing approximately 92.2% of the total liabilities as at 30 June 2019. As advised by the management of Chengming Company, the interest-bearing bank and other borrowings are used to finance the construction of Qiongming Expressway. The interest-bearing bank borrowings and loan due to Chengdu Expressway Construction have remaining terms between 1 year and 8 years and their effective interest rate ranged from 4.41% to 4.90%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) Non-Competition Agreement between the Company and Chengdu Communications

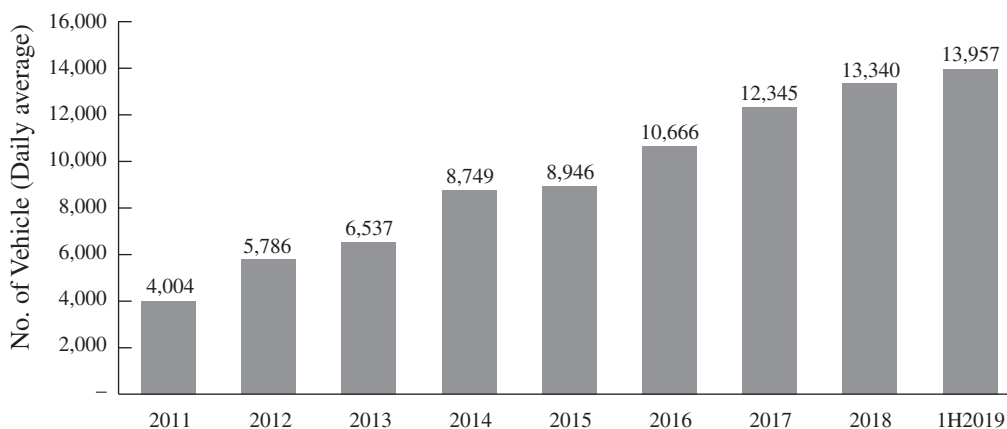
According to the Prospectus, the Company and Chengdu Communications entered into the non-competition agreement on 29 June 2017, pursuant to which Chengdu Communications has irrevocably undertaken that Chengdu Communications and its subsidiaries (excluding the Group and listed entities under Chengdu Communications and their respective subsidiaries) will not and will procure their associates not to, directly or indirectly, engage in, individual or jointly, with other entities or assist to engage in or participate in any business which competes with the Principal Business of the Group in Sichuan province and the Non-Competition Agreement became effective on 15 January 2019 when H Shares of the Company were listed on the Stock Exchange. Chengdu Communications undertakes to grant an option to the Company to acquire new business opportunities that may compete, directly or indirectly with the Principal Business of the Group.

On 19 April 2019, Chengdu Expressway Construction informed the Company that Chengdu Expressway Construction successfully obtained the tender of the acquisition of 100% equity interests of Chengming Company in December 2018 and the said acquisition would be completed around May 2019. Considering the non-competition undertaking under the Non-Competition Agreement, Chengdu Expressway Construction provided background information and financial information of Chengming Company to the Company for considering whether the Company will exercise the option to acquire a controlling stake of Chengming Company within 30 days from 19 April 2019. In view of the option to acquire Chengming Company, the Company conducted internal study regarding the feasibility of acquiring a controlling stake of Chengming Company and conducted a board meeting to discuss the acquisition of Chengming Company with the Board of Directors on 30 April 2019. During the board meeting, the three independent non-executive Directors unanimously agree to exercise the option to acquire a controlling stake of Chengming Company and the Board of Directors agreed to execute the preparation work of the acquisition of Chengming Company. Based on the above, we consider that Chengdu Expressway Construction has complied with the terms of the Non-Competition Agreement to grant an option to the Company to consider the acquisition of the controlling stake of Chengming Company.

2. Traffic volume and toll revenue of Qiongming Expressway

According to the information provided by the Company, the two charts below summarize the average daily traffic volume and the annual toll revenue of Qiongming Expressway from 2011 to 1H2019.

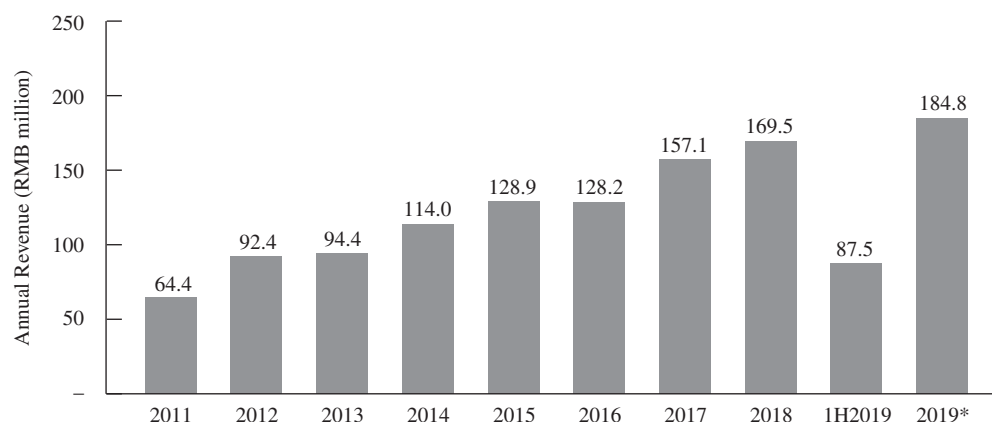
Average Daily Traffic Volume of Qiongming Expressway



The above chart shows that the average daily traffic volume from 2011 up to the 1H2019 maintained a steady growth every year with a CAGR of approximately 18.8% between 2011 and 2018. The growth was particularly strong from 2012 to 2014 and from 2016 to 2017 and experienced a double-digit growth rate ranging from approximately 13% to approximately 45%. During 1H2019, the average daily traffic volume of Qiongming Expressway with an average of 13,957 vehicles per day was higher than the average daily traffic volume of 2018. Given that the maximum capacity of Qiongming Expressway is 75,000 vehicles per day, the current utilization of expressway is approximately 18.6%, indicating that Qiongming Expressway has room to take up more traffic flow.

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Annual Revenue of Qiongming Expressway (Excluding Value-Added Tax)



* 2019 annual revenue is based on forecast traffic results in the Traffic Study Report.

The above chart shows that the annual toll revenue increased at a CAGR of approximately 14.8% between 2011 and 2018, while the revenue for 1H2019 has increased by 10.2% as compared to the six months ended 30 June 2018. According to the Traffic Study Report set out in Appendix II to the Circular, the toll revenue of Qiongming Expressway for the entire year of 2019 is expected to be approximately RMB184.8 million and the annual toll revenue of Qiongming Expressway is expected to reach its maximum level of approximately RMB618.7 million in the year of 2037. The toll revenue of Qiongming Expressway for the period from 1 January 2038 to 7 November 2038 which is the expiry date of the toll collection right, is expected to be approximately RMB542.4 million.

We noted that Qiongming Expressway maintained a stable growth on revenue since 2011. The Directors believe that there are no apparent factors that would negatively affect such growth trend and are confident that the toll revenue growth will maintain in the future.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *Economic and industry development of Sichuan Province*

The table below sets out the annual growth rate of the real gross domestic product (“**Real GDP**”) and urbanization rate of the PRC, Sichuan Province, Chengdu City and Ya’an City from 2014 to 2018:

	2014	2015	2016	2017	2018
Real GDP Growth Rate					
– the PRC	7.3%	6.9%	6.7%	6.8%	6.6%
– Sichuan Province	8.5%	7.9%	7.8%	8.1%	8.0%
– Chengdu City	8.9%	7.9%	7.7%	8.1%	8.0%
– Ya’an City	11.0%	9.0%	8.1%	8.0%	8.1%
Urbanization Rate (Note)					
– the PRC	54.8%	56.1%	57.4%	58.5%	59.6%
– Sichuan Province	46.3%	47.7%	49.2%	50.8%	52.3%
– Chengdu City	70.4%	71.5%	70.6%	71.9%	73.1%
– Ya’an City	41.3%	42.6%	44.0%	45.4%	46.9%

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

Note: Urbanization rate represents the percentage of urban population to total population.

According to the statistics compiled by the National Bureau of Statistics of China, the Real GDP in the PRC has been increasing from 2014 to 2018 at a CAGR of approximately 8.7%, while the Sichuan Provincial Bureau of Statistics disclosed that the Real GDP in Sichuan Province, Chengdu City has been increasing at a CAGR of approximately 9.3% and 11.1% respectively, exceeded the national growth rate, and Ya’an City has been increasing at a CAGR of approximately 8.7% which is same as the national growth rate, in the same period.

The urbanization rate of Chengdu City ranked the first among the cities in Sichuan Province, indicating that Chengdu City has the highest urban population in Sichuan Province. The urbanization rate of Ya’an City is below the urbanization rate of Chengdu City. In view of the increasing trend of the urbanization rate of Ya’an City, it is expected that the economic development and tourism development of Ya’an City will further improve its urbanization rate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the table above, Sichuan Province outperformed the growth rates in the national GDP. On 31 March 2017, the Sichuan Government published the “Thirteenth Five-Year” Plan on Comprehensive Traffic Transport Development of Sichuan Province (《四川省“十三五”綜合交通運輸發展規劃》) which outlined the development plan of Sichuan Province’s transportation, included the construction of integrated transportation network, namely “八射三聯”. This transportation network starts from Chengdu City which will include eight comprehensive transportation channels and connect to the six major economies of the “One Belt One Road”.

Taking into account of Sichuan Province’s strong economic development in the past years and the strong initiatives in expending and upgrading the transportation network by the Sichuan Government, we concur with the Directors that the prospect of Sichuan Province remains positive and it is beneficial for the Group to expand its investment in expressways in Chengdu City.

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

Enhancement of competitiveness and potential synergy effect

As set out in the 2018 Annual Report, the expressways controlled or invested by the Group’s expressway network includes four expressways, as well as Chengbei Exit Expressway in which the Company holds 40% equity interests, covering a total network mileage of approximately 149.69 kilometers. After the Completion, the total network mileage will increase to approximately 202.37 kilometers, in which Qiongming Expressway connected to Chengwenqiong Expressway providing a total mileage of 118.28 kilometers from Chengdu City to Mingshan Xindian and connected Chengya Expressway to Ya’an City. The connection of Qiongming Expressway and Chengwenqiong Expressway will help to increase the market share and competitive strength of the Company in Sichuan Province and provide an alternative for people who travel from Chengdu City to Ya’an City. Ya’an City is one of the giant panda habitat in Sichuan Province. Recently, Ya’an Municipal People’s Government (“**Ya’an Government**”) is actively promoting the tourism in Ya’an City, and thus will increase the demand for passenger and freight transportation, leading to higher traffic flow to Ya’an City. Moreover, we understand from the management of the Company that the Chengdu Government and Ya’an Government have undertaken that they will try to control and minimize the traffic competition imposed on Qiongming Expressway, including construction of new expressways, when the utilization rate of Qiongming Expressway is still below 80%.

As Chengwenqiong Expressway together with Qiongming Expressway is one of the major routes between Chengdu City and Ya’an City, the management of the Company consider that Chengya Expressway is the main competitor of Qiongming Expressway, because Chengya Expressway is another major expressway between Chengdu City and Ya’an City. The travel distance between Chengdu City and Ya’an City through Chengwenqiong Expressway, Qiongming Expressway and a portion of Chengya Expressway is approximately 132 kilometers while directly through Chengya Expressway is approximately 141 kilometers. The toll of Chengwenqiong Expressway is partially borne by the local Government which reduce the traveling cost between Chengdu City and Ya’an City through Chengwenqiong Expressway and Qiongming Expressway. The toll for Chengya Expressway between Chengdu City and Ya’an City is RMB33 while the toll of Chengwenqiong Expressway and Qiongming Expressway between Chengdu City and Ya’an City is RMB26. Based on the above, the Directors are of the view that the competitiveness of the Group is not less than its competitors after the Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The operation and management of Qiongming Expressway is currently subcontracted to Powerchina Expressway Operation Management Co., Ltd., an Independent Third Party, and this service contract will expire on 30 November 2019. The Group is currently operating its four expressways by its own operating teams which manage toll collection, conduct cleaning, carry out minor repair of road surfaces, patrol the expressway, attend to any emergencies as soon as they occur, clear road blockage or congestion, etc. We understand from the management of the Company that the Group is planning to assign the operation and management service of Qiongming Expressway to a wholly-owned subsidiary of the Company which provide similar functions that the existing operating team of each expressway is currently providing. Such wholly-owned subsidiary will be led by the Group's senior management and experienced staff who have extensive experiences in the expressway operation and have been involved in the current operation of the Company's own expressways. Moreover, the existing four operating teams of the four expressways will be transferred to this wholly-owned subsidiary which will centralize and consolidate the operation and management work of all expressways of the Group in order to achieve the economics of scale in operation and management aspect. As advised by the Company, this new subsidiary is expected to commence its operation on or before December 2020. During the period from 1 December 2019 to the commencement of the operation of the wholly-owned subsidiary, Chengming Company will recruit its own personnel to carry out its daily operation under the supervision of the Company. As disclosed in the Prospectus, the Company has extensive operation experience of expressway since 1990s. The Company is one of the first expressway operators in Sichuan province with extensive years of experience after years of operation in Chengdu. The Company has established standardized operation and service procedures, traffic management procedures and installed modern automation equipment to improve the operational efficiency and ensure the service quality and the road safety. Having considered the extensive experience of the Company in operation and management of expressways, we consider that the Company is capable to provide the operation and management service to Qiongming Expressway after the Completion through its wholly-owned subsidiary.

The maintenance service contract of Qiongming Expressway is also outsourced to external service provider and such service contract will expire on 31 December 2019. The Company is planning to continue outsourcing this service to external service provider through tender process. As disclosed in the Prospectus, the Company is carrying out the routine maintenance repair, cleaning and greening work on a daily basis for its expressway through third-party contractors which are selected through an elaborate tender process, taking into account their pricing, reputation, quality, reliability, technological advantages and product and service offering. As the Company has established a tendering process to select the appropriate service provider and the sub-contracting arrangement is in line with the Company's current practice in provision of maintenance services to its own expressways, we believe that it is beneficial for Chengming Company to continue the existing maintenance services through sub-contracting arrangement upon the Completion and the continuity of subcontracting arrangement has no material operational and financial impact to the Group, and it is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In-line with development strategy of the Group

According to the prospectus of the Company, the Company intend to use 70% of the net proceeds from the global offering to acquire or invest in a high-quality expressway in the PRC. Moreover, the four self-owned expressways of the Company having their respective operation expiry date during the years between 2024 and 2035 while the operation period of Qiongming Expressway will expire in 2038. As advised by the management of the Group, upon the Completion, Qiongming Expressway has the longest operating period among the expressways owned by the Group and it will contribute to the long-term development of the Group. We are of the view that the Acquisition not only strengthens the Company's expressway portfolio but also diversify the operation period of the expressways of the Group. In any case, the Company cannot extend the operating period of one of its expressways, the Company can still earn toll income from other expressways which are in operation.

The Directors believe that the Acquisition will facilitate the Company to better utilize its experiences, advantages, and resources on toll operations and to complement the Company's existing network of expressways, and the acquisition is in-line with the Company's development strategy.

Positive market outlook with Government initiatives

According to the Sichuan Provincial Strategy and the "Thirteenth Five-Year" Plan on Comprehensive Traffic Transport Development of Sichuan Province (《四川省“十三五”綜合交通運輸發展規劃》), Sichuan Government planned to invest approximately RMB1,030 billion in the construction of the integrated transportation facilities, in which RMB480 billion will be used for the road construction. It is expected that the total mileage of high-speed expressway will increase from 6,000 kilometers in 2015 to 8,000 kilometers in 2020. The Sichuan Government will continue to accelerate the construction of expressways and further strengthen the interconnection of the expressways within the Sichuan Province, in order to establish the expressways connection of the 21 cities of Sichuan Province.

Given the provincial plan and the continuous improvement of the expressway facilities, the Directors are optimistic of the prospect of the toll road infrastructure in Sichuan Province and the traffic volume is expected to further increase, and therefore it is beneficial for the Group to acquire one more high-quality expressway in Sichuan Province.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Continuing growth of Sichuan tourism

According to the Sichuan Statistical Yearbook 2018, the number of overseas visitors travelled to Sichuan Province was approximately 2.4 million in 2014 and approximately 3.4 million in 2017, representing a CAGR of approximately 11.9% and the number of domestic visitors travelled to Sichuan Province was approximately 535.5 million in 2014 and approximately 669.2 million in 2017, representing a CAGR of approximately 7.7%. As advised by the management of the Company, there are abundant tourist resources along the Qiongmeng Expressway. For example, Qiongmeng Expressway connects with Chengdu Third Ring Expressway to Xiling Snow Mountain which is one of the famous snow mountain in Sichuan Province, and other tourist areas, including Huashui Bay (花水灣), Tiantai Mountain (天臺山), Pingle Ancient Town (平樂古鎮), Baizhang Lake (百丈湖), Bifeng Gorge (碧峰峽) and Zhougong Mountain (周公山).

Besides, Ya'an Government has published《關於大力推進文旅融合發展加快建設文化強市旅遊強市的實施意見》on 3 September 2019, which stated that the Ya'an Government is actively to develop Ya'an City to become the "International Panda City". Ya'an Government will construct more tourism facilities and improve the tourism service in order to promote the tourism in Ya'an City. Given the above, the Directors consider that the continuing growth of tourism industry in Ya'an City will further drive the growth of the traffic volume of Qiongmeng Expressway.

Having taken into account (i) the growing trend of traffic volume and toll revenue since 2011; (ii) the Group can provide a comprehensive journey from Chengdu City to Ya'an City after the Acquisition; (iii) the connection of Qiongmeng Expressway and Chengwenqiong Expressway enhances the competitiveness of the Group and bring synergy impact to the Group; (iv) the Acquisition is in-line with the business plan as stated in the Prospectus; and (v) the Sichuan Government's large-scale development plan of Sichuan and the continuing growth of Sichuan tourism will drive the growth of traffic volume, we concur with the Directors that the entering of the Equity Transfer Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. Traffic Study Report

1. *Competence of the Traffic Volume Expert*

In order to assess the expertise and independence of the Traffic Volume Expert, we have (i) reviewed the engagement letter between the Traffic Volume Expert and the Company; (ii) conducted an interview with the core team member of the Traffic Volume Expert to understand its experience and its relationship with the Company and the projection methodology; and (iii) discussed with the Traffic Volume Expert about its previous experiences on traffic consulting projects. Based on our work performed as mentioned above, we understand that (a) The Traffic Study Report is jointly prepared by Mr. Horace Choi, the managing director of the Traffic Volume Expert, and his team members. Mr. Horace Choi possesses a master degree in statistics with 12 years of relevant experiences in traffic consulting projects. He is specialized in traffic consulting projects in relation to toll roads in the PRC. The other team members of the Traffic Volume Expert also have relevant education background and working experience in traffic consulting projects in Hong Kong and the PRC; (b) We noted that the Traffic Volume Expert was previously engaged as a traffic consultant when the Company was conducting its global offering in Hong Kong. Apart from the previous working relationship, the Traffic Volume Expert has confirmed that it is an independent third party of the Company, Chengming Company and Chengdu Expressway Construction, and their connected persons; and (c) the scope of work of this engagement is appropriate and suitable for the preparation of the Traffic Study Report. As such, we are not aware of any matters that could cause us to have doubts on the expertise and independence of the Traffic Volume Expert.

2. *Methodologies and assumptions*

We have reviewed and discussed with the Traffic Volume Expert about the Traffic Study Report on the bases, assumptions and methodologies adopted to estimate the traffic volume and toll revenue of the Qiongmeng Expressway for the period from 1 January 2019 to 7 November 2038. We note that the Traffic Volume Expert has (i) collected economic data, development plan in Sichuan Province and historical traffic data of Qiongmeng Expressway; (ii) analyzed the data in (i) above; (iii) built a traffic model to estimate the traffic volume and toll revenue of the Qiongmeng Expressway; and (iv) performed sensitivity analysis on the traffic volume and toll revenue under optimistic and conservative scenarios.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In estimating the traffic volume and toll revenue of the Qiongmíng Expressway, we note that the Traffic Volume Expert has considered (i) the existing travel patterns; (ii) the historical traffic data for the period from January 2016 to June 2019; (iii) an assumption that there will be no change in the toll after the toll collection for trucks charged from weight-based toll to vehicle type (by axis) based toll from 1 January 2020; and (iv) the growth rate of traffic volume is based on the GDP growth of the relevant area (e.g. Sichuan Province). In addition, we understand from the Traffic Volume Expert that they have also considered the potential competition factors and government toll policies during the forecast period in the traffic projection of the Qiongmíng Expressway. As stated in the Traffic Study Report, the Traffic Volume Expert adopted the generalized cost approach in determining users' route choice behaviors, which are affected by travel time, travel distance and costs. In addition, the upcoming road network upgrade is also considered in the traffic model.

On this basis, nothing has come to our attention that will cause us to doubt the reasonableness of the Traffic Study Report regarding the Qiongmíng Expressway prepared by the Traffic Volume Expert. With regard to the toll rate, we note that the Traffic Volume Expert has taken into account the new toll collection policy proposed by the General Office of the State Council and assumed a fixed toll rate afterward from 1 January 2020. The General Office of the State Council issued the "Toll Highway System Reform and the Cancellation of Expressway Provincial Toll Stations" (深化收費公路制度改革取消高速公路省界收費站實施方案) on 16 May 2019. It proposed that the toll collection for trucks will be changed from weight-based toll to vehicle type (by axis) based toll effective from 1 January 2020. The Traffic Volume Expert has advised that the underlying assumptions and the forecast procedures adopted in the Traffic Study Report are commonly used in its previous relevant traffic projects in the PRC.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III Valuation Report

Independent Valuer has been engaged by the Company to assess the value of the total shareholders' equity of Chengming Company (details of which are set out in the Appendix I to the Circular). According to the Valuation Report, the total shareholders' equity of Chengming Company as at 30 June 2019 estimated by the Independent Valuer was RMB955,000,000.

1. Competence of the Independent Valuer

We have reviewed and enquired the qualification and experience of the Independent Valuer in charge of the valuation of Chengming Company. We have (i) reviewed the Independent Valuer's engagement letter (including their scope of work); (ii) reviewed and interviewed the qualification of the Independent Valuer including its previous experience in conducting business valuation; (iii) enquired the current or previous working relationship between the Independent Valuer, the Company, Chengdu Expressway Construction and the respective connected persons. Based on our work performed as mentioned above, we understood that the Independent Valuer is an established valuation firm with solid experience in conducting business valuation. The Independent Valuer has participated in other valuation projects of companies listed in Hong Kong and the PRC. We also confirmed with the Independent Valuer that the Independent Valuer is independent third party of the Company, Chengdu Expressway Construction and their respective connected persons. Moreover, we have reviewed the engagement letter of the Independent Valuer and noted that the scope of work for the valuation is suitable for the Acquisition. Furthermore, the valuation of the Acquisition is led by Ms. Qian Youyan who is a qualified member of China Appraisal Society and possesses over 20 years' experience in the valuation sector. The team members are also qualified member of China Appraisal Society and the team has relevant experience in conducting valuation for toll road projects. Therefore, we consider that the Independent Valuer is qualified and possesses sufficient relevant experience in performing the valuation of Chengming Company.

2. Methodologies and assumptions

We understood that the Independent Valuer has considered three generally adopted valuation approaches, which are the income approach, the market approach and the cost approach (asset-based approach) in performing the valuation of Chengming Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The income approach is commonly adopted in the business valuation for valuation subject with supportable operating profit and cash flow forecast such as infrastructure company. Based on our discussion with the Independent Valuer that the valuation of Chengming Company is derived from the discounted cash flow forecast for the period between 1 July 2019 and 7 November 2038. The discounted cash flow forecast is reviewed and confirmed by the Directors and the reporting accountants of the Company (the “**Reporting Accountants**”). The comfort letter on profit forecast of Chengming Company issued by the Reporting Accountants is set out in Appendix VI of this Circular. Moreover, the forecast toll revenue is made reference to the Traffic Study Report. Give that (i) Chengming Company is expected to turn around; (ii) the discounted cash flow forecast could be reasonably estimated and has been reviewed by the Directors and the Reporting Accountants; and (iii) the toll revenue is supported by the Traffic Study Report, the Independent Valuer considers that income approach is the appropriate methodology for the valuation of Chengming Company. We also discuss with the Independent Valuer about the market approach and the cost approach in valuation of Chengming Company. The Independent Valuer advised that there are limited appropriate market transactions which are either similar or comparable to the Acquisition and each of these comparable transactions has their own location characteristics, traffic characteristics, concession terms, operating environment, cost structure and ongoing maintenance schedule. The cost approach is a method of replacing the historical costs of the assets and liabilities shown in the statement of the financial position of Chengming Company by the Independent Valuer and primarily involves the assessment of assets and liabilities to appraise the business value of the valuation subject. However, the cost approach did not take into consideration of the traffic volume, the toll revenue and the future development of Qionghong Expressway during its 28-year operating period under the service concession arrangement. Having considered the limitations of market approach and cost approach, the Independent Valuer is of the view that the market approach and cost approach may not result in the best estimate of the business value of Chengming Company and therefore the Independent Valuer applies the income approach in the business valuation of Chengming Company.

We discussed with the Independent Valuer regarding the discounted cash flow forecast of the income approach adopted in the valuation of Chengming Company. We understand from the Independent Valuer that the valuation value of Chengming Company is mainly calculated based on the discounted cash flow forecast of Chengming Company for the period between 1 July 2019 and 7 November 2038 and the discounted cash flow forecast is derived from the profit forecast of Chengming Company for the period between 1 July 2019 and 7 November 2038. The discount rate is determined through the Capital Asset Pricing Model, by taking into account of the Shanghai and Shenzhen 300 Index, risk-free rate of return, excess risk premium, company-specific risk excess return and beta of comparable companies, which are primarily engaged in toll road operation in the PRC and listed in Shanghai Stock Exchange or Shenzhen Stock Exchange. Given that the comparable companies are (i) in the same industry in the PRC; (ii) and their toll revenue accounted for over 85% of their annual revenue, and we have reviewed the background of these comparable companies, we are of the view that these comparable companies are fair and representative samples.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed and discussed with the Independent Valuer in respect of the assumptions applied in the valuation. Details of the valuation assumptions are set out in the Appendix I of this Circular. Based on our discussion with the Independent Valuer and our review of the profit and cash flow forecast of Chengming Company for the period between 1 July 2019 and 7 November 2038, we understand that (i) the projected annual revenue of Chengming Company is directly derived from the projected annual revenue estimated by the Traffic Volume Expert (excluding 3% value-added tax); (ii) the projected operating cost of Chengming Company is primarily based on the historical costs, the existing service contracts and the current accounting policies of Chengming Company; (iii) the projected capital expenditure is mainly based on the plan of large-scale maintenance and repair work, ETC upgrade project, environment improvement project and other small-scale maintenance projects, which will be conducted during the year ending 31 December 2020, and two maintenance and repair projects to be conducted during the two years ending 31 December 2029 and 2038, respectively; and (iv) the projected working capital is mainly made reference to the historical working capital and the additional working capital to be invested in Chengming Company for maintaining the operation of Chengming Company. Regarding the above assumptions used in the profit and cash flow forecast, we (i) have cross-checked and compared the forecasted toll revenue (excluding 3% value-added tax) used in the valuation and the Traffic Study Report and no variance is noted; (ii) compared the projected operating cost against the historical operating cost for the year ended 31 December 2018 and noted that the growth of projected figures are mainly driven by the growth in toll revenue; (iii) reviewed the estimation basis of the capital expenditure, including the quotation from independent supplier and budgeted calculation of the upgrade, improvement and maintenance projects prepared by the Company and reviewed the timing requirements of large-scale maintenance and repair work as stated in the Concession Contract; and (iv) reviewed the estimation basis of the working capital, including the historical cash inflow from toll collection and the historical cash outflow of the operating expenses.

We further reviewed the calculation schedule of the underlying profit forecast and understood from the Valuer that the underlying profit forecast of Chengming Company is mainly prepared with reference to (i) the audited financial statement of Chengming Company for the three years ended 31 December 2018 and the six months ended 30 June 2019; (ii) the estimated toll revenue prepared by the Traffic Volume Expert in the Traffic Study Report; (iii) a large-scale maintenance and repair work will be performed during the respective years ending 31 December 2020, 2029 and 2038; and (iv) all the bank borrowings and the shareholders' loans will be fully repaid by the end of 2030. The Independent Valuer also advised that the general assumptions used in the valuation of Chengming Company are common assumptions adopted in various business valuation projects including but not limited to no material change in the existing political, economic, social, legal, tax conditions where the business is currently in operation.

In addition, we have discussed with the Financial Adviser regarding their views on the basis and assumptions adopted in the profit forecast of Chengming Company for the period from 1 July 2019 to 7 November 2038. We understood that the Financial Adviser has (i) reviewed the profit forecast and its calculation schedule upon which the valuation has been made; (ii) discussed with the management of the Company and the Independent Valuer the bases and assumptions upon which the profit forecast has been prepared; and (iii) considered the comfort letter on the discounted cash flow forecast of Chengming Company from the Reporting Accountants set out in Appendix VI of this Circular regarding the calculations of the discounted cash flow forecast.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also discussed with the Reporting Accountants regarding their work performed on the discounted cash flow forecast. We understand that the Reporting Accountants has checked the arithmetical accuracy of the calculations of the discounted cash flow forecast and concluded that the discounted cash flow forecast have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors, who are solely responsible for the discounted cash flow forecast.

With reference to the Valuation Report, we understood that Qiongming Expressway has five services areas, namely Qionglai Service Area, Mingshan Service Area and Pingle Service Area, as well as five petrol stations, in which the services area are located on both side of Qionglai and Mingshan, one service area is located in one side of Pingle. Qionglai Service Area and Mingshan Service area are in normal operation. Chengming Company transferred the operation right of Pingle Service Area for the period from 27 December 2012 to 7 November 2038 and the relevant land use right for the period from 27 December 2012 to 17 July 2052 to Sichuan Xuyang Petrochemical Trading Co., Ltd. (the “**Xuyang Company**”). However, Pingle Service Area suspended its operation since May 2016 because Xuyang Company was in financial difficulties. We understood from the management of the Company that there are four other services areas along Qiongming Expressway, which provide petrol station, food and beverage for vehicle users, therefore the service suspension of Pingle Area does not affect the normal operation of Qiongming Expressway. Based on our discussion with the Directors, the management of the Company and the PRC legal adviser of the Company that Chengming Company has its rights to transfer the operation right of Pingle Service Area and its relevant land use right to Xuyang Company under the Concession Contract and the 40-year land use right of the state-owned construction land obtained through the land grant contract. We have further enquired the PRC legal adviser of the Company and understood that the transfer of land use right to Xuyang Company for the period from 27 December 2012 to 17 July 2052 is valid. The PRC legal adviser indicated that it is unclear which types of land is required to be handed over after the expiry of the concession period under the Concession Contract. The PRC legal adviser mentioned that the hand-over arrangement of Qiongming Expressway is subject to further negotiation with the Ya'an Municipal People's Government and Chengdu Municipal People's Government three years before the expiry of the concession period. Having considered that the transfer of land use right to Xuyang Company is valid and the service suspension of Pingle Service Area has been suspended since May 2016, there is no negative impact to the operation and financial condition of Chengming Company.

Taking into account (i) the Independent Valuer is independent from the Company and has relevant experience in conducting the valuation of Chengming Company; (ii) the reasonableness of the bases and assumptions adopted in the valuation of Chengming Company; (iii) the key assumptions adopted in the profit and cash flow forecast for the period between 1 July 2019 and 7 November 2038 of Chengming Company are fair and reasonable; (iv) the Financial Adviser is satisfied with the profit forecast of Chengming Company adopted in the Valuation Report; and (v) the discounted cash flow forecast have been reviewed by the Reporting Accountants; we consider that the Consideration, which is with reference to the valuation of Chengming Company as at 30 June 2019, is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. Equity Transfer Agreement

The major terms of the Equity Transfer Agreement is summarized as below:

Date: 28 October 2019
Parties: the Company (as the purchaser)
Chengdu Expressway Construction (as the vendor)

1. Assets to be acquired

- (i) 51% of the equity interests in Chengming Company; (the “**Sale Shares**”) and
- (ii) 51% of the debt due to Chengdu Expressway Construction by Chengming Company in an aggregate amount of RMB772,060,000, being RMB393,750,600 (the “**Sales Debt**”)

2. Consideration and payment terms

Sales Shares

The Consideration is RMB485,142,600 which was determined between the Company and Chengdu Expressway Construction after arm’s-length negotiation, with reference to the valuation of the total shareholders’ equity of Chengming Company as at 30 June 2019, being RMB955,000,000, estimated by the Independent Valuer. The Independent Valuer adopted the income approach in estimating the value of total shareholders’ equity of Chengming Company as at 30 June 2019.

The Company shall settle the Consideration to Chengdu Expressway Construction in one lump sum within five business days from the satisfaction of all the conditions to the Equity Transfer Agreement. Details of the conditions can be referred to the Letter from the Board in this Circular.

Sale Debt

The consideration of the Sales Debt (the “**Loan Consideration**”) is RMB393,750,600. Within 20 business days from the Completion Date (as defined below), the Company shall enter into a loan agreement with Chengming Company and settle such amount of RMB393,750,600 to Chengming Company, which will in turn repay it to Chengdu Expressway Construction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Completion

Within 20 business days from approval by the Independent Shareholders of the Equity Transfer Agreement and the transactions contemplated thereunder, the Company and Chengdu Expressway Construction shall procure Chengming Company to complete the registration formalities for the transfer of equity interests with the industrial and commercial registration authority where it is located. The date on which the industrial and commercial registration authority issues the renewed business license of Chengming Company after the equity transfer shall be the completion date of the Acquisition (the “**Completion Date**”).

The Consideration of approximately RMB485.1 million represents a discount of RMB1.9 million or 0.4% to the 51% of the value of Chengming Company appraised by the Independent Valuer as at 30 June 2019 (i.e. RMB487.1 million). The Loan Consideration is approximately RMB393.8 million. The total consideration of the Acquisition is approximately RMB878.9 million. On the basis that (i) the Consideration is very closed to 51% the value of Chengming Company as at 30 June 2019 appraised by the Independent Valuer; and (ii) the Loan Consideration is equivalent to 51% of the debt due to Chengdu Expressway Construction by Chengming Company as at 30 June 2019 on a dollar to dollar basis, we consider that the Consideration and Loan Consideration is fairly and reasonably determined. The Consideration will be financed by the net proceeds received from the global offering. The Loan Consideration will be financed by the net proceeds received from the global offering and internal resources of the Group. With reference to the interim report of 2019, the Group has cash and cash equivalent (excluding the net proceeds from the global offering of approximately RMB801.9 million) of approximately RMB1,280.6 million which is sufficient to finance the Loan Consideration.

V. Financial effects of the Acquisition on the Group

As a result of the Acquisition, Chengming Company would become a non-wholly-owned subsidiary of the Company, and its financial statements will be consolidated into the accounts of the Group.

1. Earnings

For the year ended 31 December 2018, the consolidated net profit of the Group was approximately RMB446.0 million. Upon the Completion, the results of Chengming Company will be consolidated with the Company. According to the accountant’s report of Chengming Company for the six months ended 30 June 2019, Chengming Company recorded a net loss after tax of approximately RMB8.2 million. After the Completion, the result of the Enlarged Group will be slightly affected by such loss. However, based on traffic volume and toll revenue projection of Qiongmeng Expressway set out in the Traffic Study Report and the profit forecast of Chengming Company, Chengming Company will turn around and we concur with the Directors that the Acquisition will have a positive impact on the Enlarged Group’s long-term financial performance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Working capital

As set out in the Letter from the Board, the Consideration of RMB485.1 million and the Loan Consideration of RMB393.8 million will be settled by its net proceeds received from the global offering of the Company and the internal resources of the Group. According to the 2019 Interim Report, the Group's cash and cash equivalent is approximately RMB2,082.5 million as at 30 June 2019. It is expected that the Group's cash and cash equivalent would be reduced as a result of the Acquisition.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V of the Circular, the cash and cash equivalent of the Enlarged Group will be reduced from RMB2,082.5 million to RMB1,321.1 million.

3. Net asset value and gearing position

As at 30 June 2019, the unaudited consolidated net assets value of the Group was approximately RMB3,300.5 million. Upon the Completion, Chengming Company will become a non-wholly-owned subsidiary of the Company and its assets and liabilities will be consolidated with the Company. The net asset value of the Enlarged Group may reach RMB3,645.6 million based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V of the Circular. Upon the Completion, the service concession arrangements of the Enlarged Group will be increased by approximately RMB516.0 million due to the fair value adjustment of service concession arrangements. We understand from the Reporting Accountants that the adjustment is derived from the valuation of the total shareholders' equity of Chengming Company as at 30 June 2019 based on the Valuation Report and the carrying amount of total identifiable assets and liabilities of Chengming Company as at 7 May 2019 assuming that Chengming Company first came under common control of Chengdu Expressway Construction on 7 May 2019. We further understood from the Reporting Accountants and reviewed the accounting policies of the Company as disclosed in the 2018 Annual Report that the adjustment is calculated based on the existing accounting policy of merger accounting for business combinations under common control. We are of the view that the adjustment in relation to the concession service arrangements is reasonably estimated for the purpose of preparation of unaudited pro forma financial information of the Enlarged Group.

Before the Acquisition, the gearing ratio of the Group (being the total liabilities divided by total assets) is approximately 45.2%. Upon the Completion, after consolidating the financial position of Chengming Company, the gearing ratio of the Enlarged Group will be increased to approximately 55.9%. Although the gearing ratio of the Group will be increased after the Acquisition, Chengming Company has been planning to gradually repay its bank borrowings from the year ending 31 December 2019 using its surplus cash generated from its operating activities.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Recommendation

Having considered the principal factors and reasons as discussed above, and in particular the following:

- (i) the Acquisition is in-line with development strategy as stated in the Prospectus;
- (ii) given the continuous growth of traffic volume and toll revenue of Qiongming Expressway since 2011 and the future growth of traffic volume and toll revenue as stated in the Traffic Study Report, Chengming Company is expected to turn around;
- (iii) the Consideration represents a slight discount against the valuation of Chengming Company;

We consider that entering into the Equity Transfer Agreement is not in the ordinary and usual course of business of the Group because of its “one-off” nature. Nevertheless, the Acquisition is on normal commercial terms and the terms of the Equity Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Wong Wai Leung

Managing Director

Executive Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and Type 9 (asset management) regulated activities. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

VALUATION REPORT
ON
THE FAIR MARKET VALUE
OF
100 PERCENT EQUITY INTEREST
IN
CHINA HYDROPOWER CONSTRUCTION GROUP SICHUAN CHENGMING
EXPRESSWAY DEVELOPMENT CO., LTD.

Client : Chengdu Expressway Co., Ltd.
Report Date : 23 October 2019

23 October 2019

The Board of Directors
Chengdu Expressway Co., Ltd.
9/F, Chengnan Tianfu Building
66 Shenghe Road, Chengdu High-Tech Zone, Chengdu
Sichuan, 610094
People's Republic of China

Dear Sirs,

In accordance with your instructions, we have undertaken an investigation and analysis to express an independent opinion of the fair market value of 100 percent equity interest in China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (hereinafter referred to as “**Chengming Company**” or the “**Target Company**”) as at 30 June 2019. The report which follows is dated 23 October 2019.

The purpose of this valuation is to provide a reference for share acquisition.

Taking into considerations of the purpose of the valuation, conditions of the market and objects of the valuation and etc., our valuation was carried out on a fair market value basis. Fair market value is defined as “*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as at the Valuation Benchmark Date*”.

In arriving at our assessed value for the equity interest, by making reference to the purpose of the valuation, objects of the valuation, type of the value, information collection situation, we have considered the applicability of three generally accepted approaches, namely, market approach, cost approach (asset-based approach) and income approach. Firstly, influenced by various factors, such as regionalism and traffic flow, each expressway differs from others. It is difficult to find public companies or cases of equity transaction of comparable enterprises that are similar or comparable to the Target Company in terms of construction cost, mileage, traffic flow and transit vehicle type. Therefore it is not appropriate to adopt the market approach. Secondly, the expressway has been completed and opened to traffic for years. Its revenue and cost can be verified and estimated based on historical conditions, the future income and risks can be reasonably predicted as well. The asset-based approach is applicable. Lastly, the asset-based approach is a method of replacing historical costs with market value for all individual assets and liabilities on the company's balance sheet from the perspective of asset cost. However, the market value of the expressway industry in which Chengming Company operates is primarily reflected by the traffic volume and toll standard during the operating period. The asset-based approach does not directly incorporate information about the economic benefits contributed by traffic flow and tolls, thus asset-based approach is not used in this report.

To sum up, the income approach is used in this valuation report.

The list of assets and liabilities in the valuation is provided by the entrusting party and Chengming Company, and confirmed by their signatures. We have relied to a considerable extent on such information in arriving at our opinion of value.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on numerous assumptions and various factors that are relevant to the operation of the Target Company. We have also considered various risks and uncertainties that have potential impact on the businesses. While we believe the assumptions and consideration of such matters are reasonable on the Valuation Benchmark Date, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, so when the economic environment change significantly in the future, we shall not assume responsibility.

In the implementation of the valuation, we adhere to the principles of independence, objectivity and fairness. According to the information we collected during the practice, the contents of the valuation report are objective. We assume corresponding legal responsibility for the reasonableness of the valuation conclusions, whereas the evaluation conclusion should not be regarded as the guarantee for the valuation object's achievable price.

Based on the results of our investigation and analysis with income approach outlined in the report which follows, we are of the opinion that the fair market value of 100 percent equity interest in the Target Company as at the Valuation Benchmark Date (30 June 2019) is reasonably stated as below:

Valuation Benchmark Date	Fair Market Value of 100 Percent Equity Interest
30 June 2019	RMB955,000,000.00

Yours faithfully,
For and on behalf of
Tianyuan Appraisal Co., Ltd.
23 October 2019

YouYan Qian
Legal Representative

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INTRODUCTION

This report has been prepared in accordance with instructions from Chengdu Expressway Co., Ltd. (Hereinafter referred to as “**Chengdu Expressway**”) to express an independent opinion of the fair market value of 100 percent equity interest in China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (“**Chengming Company**” or the “**Target Company**”) as at 30 June 2019. The report day which follows is dated 23 October 2019.

PURPOSE OF VALUATION

The purpose of this valuation is to provide a reference for share acquisition.

BASIS OF VALUE

Taking into considerations of the purpose of the valuation, conditions of the market and objects of the valuation and etc., our valuation was carried out on a fair market value basis. Fair market value is defined as “*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*”.

BACKGROUND**(1) Overview of Chengming Company**

Chengming Company was established in 2007. The current project of the Target Company is named as “National Highway 318 Qionglai, Chengdu to Mingshan, Ya’an Expressway (referred to as “**Qiongming Expressway**”)”. The project is located in Dayi County in Chengdu City, Qionglai City and Mingshan district of Ya’an. It starts from Chengdu Qionglai Sangyuan Interchange and is connected to Chengwenqiong Expressway. It ends at the Xindian Hutong Interchange in Mingshan County, Ya’an, and connects to Chengya Expressway. The project is a vital communication line for Chengdu to connect with Ya’an, Xichang and Kangding. With a total length of 52.68 kilometers and a design speed of 80km/h, the expressway adopting highway design standards is built as a bidirectional, four-lane, and fully-enclosed interchange with a total investment of RMB2.82162 billion and a toll-charging period of 28 years.

Qiongming Expressway entered the trial operation period on 8 November 2010. In March 2016 the final acceptance of construction was completed in accordance with relevant regulations. On 14 December 2016, the Sichuan Provincial Transport Bureau and the Sichuan Provincial Development and Reform Commission approved the formal documents of vehicle toll for Qiongming Expressway and the project officially commenced toll collection and operation. The operation period is from 8 November 2010 to 7 November 2038.

(2) Overview of Expressway Service Areas

On Qiongming Expressway there are 3 Service Areas, namely Qionglai, Mingshan and Pingle Service Areas, as well as 5 petrol stations, thereinto 2 petrol stations on both side of Qionglai and Mingshan, 1 petrol station in Pingle. The management rights of all service areas and petrol stations have been leased or transferred to other companies since 2009. Except for some buildings in Qionglai service area, which are self-built by the Target Company, all the other buildings and structures of service areas and petrol stations are built by lessee or transferee. Since some land use right certificates obtained by the Target Company include other land use rights such as service area land occupation and road land occupation, the land use right certificate cannot be divided or the actual land occupation of the corresponding service area cannot be clearly determined. The valuation does not consider the relevant warrants, or the effect of the cost of changing the warrants on the valuation conclusions.

QIONGLAI SERVICE AREA⁽¹⁾:

- ① In 2009, Chengming Company signed an agreement called “Agreement of Operational Rights Transfer of Petrol Stations on National Highway 318 Qionglai to Mingshan Expressway” with Jianyang Zhaofeng Petrochemical Trade Co., Ltd. (hereinafter referred to as “**Zhaofeng Company**”). Chengming Company transferred the operational rights of the two petrol stations in Qionglai service area to Zhaofeng Company at a price of RMB10.30 million. The said amount was paid in full before the Valuation Benchmark Date, and the operation period is due at the same time as the expiration of Chengming Company’s operation.
- ② On 1 September 2011, Chengming Company signed a lease agreement with Sinopec Group Sichuan Petroleum Company (hereinafter referred to as “**Sinopec Group**”). Chengming Company let out the operational rights of Qionglai service area (including the petrol stations) at a price of RMB47.00 million. The said amount was paid in full before the Valuation Benchmark Date, and the lease period is due at the same time as the expiration of Chengming Company’s operation.
- ③ Qionglai service area was invested and built by the Chengming Company. The petrol station was built by Zhaofeng Company and is in continuous operation. All the relevant contracts signed due at the same time as the expiration of Chengming Company’s operation. After that the land and above-ground buildings of the petrol station will be handed over to Chengming Company without compensation.
- ④ As at the Valuation Benchmark Date, the service area is in normal operation.

MINGSHAN SERVICE AREA⁽²⁾:

- ① On 1 September 2011, Chengming Company signed a lease agreement with Sinopec Group. Chengming Company let out the operational rights of Mingshan service area (including the petrol station and gas station in the future) at a price of RMB30.00 million. The said amount was paid in full before the Valuation Benchmark Date. According to the agreement, Sinopec Group takes charge of the investment and construction of service area. The lease period is due at the same time as the expiration of Chengming Company's operation. All the land and above-ground buildings of the petrol station will be handed over to Chengming Company without compensation after Chengming Company's operation expiration.
- ② As at the Valuation Benchmark Date, the service area is in normal operation.

Note: According to Chengming Company, (1) Qionglai service area is also known as Kongming service area, (2) Mingshan service area is also known as Xindian service area. The names Qionglai and Mingshan will be used throughout in this report. The Mingshan Service Area is a service area added according to the "Reply on the Establishment of the Mingshan AB Service Area of the Qiongmeng Expressway" issued by the Sichuan Provincial Department of Transportation on 9 October 2011.

PINGLE SERVICE AREA:

The Company has transferred the operational right of Pingle Service Area to Sichuan Xuyang Petrochemical Trading Co., Ltd. (hereinafter referred to as: Xuyang Company) in 2012. As at the Valuation Benchmark Date, Xuyang Company did not pay the relevant transfer price. Xuyang Company has built a petrol station and some supporting facilities within the Pingle Service Area during 2015-2016. After the main project is basically completed, it has been suspended from construction since May 2016 to date. Upon communication with the management of Chengming Company, currently there is no plan to resume the construction of Pingle Service Area.

(3) Transfer/lease rights issue in the service areas of Chengming Company

According to the information provided by the Target Company:

- ① On 27 December 2012, Chengming Company signed an agreement called "Agreement of Construction and Operational Rights Transfer of 4 Petrol and Gas Stations in Qionglai and Mingshan Service Areas, and of Pingle Service Area (including Petrol and Gas Stations) on National Highway 318 Qionglai to Mingshan Expressway" with Sichuan Xuyang Petrochemical Trading Co., Ltd., (hereinafter referred to as Xuyang Company). The agreement is as follows:
- A. The operating lands for petrol and gas stations in Qionglai and Mingshan service areas will be changed from the original use period of 28 years to 40 years of state-owned land for commercial use. The extended 12-year land use rights will be leased to Xuyang Company at a price of RMB20.00 million.
- B. Chengming Company transfers the 28-year operational rights of Pingle service area and supporting facilities, and the 40-year land use right at a price of RMB10.00 million to Xuyang Company. Xuyang Company takes charge of the investment and construction of Pingle service area.

- C. The fees for land use variation for the lands of petrol stations in Qionglai, Mingshan and Pingle service areas shall be borne by Xuyang Company.

The actual term of the 28-year operational rights in item B above represents the period from 27 December 2012, being the date of the agreement, to 7 November 2038, being the expiration date of the service concession rights. The actual term of the 40-year land use right represents the period from 27 December 2012, being the date of the agreement, to 17 July 2052, being the expiration date of the land use right.

- ② On 26 July 2014, Chengming Company and Xuyang Company signed another agreement called “Agreement for the Transfer (lease) of Operating Rights of Petrol Stations in Pingle Service Area”, and re-arranged the transfer price of the operational rights of Pingle Service Area. The total price for the service area and other ancillary facilities was RMB2.00 million.
- ③ As at the Valuation Benchmark Date, Xuyang Company has paid the transfer price of the land transfer fee of RMB6.8332 million to Chengming Company. In the meantime, Xuyang Company fails to comply with the contract and to pay the above-mentioned additional extension fees for 12-year land use in Qionglai and Mingshan service areas, as well as the payment of property leases in Pingle Service Area.
- ④ According to the opinions of lawyers in mainland China: Chengming Company’s rights to transfer the operational right of the above service area and to lease the land-use right are derived from the 28-year service concession period obtained by Chengming Company through the Concession Contract and the 40-year land-use right of the state-owned construction land obtained through the relevant land grant contract, so Chengming Company is entitled to conduct the above transfer or lease within the scope of its rights. However, according to the Concession Contract entered into among Chengming Company, Chengdu Municipal People’s Government and the Ya’an Municipal People’s Government, “project lands” should be transferred to the Chengdu Municipal People’s Government and the Ya’an Municipal People’s Government without compensation after the expiration of the 28-year operation period. It is unclear which land is required to be handed over after the expiration of the operation period as it is unclear if the term “project lands” refers to land obtained through allocation (劃撥) or land obtained through government grant (出讓). The five commercial lands occupied by the petrol stations that are within the scope of this valuation were obtained through two ways, government grant or bidding, auctions and listing. If the commercial lands are required to be handed over at the expiration of the concession period, the government will violate the stipulations of the land grant contract. Therefore, the land lease activity between the expiration date of the concession right and the expiration date of land use right will not terminate automatically but there exists uncertainties as set out above in practice. According to the Concession Contract, matters in relation to handing over shall be settled by Chengming Company through negotiation with the Chengdu Municipal People’s Government and Ya’an Municipal People’s Government during the “transitional period” which is the last three years of the concession period. However, such uncertainties as set out above will not directly render the agreement with Xuyang Company to be invalid after expiration of the concession period.

There is no statutory dismissal for the agreement between the Chengming Company and Xuyang Company, and there is no action of negotiation or dismissal of the agreement, and the contracts should be deemed to continue to be effective between the two parties. At the same time, the limitation for action for the Chengming Company to require payment of land rent or the operating right has passed. Unless Xuyang Company voluntarily fulfills the payment, there is also an obstacle for Chengming Company to request its performance through litigation.

- ⑤ Public Accountants in this project have made duplicate records in both assets and liability subject for the land of 5 petrol stations with property certificates.

(4) Historical Evolution of Chengming Company

Chengming Company was established by China Hydropower Group Ltd. (hereinafter referred to as “China Hydropower Group”) with a capital fund of RMB100.00 million. On 6 November 2007, it was registered by the State Administration for Industry and Commerce with a registration number of [2007] No. 1323, “Notice of Pre-approval of Enterprise Names”. The original registered capital was RMB100.00 million. The above-mentioned capital contribution was verified by Sichuan Branch of Jonten Certified Public Accountants (limited liability partnership). Capital Verification Report (Jonten Sichuan [2007] No. 2009) was issued as a result.

Chengming Company held the shareholder meeting on 23 March 2010, and agreed that China Hydropower Group transferred the shares of Chengming Company to PowerChina RoadBridge Group Co., Ltd., Sinohydro Bureau 5 Co., Ltd., Sinohydro Bureau 7 Co., Ltd. and Sinohydro Bureau 14 Co., Ltd.

After the equity transfer, the shareholding structure of the Target Company is as follows:

Serial Number	Shareholder Names	Contribution to Investment (RMB million)	Ratio of Contributions (%)	Contribution Methods
1	PowerChina RoadBridge Group Co., Ltd.	70.00	70	Monetary funds
2	Sinohydro Bureau 5 Co., Ltd.	10.00	10	Monetary funds
3	Sinohydro Bureau 7 Co., Ltd.	10.00	10	Monetary funds
4	Sinohydro Bureau 14 Co., Ltd.	10.00	10	Monetary funds
	Grand Total	100.00	100	–

On 23 April 2019, the Target Company held the 2019 Annual General Meeting, and agreed to transfer 100% equity interest to Chengdu Expressway Construction and Development Co., Ltd.

As of the Valuation Benchmark Date, the shareholding structure of Chengming Company is as follows:

Serial Number	Shareholder Names	Contribution to Investment (RMB million)	Ratio of Contributions (%)	Contribution Methods
1	Chengdu Expressway Construction and Development Co., Ltd.	100.00	100	Monetary funds
	Grand Total	100.00	100	–

RELEVANT DOCUMENTS BASIS OF VALUE

In conducting our valuation of the Target Company, we have reviewed information from several sources, including but not limited to:

1. Valuation Declaration Form;
2. Official comments on relevant economic activities;
3. Accountants' report dates from year 2016 to 30 June 2019;
4. Asset ownership certifications and property right certifications;
5. Important contracts, agreements, etc.;
6. Materials for business predictions;
7. Detailed information and documentation on toll roads;
8. Research Report on the Traffic Volume Forecast of Sichuan province Qiongming Expressway (Research Report on the Traffic Volume) – Basic Scheme provided by Master Alliance (China) Limited (hereinafter referred to as “**Master Alliance**”);
9. Other relevant materials.

We have had discussions with the senior management of Chengming Company, and we have relied on the information provided by the management to form our valuation opinion in a large part. We have also analyzed the financial information and documents obtained and conducted research using a variety of resources.

TRAFFIC FLOW AND REVENUE FORECAST

We have referred to and relied on the research report on the Research Report on the Traffic Volume Forecast of Sichuan Province Qiongmíng Expressway (Research Report on the Traffic Volume) – Basic Scheme provided by Master Alliance to a great extent. The revenue from the principal business referred to in this report is the revenue excluding VAT from the Base Case in the Traffic Study Report.

Master Alliance made forecasts to the traffic flow and revenue of toll roads during each operation period. These forecasts were mainly based on the expected annual growth rate of gross value in the target area, vehicle categories, existing road network and future transportation plans. We have adopted results of the Base Case of the Traffic Study Report as a reliable base for the forecast of income. We do not express an opinion on the research report on the traffic volume and toll revenue forecast of the Qiongmíng Expressway issued by Master Alliance. If the forecast data of the traffic flow report deviates greatly from the actual traffic flow, it will affect the valuation conclusion.

Qiongmíng Expressway was opened to traffic on 8 November 2010 and entered the trial operation period. The operating period is 28 years and the charging period is expected to be from 8 November 2010 to 7 November 2038. Therefore, in the valuation report, we use the forecast data from 1 July 2019 to 7 November 2038.

METHODOLOGY**(1) The Basic Methods of Valuation of Enterprise Value**

There are three generally accepted valuation approaches for enterprise value, namely, market approach, income approach and cost approach (asset-based approach).

1. Market Approach

Market Approach refers to get conclusion after compared the object with comparable listed companies or comparable trading cases. The basic premise of its use is as follows:

- (1) There is an active open market;
- (2) There are comparable transaction cases or comparable listed companies on the open market.

2. Income Approach

Income Approach refers to get conclusion of the object after capitalized or discounted expected earnings. The basic prerequisites for applying income approach are:

- (1) The price paid by an investor when investing in an enterprise will not exceed the present value of the future expected return of the enterprise (or a similar enterprise with the same degree of risk as the target enterprise);

- (2) Possible to make reasonable predictions about the future earnings of the Target Company;
- (3) A reasonable estimate of the rate of return corresponding to the degree of risk to the company's future earnings.

3. *Asset-based Approach*

The asset-based method in the valuation of enterprise value refers to a method that reasonably estimates the value of various assets and liabilities on and off the enterprise's balance sheet as at the Valuation Benchmark Date of the enterprise being valued. The prerequisites for adopting the asset-based approach are:

- (1) The valued object is in continuous use or set to be in continuous use;
- (2) It is possible to investigate the current purchase and construction route of the estimated assets, as well as the corresponding social average cost data.

(2) Selection of Valuation Approach and Methodology

According to the purpose and object of valuation, value type, data collection and other related conditions, we analyzed the applicability of the three basic asset valuation approaches (market approach, income approach and asset-based approach).

Influenced by various factors, such as regionalism and traffic flow, each expressway differs from others. It is difficult to find public companies or cases of property rights transaction of comparable enterprises that are similar or comparable to the Target Company in terms of construction cost, mileage, traffic flow and transit vehicle type. Therefore, it is not appropriate to adopt the market approach.

Chengming Company engaged in the business has been for many years. Its revenues and costs can be verified and estimated based on historical conditions, and the future benefits and risks of the Target Company can be also reasonably predicted, therefore applicable to income approach.

The asset-based approach is a method of replacing historical costs with market value for all individual assets and liabilities on the company's balance sheet from the perspective of asset cost. Chengming Company belongs to the expressway industry, and its market value is mainly reflected by the traffic flow and charging standards within the operating period. The asset-based approach does not directly incorporate information about the economic benefits contributed by the subject asset, thus is not used in this report.

To sum up, in this report, income approach is used to evaluate all equity value of shareholders of the Target Company.

VALUATION ASSUMPTIONS

This valuation is based on a series of prerequisites and assumptions, which are mainly as follows:

1. Basic assumptions

- (1) There will be no great changes in national macroeconomic situations, current bank interest rate, tax policies, etc.;
- (2) There will be no great changes in economic, political and social situations of the region where the evaluated company is located;
- (3) Chengming Company's operators are responsible and Chengming Company's management personnel are capable of performing their duties;
- (4) Chengming Company fully complies with all applicable laws and regulations;
- (5) The accounting policies to be adopted by Chengming Company in the future will be basically consistent with those used for the preparation of this report in all major respects;
- (6) On the basis of the existing management methods and management level, Chengming Company keeps its business scope and operating mode consistent with the current orientation of development;
- (7) There are no great adverse effects caused by other unpredictable factors and force majeure.

2. Specific assumptions

- (1) There will be no great changes in national basic policies on operation of expressway industry, and future development of the industry will be stably connected with overall changes of national economy;
- (2) Human resources, management team and business management of Chengming Company in the future will remain at the current level, except for what have clearly adjusted;
- (3) All cash flow relating to business operation occurs at the same time with the relevant revenues, costs and expenses;
- (4) Financial and operational information provided by Chengming Company is accurate, and our valuation advice depends to a certain extent on it;
- (5) The main cost of Chengming Company is stable and will not increase or decrease due to equity transfer;

- (6) While management remains the same, the business scope and operation keep consistent with the current level;
- (7) The quoted traffic flow forecast report is legally valid.

MACRO AND INDUSTRY ANALYSIS

1. Analysis of macro-economy

In the first half of 2019, facing the complexity of the international and domestic situation, China's economic performance has been generally smooth and made progress within a reasonable range. China's consumption and investment grew steadily and the trade surplus expanded. Industrial production ran stably. The added value of the tertiary industry accounted for 54.9% of GDP, which was 15.0 percentage points higher than that of the secondary industry and 1.0 percentage point higher than the same period of the previous year. The employment situation was generally stable and consumer prices rose moderately. According to preliminary calculations, the gross domestic product (GDP) in the first half of the year was RMB45.1 trillion, which was 6.3% higher as compared with the same period of last year; the consumer price index (CPI) rose 2.2% year-on-year.

(1) Consumption and investment growth are stable, and the trade surplus has expanded

Residents' income has grown steadily and has supported consumption. In the first half of the year, the per capita disposable income of the national residents was RMB15,294, an increase of 8.8% year-on-year. The actual increase of 6.5% after deducting the price factor was higher than the economic growth rate. Among them, the per capita disposable income of urban residents was RMB21,342, an actual increase of 5.7%; the per capita disposable income of rural residents was RMB7,778, a real increase of 6.6%. The per capita income ratio of urban and rural residents was 2.74, which was 0.03 less than the same period of the previous year. In the second quarter, the People's Bank of China urban depositors survey showed that residents' willingness to consume rose, and residents who tended to do "more consumption" accounted for 26.4%, up 0.5 and 1.7 percentage points from the previous quarter and the same period of last year.

Online retail sales are strong. In the first half of the year, the total retail sales of consumer goods was RMB19.5 trillion, an increase of 8.4% year-on-year, and the growth rate was 0.1 percentage point higher than that in the first quarter. In terms of urban and rural areas, the growth of rural retail sales continued to be faster than that of urban areas. In the first half of the year, the retail sales of rural areas increased by 9.1% year-on-year, 0.8 percentage point higher than that of urban areas. The sales of consumption upgraded goods grew rapidly. The above designated size cosmetics category increased by 13.2% year-on-year, and the growth rate was faster than the total retail sales of consumer goods by 4.8 percentage points. Online retail sales had strong growth. In the first half of the year, the national online retail sales amounted to RMB4.8 trillion, a year-on-year increase of 17.8%. Among them, the online retail sales of physical goods was RMB3.8 trillion, a year-on-year increase of 21.6%, accounting for 19.6% of the total retail sales of consumer goods, 2.2 percentage points higher than the same period of the previous year.

Fixed asset investment maintains steady growth. In the first half of the year, fixed assets investment (excluding rural households) was RMB29.9 trillion, a nominal increase of 5.8% year-on-year. The growth rate was 0.2 percentage points higher than that in January-May, 0.5 percentage points lower than the first quarter, and an actual increase of 5.0% after deducting price factor. The growth rate is 0.2 percentage points faster than that in January-May, and fell by 0.7 percentage points from the first quarter. The current investment presents the following characteristics: First, high-tech industry investment has developed at a high speed. In the first half of the year, high-tech manufacturing investment increased by 10.4% year-on-year, with a growth rate of 4.6 percentage points faster than total investment; high-tech service industry investment increased by 13.5%, and the growth rate was 7.7 percentage points faster than the total investment. Second, real estate development investment has achieved rapid growth. In the first half of the year, real estate development investment increased by 10.9% year-on-year, and the growth rate dropped by 0.9 percentage points from the first quarter and 1.2 percentage points higher than the same period of the previous year. Third, investment in the Northeast region declined, but the decline has slowed, and investment growth in other regions was generally stable. The proportion of general trade has increased and the trade surplus has expanded. In the first half of the year, the total volume of imports and exports was RMB14.7 trillion, a year-on-year increase of 3.9%; among them, exports were RMB8.0 trillion, up 6.1% year-on-year; imports were RMB6.7 trillion, up 1.4% year-on-year; trade surplus was RMB1.2 trillion, year-on-year expansion 41.6%. The trade structure was further optimized, and the proportion of general trade imports and exports increased, accounting for 59.8% of the total import and export volume, an increase of 0.8 percentage points over the same period of the previous year. The export commodity structure continued to escalate, and the export of high-tech, high-quality, high-value-added products such as new energy vehicles, integrated circuits, machine tools, excavators, medical equipment, and industrial robots grew rapidly. China's international market layout is optimized, and the import and export of countries along the "Belt and Road" increased by 9.7%, driving import and export growth by 2.7 percentage points. Import and export grew by 11.2% for the EU and decreased by 9% for the US.

Foreign direct investment continues to gather in high-tech industries. In the first half of the year, the actual expense of foreign direct investment was RMB478.33 billion, a year-on-year increase of 7.2%. The scale of foreign investment in the country was basically stable. From the perspective of industrial distribution, foreign investment has accelerated to gather in high-tech industries. In the first half of the year, the actual use of foreign capital in the high-tech industry increased by 44.3% year-on-year, accounting for 28.8% of the total foreign investment. The actual expense of foreign capital in high-tech manufacturing was RMB50.28 billion, a year-on-year increase of 13.4%, of which the actual expense of foreign capital in pharmaceutical manufacturing, electronics and communication equipment manufacturing increased by 12.8% and 25.0%. The actual expense of foreign capital in the high-tech service industry was RMB87.56 billion, a year-on-year increase of 71.1%, of which information services, research and development and design services, and scientific and technological achievements transformation services increased by 68.1%, 77.7% and 62.7% respectively.

The structure of investment in foreign countries continues to be optimized. In the first half of the year, domestic investors made direct investment in foreign non-financial sectors of RMB346.8 billion, a year-on-year increase of 0.1%. Among them, the direct investment of the countries along the “Belt and Road” increased by 6.8 billion US dollars, accounting for 12.6% of the total foreign investment in the same period, 0.2 percentage points higher than the same period of the previous year. The structure of the foreign investment industry continues to be optimized. In the first half of the year, investment in foreign countries mainly flowed to the areas of leasing and business services, manufacturing, wholesale and retail, mining, information transmission software and information technology services, accounting for 30.3%, 18.0%, 9.5%, 8.4% and 8.1% of the total investment respectively. Foreign investment in manufacturing, information transmission software and information technology services increased by 7.3% and 31.7%, respectively. There are no new projects for foreign real estate, sports and entertainment industries.

(2) *The agricultural production is in good management, and industrial production is basically stable*

The added value of the tertiary industry grew faster than the secondary industry, and the proportion continued to increase. In the first half of the year, the added value of the three industries was RMB2.3 trillion, RMB18.0 trillion and RMB24.8 trillion respectively, up 3.0%, 5.8% and 7.0% respectively, accounting for 5.1%, 39.9% and 54.9% of GDP respectively. The proportion of the tertiary industry was 15.0 percentage points higher than that of the secondary industry, which was 1.0 percentage points higher than the same period of the previous year.

The agricultural production is in better situation. The total output of summer grain in the country was 141.74 million tons, an increase of 2.93 million tons over the previous year, an increase of 2.1%. The output was the highest in history. The agricultural planting structure continued to be optimized, and the area planted with cotton and soybeans increased. In the first half of the year, the output of pork, beef and poultry was 39.11 million tons, down 2.1%. Among them, the output of beef, mutton and poultry increased by 2.4%, 1.5% and 5.6% respectively, and pork production decreased by 5.5%.

Industrial production is basically stable. In the first half of the year, the added value of industrial enterprises above designated size increased by 6.0% year-on-year at comparable prices, and the growth rate dropped by 0.5 percentage points from the first quarter. In terms of three categories, the added value of the mining industry increased by 3.5% year-on-year, the manufacturing industry increased by 6.4%, and the electricity, heat, gas and water production and supply industries increased by 7.3%. The manufacturing industry is accelerating to achieve the middle and high end. In the first half of the year, the added value of industrial strategic emerging industries increased by 7.7% year-on-year, 1.7 percentage points faster than the above-scale industries; the added value of high-tech manufacturing industry increased by 9.0% year-on-year, 3.0 percentage points faster than the above-scale industries, accounting for 13.8% the proportion of industrial enterprises above designated size, an increase of 0.8 percentage points over the same period of the previous year; the output of new energy vehicles and solar cells increased by 34.6% and 20.1% respectively. In the first half of the year, the total profits of industrial enterprises above designated size reached RMB2.98 trillion, down 2.4% year-on-year, and the growth rate was 0.1 percentage points higher than that in January-May. The operating profit margin of industrial enterprises above designated size was 5.86%, which was 0.14 percentage points higher than that in January-May. In the second quarter, the survey of 5,000 industrial enterprises conducted by the People's Bank of China showed that the production and business prosperity index of enterprises was 55.0%, 0.2 percentage points higher than the previous quarter; the enterprise profit index was 56.6%, 4.3 percentage points higher than the previous quarter; the domestic order index was 48.8%, 4.6 percentage points higher than the previous quarter; the export order index was 46.3%, 3.4 percentage points higher than the previous quarter.

(3) *Consumer prices and production prices have increased*

The GDP deflator has expanded. In the second quarter, the GDP deflator (the ratio of GDP at current prices to GDP at fixed prices) rose by 2.0% year-on-year, and the growth rate rose by 0.6 percentage points from the previous quarter.

The rise in consumer prices rose moderately, mainly driven by rising food prices. In the second quarter, consumer prices (CPI) rose by 2.6% year-on-year, and the growth rate rose by 0.8 percentage points from the previous quarter, with monthly increases of 2.5%, 2.7% and 2.7% respectively. Fresh fruit, pork and other supplies have declined a little than in previous years, driving food prices to increase year-on-year. The ratio in the second quarter rose 7.4% year-on-year, 5.2 percentage points higher than the previous quarter; non-food price growth fell, and ratio in the second quarter rose 1.6% year-on-year, 0.1 percentage points lower than last quarter. The price of consumer goods rose and the rise of price of service has slowed down. In the second quarter, consumer prices rose by 3.1% year-on-year, 1.5 percentage points higher than the previous quarter; service prices rose by 1.9% year-on-year, and the growth rate was 0.3 percentage points lower than the previous quarter.

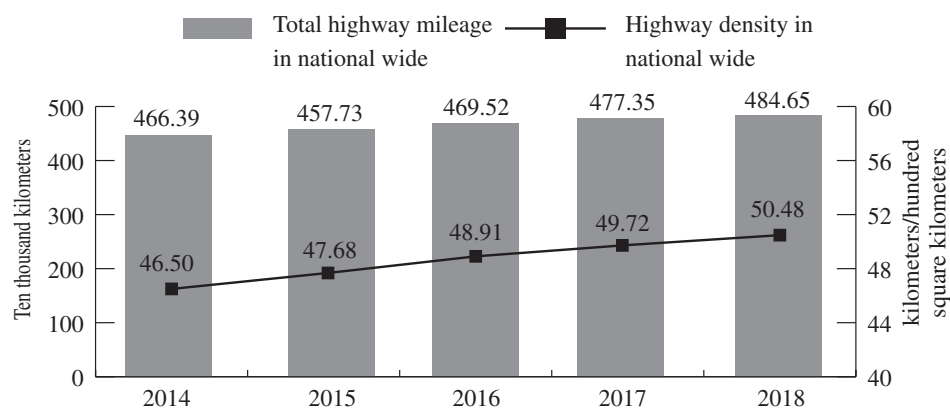
The rise in the prices of production materials led to a slight increase in the price of production. In the second quarter, the producer price index (PPI) rose by 0.5% year-on-year, and the growth rate rose by 0.3 percentage points from the previous quarter. The monthly growth rate gradually slows down, rising by 0.9%, 0.6% and flat in April-June. Among them, the price increase of consumer goods is relatively stable, and the price increase of production materials has fluctuated. The price of consumer goods rose by 0.9% year-on-year, 0.4 percentage points higher than the previous quarter; the price of production materials rose by 0.4% year-on-year, 0.4 percentage points higher than the previous quarter, and rose 0.9%, 0.6% and decreased by 0.3% respectively. Purchasing Price of Industrial Producers (PIRM) rose 0.1%, the same as last quarter. The production price of agricultural products increased by 9.1% year-on-year, and the growth rate was 10.8 percentage points higher than that of the previous quarter. In the first half of the year, the corporate commodity price index (CGPI) monitored by the People's Bank of China rose by 0.2% year-on-year, up 0.3 percentage points from the previous quarter. The price of primary products rebounded rapidly, up 6.2% year-on-year; the price of investment products fell by 0.6% year-on-year, and the price of consumer goods rose by 2.9% year-on-year.

2. The Analysis of Actuality and Prospect of the Industry where the Target Company Operates

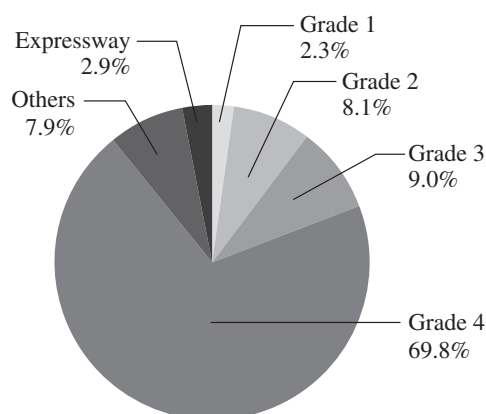
(1) The Industrial Actuality of Highway Service Area

1) Overview of National Highway

According to the “Statistical Bulletin on the Development of the Transportation Industry in 2018” by the Ministry of Transport of the People's Republic of China, by the end of 2018, the total length of roads nationwide was 4,846,500 kilometers, an increase of 73,100 kilometers from the end of the previous year. The highway density is 50.48 km/100 km², an increase of 0.76 km/100 km². The road maintenance mileage is 4,757,800 kilometers, accounting for 98.2% of the total road mileage.



At the end of the year, the mileage of Grade 4 and above roads was 4,465,900 kilometers, an increase of 127,300 kilometers over the previous year, accounting for 92.1% of the total road mileage, an increase of 1.3 percentage points. The mileage of Grade 2 and above roads was 647,800 kilometers, an increase of 25,600 kilometers, accounting for 13.4% of the total road mileage, an increase of 0.3 percentage points. The expressway mileage was 142,600 kilometers, an increase of 6,100 kilometers; the highway driveway mileage was 633,300 kilometers, an increase of 29,000 kilometers. The national highway mileage was 105,500 kilometers, an increase of 3,300 kilometers.

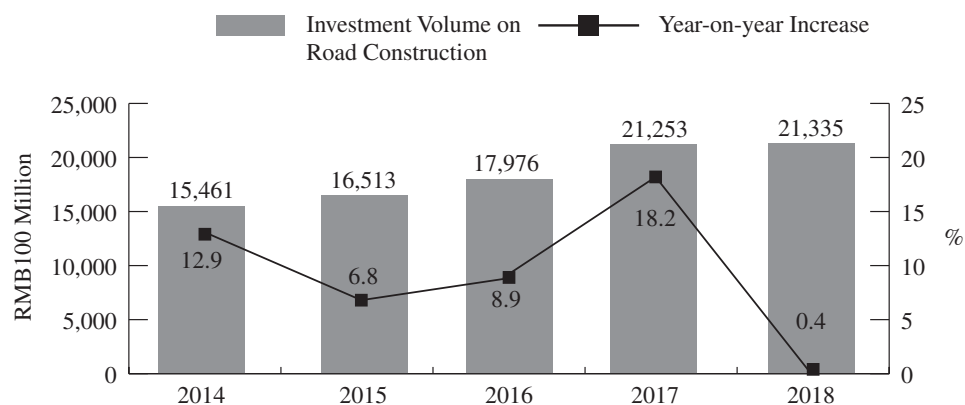


At the end of the year, the national highway mileage was 363,000 kilometers and the provincial road mileage was 372,200 kilometers. The mileage of rural roads is 4,039,700 kilometers, of which the county road mileage is 549,700 kilometers, the township road mileage is 1,173,800 kilometers, and the village road mileage is 2,316,200 kilometers.

At the end of the year, there were 851,500 national highway bridges and 55,685,900 meters, an increase of 19,000 and 3,429,700 meters over the previous year, including 5,053 large bridges and 9,026,900 meters, and 98,869 bridges and 26,370,400 meters. There were 17,738 road tunnels in China of 17,236,100 meters, with an increase of 1,509 and 1,951,000 meters, including 1,058 extra-long tunnel, 4,706,600 meters, and 4,315 long tunnels with a mileage of 7,421,800 meters.

2) *Road construction*

The annual highway construction investment was RMB2,133.5 billion, an increase of 0.4% over the previous year. Among them, the highway construction completed investment of RMB997.2 billion, an increase of 7.7%; the investment in the construction of the common provincial roads was RMB637.8 billion, down 12.2%; the investment in rural road construction was RMB498.6 billion, an increase of 5.4%.

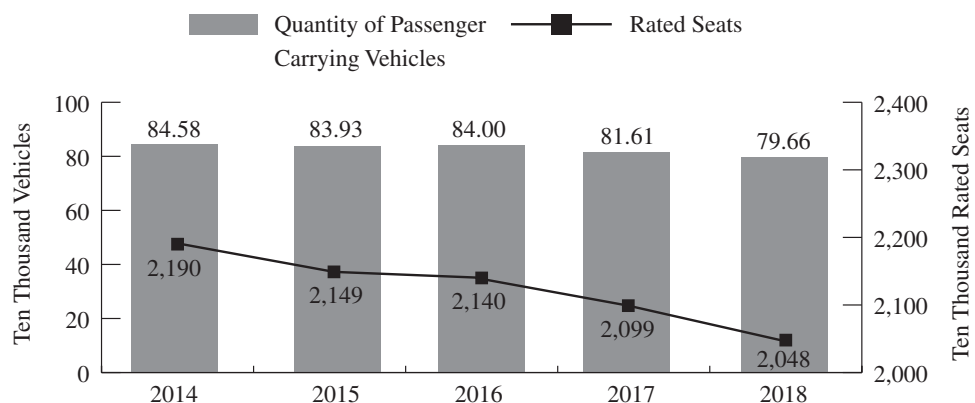
3) *Highway traffic flow*

The national highway mileage was 218,800 kilometers, and the annual average daily traffic volume of motor vehicles was 14,179 units, an increase of 3.5% over the previous year. The annual average daily driving volume was 3,099.39 million per vehicle kilometers, an increase of 2.5%. Among them, the annual average daily traffic volume of the national expressway is 26,435 vehicles, an increase of 5.4%, the annual average daily driving volume is 1,388.40 million vehicle kilometers, an increase of 6.0%; the average annual national roads traffic volume is 10,307 vehicles, an increase of 1.4%, the annual average daily traffic volume was 1,710.94 million per vehicle kilometers, a decrease of 0.1%.

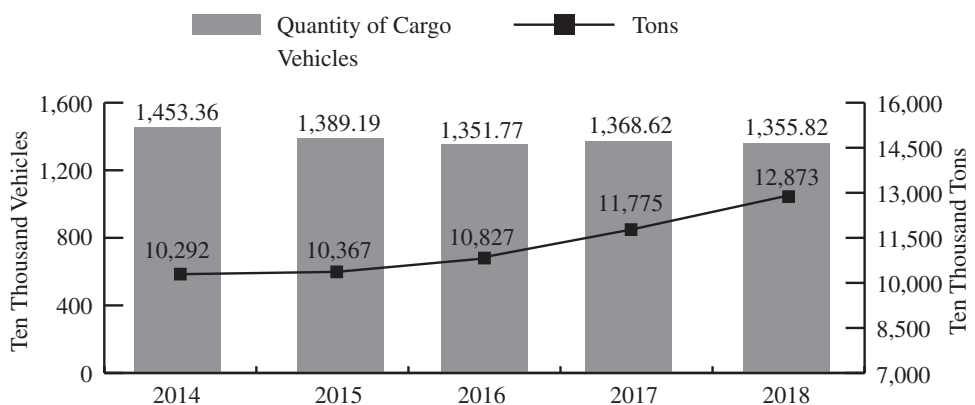
4) Commercial vehicle

At the end of the year, there were 14.3548 million commercial vehicles in the country, a decrease of 1.0% from the previous year.

There were 796,600 passenger carrying vehicles, a decrease of 2.4% from the previous year and 20.4811 million rated seats, a decrease of 2.4%. Among them there were 0.3027 million large passenger carrying cars, down by 1.0%, and 13.3399 million rated seats, a decrease of 0.4%.



It has a total of 13.5582 million trucks, a decrease of 0.9% from the previous year and 128.7297 million tons, an increase of 9.3%. Among them, the number of ordinary trucks was 8.1676 million, down 9.5%, 47.9121 tons, down 1.6%; special trucks, 526,300, up 13.8%, 5,475,900, up 9.7%; tractors, 2,376,700, up 14.7%; trailers, 2,487,600 vehicles, an increase of 17.2%.



(2) *Prospects for the development of transport business in China*

The transportation industry is the basic industry for China's social and economic development and a powerful driving force for China's economic and social progress. In turn, the rapidly developing economy needs a well-developed transportation system that is compatible with its scale. In recent years, China's highways have flourished, and infrastructure construction has become one of the important factors that stimulate domestic demand and promote the rapid development of the national economy, and has been highly valued by governments at all levels. The continuous extension of highways has also created favorable conditions for the rapid expansion of road transport. In the past decade, the renewing of vehicle speeds up, and the number of high-end passenger carrying cars and large-tonnage trucks is increasing. The importance of transportation efficiency, service level and road construction have been unprecedentedly valued in the national economy. With the continuous development of China's economy and the continuous expansion of the expressway network, the expressway industry will certainly promote the prosperity of China's economy, Including but not limited to logistics, culture, automobiles industry and tourism. Nowadays, the expressway industry has become a standard for measuring the modernization of a country. Therefore, the development of expressways will certainly promote the development of our society and economy.

During the "13th Five-Year Plan" period, the total investment scale of transportation will reach RMB15 trillion, including RMB3.5 trillion for railways, RMB7.8 trillion for highways, RMB0.65 trillion for civil aviation and RMB0.5 trillion for water transportation. The highway has increased by about 420,000 kilometers, and the newly built and rebuilt highway has a mileage of 26,000 kilometers, covering almost all the cities with a population more than 200,000. An integrated traffic backbone network with high-quality railways, expressways and civil aviation will be built.

(3) *Prospects for the development of the highway industry in Sichuan Province*

According to the "13th Five-Year Plan" of comprehensive transportation development plan of Sichuan Province, it is clear that the comprehensive transportation target of Sichuan Province during the "13th Five-Year Plan" period is RMB1,030 billion. Among them, the railway accounting for RMB230 billion, the highway accounting for RMB480 billion, the water transport accounting for RMB20 billion, the civil aviation accounting for RMB90 billion, and the urban rail transit accounting for RMB210 billion. By 2020, a modern integrated transportation system with "interconnection, complete functions, seamless joint, safety and efficiency" will be basically built, to fulfill the comprehensive transportation hub in the west. The coverage is wider, the structure is more optimized, the connection is smoother, the service is better, the operation is smarter, the production is safer, the development is greener, and the needs of building a well-off society in an all-round way are met.

During the “Thirteenth Five-Year Plan” period, the relevant local departments will improve the infrastructure network and continue to promote the construction of highways, common national highways and rural roads. The total length of the road network will be 340,000 kilometers, and the mileage of expressways 8,000 kilometers. The proportion of grade 2 and grade 3 common national highways will reach 70% and 50% respectively, along with a full coverage of cement road for villages. They will speed up the construction of expressways under construction in Yakang, Wenma, etc., and start new projects from Mianyang to Jiuzhaigou, Renshou via Yibin New City to Panzhihua, Chengdu Tianfu International Airport Expressway and Chengle Expressway, and plan to implement the provincial-level renovation projects of 13,000 kilometers, and newly rebuilt rural roads of 97,000 kilometers.

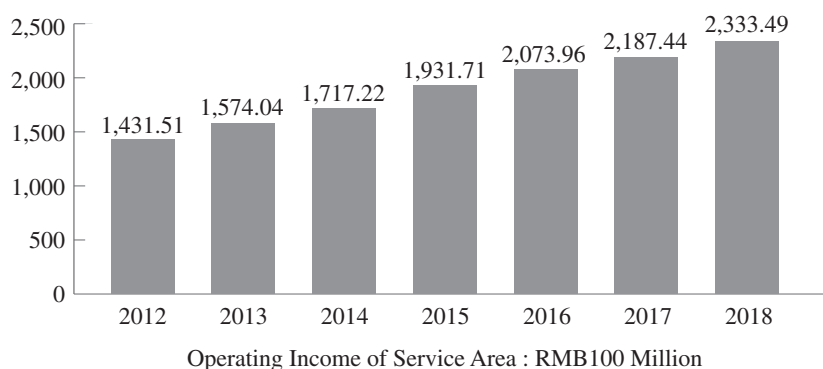
(4) *Status of expressway service area*

Expressway is an important product of modernization of transportation and an important indicator of the prosperity of a country’s economy. The development of expressways has not only brought the time and space closer, but also promoted the development of the economy and society, and also greatly changed the way of life of the public. As the “station” and “window” on the expressway, the service area is the guarantee for safe, convenient and comfortable travel, and it is also a comprehensive reflection of the service capacity and management level of the expressway. The operation and management of service areas in China has gradually grown up along with the construction of expressways.

Since the reform and opening up, China’s economy has boomed and the public requests more and more on road transportation. The construction of expressways has always been an important part of China’s infrastructure construction. As a major supporting facility for expressways, the service area has gradually receives more attention. Starting from the opening operation of the Shenyang-Dalian Expressway Jingquan Service Area on 25 October 1988, the industry has undergone a transition from nonexistence to gradual improvement and innovation. In 2008, China’s expressway mileage was about 60,300 kilometers, and the number of expressway service areas was about 1,206 pairs. By 2018, the domestic expressway mileage reached 142,600 kilometers, and the number of service areas was about 2,850 pairs.

In recent years, the market scale of China's expressway service areas has increase rapidly. At this stage, the scale of the construction of expressway service areas is constantly expanding, and the support functions of service areas have been continuously enriched and improved, bringing greater economic benefit. According to the data of the "2019-2025 China Expressway Service Area Market Operation Situation and Investment Strategy Research Report" released by Zhiyan.org, the industry market scale is from RMB143.151 billion in 2012 increased to RMB233.349 billion in 2018.

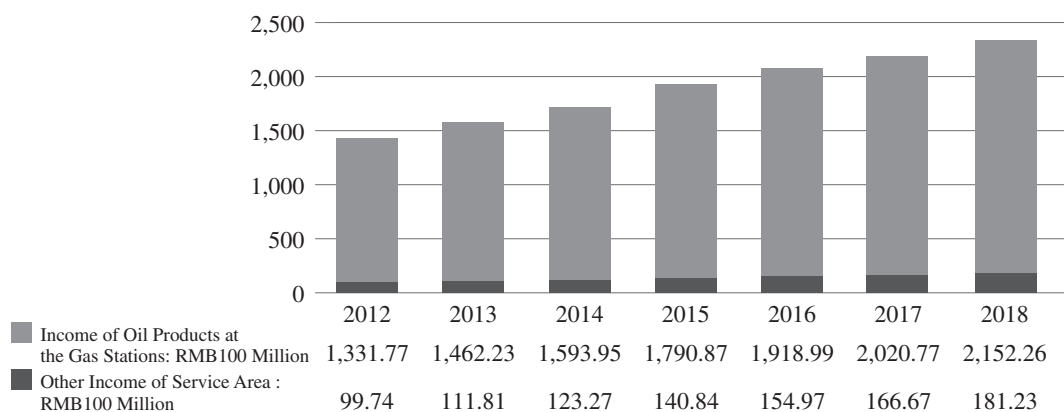
2012-2018 Industry Market Scale of China Expressway Service Area



Source: www.ibaogao.com

In 2018, the revenue of domestic expressway service areas was about RMB233.349 billion, of which non-oil business income was RMB18.123 billion, and refined oil business income was about RMB215.226 billion.

2012-2018 Segment Product Revenue Scale of China Expressway Service Area



Source: www.ibaogao.com

With the continuous expansion of expressway and the increasing traffic volume, traffic inflows to the expressway service areas are on constantly the rise and the importance of the expressway service area is becoming more prominent.

(5) Prospects and development of expressway service areas

According to the “13th Five-Year Plan for the Development of Modern Comprehensive Transportation System”: By 2020, the mileage of highways in China will reach 150,000 kilometers, the construction of expressways will continue to heat up, and the number of service areas will continue to grow. The service area industry will usher in a booming period. As the focus of expressways industry gradually shifts from construction to operation management, the service area has received more attention in terms of scale, facilities, functions, and service quality.

CASH FLOW FORECAST**Revenue and cost*****Prediction of business income and operating cost*****(1) Main business income and main business cost****A. Analysis of the enterprise’s main business revenue, cost, gross profit in recent years**

Chengming Company is mainly engaged in the investment and operation of the expressway, including rental of the service business and petrol station business. This part of business has been transferred to other company since 2009. Therefore, the operation and maintenance are all carried out by outsourcing.

The revenue, cost and gross margin of main businesses excluding VAT from 2016 to the Valuation Benchmark Date is shown in the following table:

Currency Unit: ten thousand Yuan

Item/Year	2016	2017	2018	January to June 2019
Main business revenue	12,997.98	15,764.78	17,009.04	8,782.45
Main business cost	7,991.17	8,215.44	8,620.51	4,493.00
Gross margin	38.52%	47.89%	49.32%	48.84%
Growth rate of revenue	0.78%	21.29%	7.89%	3.27%

According to historical data analysis, Chengming Company’s main business income was steadily rising from 2016 to January – June 2019, with an average annual growth rate of around 8%. In 2016, due to the overhaul of Chengwenqiong Expressway, the traffic flow was slightly reduced, and the gross profit margin was lower. The annual gross profit margins were relatively stable in other years.

Chengming Company’s main business costs are costs in depreciation and amortization, cost of operating services and maintenance. Since revenue and cost fluctuations are highly related, the Target Company’s gross profit margin remains stable.

B. Forecast of annual revenue and cost in main business in the future

The forecast main business revenue is toll revenue.

In determining the toll revenue forecast, we rely heavily on the revenue excluding VAT in traffic flow research report-base case provided by Master Alliance.

Chengming Company's main business costs are depreciation and amortization, cost of operating services and maintenance. Depreciation and amortization are forecasted according to the current provision policies of Chengming Company, and the operation and maintenance costs are forecasted according to the relevant contracts entered into by Chengming Company after taking into account its actual operating conditions. The valuation assumes that the forecast data in the Traffic Volume Report will not significantly deviate from the actual traffic volume, the provision policies for depreciation and intangible assets amortization will remain unchanged, and the relevant operation and maintenance contracts would continue to be performed in the subsequent period after the expiration of current terms.

The total forecast of the revenue, cost and gross profit margin of the main business of the Target Company in the coming years are as follows:

Currency Unit: ten thousand Yuan

Item/Year	July- December				
	2019	2020	2021	2022	2023
Main business revenue	9,692.69	20,171.77	23,049.16	26,393.82	28,806.68
Main business cost	4,709.95	8,969.17	10,424.34	11,424.05	12,159.72
Gross margin	51.41%	55.54%	54.77%	56.72%	57.79%
Item/Year	2024	2025	2026	2027	2028
Main business revenue	31,524.75	34,304.25	36,585.83	39,017.30	41,727.15
Main business cost	12,963.38	13,833.28	14,324.96	14,570.60	15,363.68
Gross margin	58.88%	59.67%	60.85%	62.66%	63.18%
Item/Year	2029	2030	2031	2032	2033
Main business revenue	44,379.09	47,328.89	49,339.17	51,586.34	53,640.05
Main business cost	15,858.85	17,510.92	18,146.44	18,813.88	19,508.33
Gross margin	64.27%	63.00%	63.22%	63.53%	63.63%
Item/Year	2034	2035	2036	2037	2038
Main business revenue	55,925.67	58,305.65	60,235.90	61,870.29	54,240.41
Main business cost	20,231.49	20,984.86	21,545.69	22,107.90	26,351.02
Gross margin	63.82%	64.01%	64.23%	64.27%	51.42%

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(2) Forecast on costs and revenues of other business

The other business income of Chengming Company is the rental income of billboards along the expressway and so on.

All the leases and management rights transfer fees of Qionglai, Mingshan service areas and petrol stations have been collected at one time before the Valuation Benchmark Date, thus will not be considered in forecasts for the future. The valuation also excludes the lease price of the land of Qionglai, Mingshan service areas after the operating term considering the high uncertainty. For other business income, only billboard rental income is considered.

The specific forecast results are as follows:

Currency Unit: ten thousand Yuan

Item/year	July- December 2019	2020	2021	2022	2023
Other business income	4.50	9.00	9.00	9.00	9.00
Item/year	2024	2025	2026	2027	2028
Other business income	9.00	9.00	9.00	9.00	9.00
Item/year	2029	2030	2031	2032	2033
Other business income	9.00	9.00	9.00	9.00	9.00
Item/year	2034	2035	2036	2037	2038
Other business income	9.00	9.00	9.00	9.00	7.50

Business Tax and Surplus

Chengming Company's taxes and surcharges include urban maintenance and construction tax, education surcharge and local education surcharge. The VAT rate on tolls is 3%. The VAT rate on rental income is 5%. The urban maintenance and construction tax rate is 7% of the VAT rate. The education surcharge rate is 3% of the VAT rate. The local education surcharge is 2% of the VAT rate.

The taxes and surcharges are calculated by the applicable actual tax rate of the main business income and other business income.

The prediction of taxes and surcharges for the future years is as follows:

Unit: ten thousand Yuan

Item/year	July- December				
	2019	2020	2021	2022	2023
Business Tax and Surplus	34.92	72.66	83.02	95.06	103.75
Item/year	2024	2025	2026	2027	2028
Business Tax and Surplus	113.53	123.54	131.75	140.51	150.26
Item/year	2029	2030	2031	2032	2033
Business Tax and Surplus	159.81	170.43	177.67	185.76	193.15
Item/year	2034	2035	2036	2037	2038
Business Tax and Surplus	201.38	209.95	216.89	222.78	195.30

Administrative Cost

Chengming Company's administrative cost mainly includes staff salaries, office allowance, business entertainment expenses, vehicle expenses as well as other fees.

- (1) Staff salary: The employees of the Target Company are all part-time staff from shareholders' company, and the employees' salary expenses are not accounted for in the second half of the year. It is estimated that 15 employees will be required at the beginning of 2020, and the average annual salary will be RMB100,000, with a certain increase in the following years;
- (2) The rest of the expenses are forecasted according to the cost management indicators of the Target Company.

Business cost prediction result is shown as below:

Currency Unit: ten thousand Yuan

Item/Year	July- December				
	2019	2020	2021	2022	2023
Business revenue	9,692.69	20,171.77	23,049.16	26,393.82	28,806.68
Administrative Cost	36.56	195.67	200.25	204.97	209.83
Ratio to revenue	0.38%	0.97%	0.87%	0.78%	0.73%
Item/Year	2024	2025	2026	2027	2028
Business revenue	31,524.75	34,304.25	36,585.83	39,017.30	41,727.15
Administrative Cost	214.84	219.99	225.30	230.77	236.40
Ratio to revenue	0.68%	0.64%	0.62%	0.59%	0.57%
Item/Year	2029	2030	2031	2032	2033
Business revenue	44,379.09	47,328.89	49,339.17	51,586.34	53,640.05
Administrative Cost	242.21	248.18	254.34	260.68	267.21
Ratio to revenue	0.55%	0.52%	0.52%	0.51%	0.50%
Item/Year	2034	2035	2036	2037	2038
Business revenue	55,925.67	58,305.65	60,235.90	61,870.29	54,240.41
Administrative Cost	273.93	280.86	288.00	295.35	252.43
Ratio to revenue	0.49%	0.48%	0.48%	0.48%	0.47%

Finance Cost

Financial expenses mainly include interest expense and income, and bank charges.

Interest expense is calculated mainly based on the predicted net loan amount and the loan interest rate in the current contracts.

Forecast calculation only requires minimum cash holdings, which is a relatively small number, in the meantime the excess part is considered as excess cash. In that case, we do not consider the interest income in the calculation process.

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The number of bank charges and other fees is relative small at the Valuation Benchmark Date, and will not be considered in this report.

Currency Unit: ten thousand Yuan

Item/Year	July- December 2019	2020	2021	2022	2023
Finance Cost	4,781.80	9,536.34	9,331.59	8,736.12	7,999.22
Item/Year	2024	2025	2026	2027	2028
Finance Cost	7,145.60	6,160.63	5,068.56	3,855.73	2,496.84
Item/Year	2029	2030			
Finance Cost	1,092.99	203.50			

Income Tax Expenses

For the prediction considering income tax adjustment factor, the calculation formula is:

$$\text{Income tax expenses} = (\text{total profit} + \text{tax adjustment}) \times \text{income tax rate}$$

$$\begin{aligned} \text{Total profit} = & \text{operating revenue} - \text{operating costs} - \text{business tax and surcharges} \\ & - \text{selling expenses} - \text{administrative expenses} - \text{financial expenses} + \\ & \text{non-operating income} - \text{non-operating expenses} \end{aligned}$$

The applicable income tax rate is 25% for the Target Company's Valuation Benchmark Date and the forecast period thereafter.

Considering the income tax deduction of losses in previous years, it is expected that the Target Company will start to pay corporate income tax in 2023.

Future income tax expenses for each year are as follows:

Unit: ten thousand Yuan

Item/year	July- December 2019	2020	2021	2022	2023
Income Tax Expenses	–	–	–	–	1,265.59
Item/year	2024	2025	2026	2027	2028
Income Tax Expenses	1,703.60	3,152.28	4,482.79	5,378.27	6,378.82
Item/year	2029	2030	2031	2032	2033
Income Tax Expenses	7,462.47	8,215.73	8,749.93	9,291.40	9,784.28
Item/year	2034	2035	2036	2037	2038
Income Tax Expenses	10,334.10	10,906.70	11,370.08	11,761.37	9,349.61

Capital Expenditure, Forecast of Additional Working Capital and Recovery of Working Capital

(1) Capital expenditure

Capital expenditure mainly includes the new investment expenditure and renewals expenditure. Renewal of expenditure refers to the expenditure on asset renewal in order to maintain the sustainable management of the enterprise.

Capital expenditures are based primarily on forecasts from company management. According to the characteristics of the expressway industry, a large amount of investment in road and building occurs in the early stage of construction. Therefore, in the future forecast, the capital expenditure is mainly the expenditure of large and medium-sized road repairs from time to time, expenditure on equipment upgrading and renovation. According to the relevant operation and renovation plan of the management of Chengming Company, it is estimated that expenditure for overhaul of the expressway, ETC project renovation and greening improvement projects will be incurred in 2020, and road maintenance expenditures will also be incurred, in 2029 and 2038, respectively before the expiration of the operational period.

The valuation assumes that the above expenditures forecast by the management of Chengming Company will be incurred as scheduled and there is no significant deviation in the amount of expenditures for related projects.

Forecast of capital expenditure is as follows:

Currency Unit: ten thousand Yuan

Item/year	July- December				
	2019	2020	2021	2022	2023
Capital expenditure – Renewal	147.27	147.27	147.27	147.27	147.27
Capital expenditure – large and medium-sized road repairs, ETC projects	–	9,652.64	155.00	–	–
Total capital expenditure	147.27	9,799.91	302.27	147.27	147.27
Item/Year	2024	2025	2026	2027	2028
Capital expenditure – Renewal	147.27	147.27	147.27	147.27	147.27
Capital expenditure – large and medium-sized road repairs, ETC projects	–	–	–	–	–
Total capital expenditure	147.27	147.27	147.27	147.27	147.27
Item/year	2029	2030	2031	2032	2033
Capital expenditure – Renewal	147.27	147.27	147.27	147.27	147.27
Capital expenditure – large and medium-sized road repairs, ETC projects	5,000.00	–	–	–	–
Total capital expenditure	5,147.27	147.27	147.27	147.27	147.27
Item/year	2034	2035	2036	2037	2038
Capital expenditure – Renewal	147.27	147.27	147.27	147.27	147.27
Capital expenditure – large and medium-sized road repairs, ETC projects	–	–	–	–	5,000.00
Total capital expenditure	147.27	147.27	147.27	147.27	5,147.27

(2) Forecast of additional working capital

Working capital refers to the operating capital needs to be invested in order to maintain its normal operation without changing its current capital turnover capacity, such as cash required to maintain the daily payment, the funds occupied by safety stock, as well as procurement, sales, payment and other business using trade credit and reducing the occupation of funds. Additional working capital is defined as the operational capital input for the future production and operation, with the change of income and cost, the calculation formula is:

Additional working capital of the year = working capital at the end of the year – working capital at the end of last year

Working capital at the end of period = operating current assets at the end of the period – operating interest-free current liabilities at the end of the period

Since the amount of additional working capital required by Chengming Company in the historical years is relatively small and stable, the valuation assumes that the working capital will be generated without changing the capital turnover capacity on the base date.

Forecast of future working capital are as follows:

Currency Unit: ten thousand Yuan

Item/year	July- December				
	2019	2020	2021	2022	2023
Working capital	666.91	617.59	589.60	508.45	529.58
Working capital change	-10.43	-49.31	-27.99	-81.15	21.13
Item/Year	2024	2025	2026	2027	2028
Working capital	470.26	481.08	490.57	468.07	414.30
Working capital change	-59.32	10.83	9.48	-22.50	-53.77
Item/year	2029	2030	2031	2032	2033
Working capital	316.77	297.56	305.56	330.92	349.68
Working capital change	-97.53	-19.21	8.00	25.35	18.76
Item/year	2034	2035	2036	2037	2038
Working capital	373.12	397.49	420.48	435.22	-150.27
Working capital change	23.44	24.37	22.99	14.74	-585.49

(3) Recovery of working capital

On 7 November 2038, toll period of Qiongmeng Expressway will expire, and expressway-related assets will be transferred back without compensation, other working capital and monetary funds can be recovered or paid as well. It is estimated that as at 7 November 2038, there will be a working capital of RMB1,502,700 to be paid.

Depreciation and Amortization

The depreciation of fixed assets is composed of two parts. For the depreciation of existing fixed assets (stock assets) at the Valuation Benchmark Date, depreciation is calculated on the basis of enterprise accounting depreciation (straight-line method). For the fixed assets (incremental assets) added after the Valuation Benchmark Date, depreciation is started on midyear of the completion or purchase.

$$\text{Annual depreciation} = \text{the original value of fixed assets} \times \text{annual depreciation rate}$$

The amortization of long-term deferred expenses is the amortization of intangible assets, service concession arrangements to be specific, and we apply the Target Company's current amortization method based on remaining value while calculating.

Depreciation and amortization of fixed assets during the forecast period are shown in the following table:

Currency Unit: ten thousand Yuan

Item/year	July- December					
	2019	2020	2021	2022	2023	
Depreciation and Amortization	3,212.05	6,883.11	7,731.00	8,699.44	9,407.04	
Item/year	2024	2025	2026	2027	2028	
Depreciation and Amortization	10,180.85	11,020.09	11,482.52	11,697.70	12,458.58	
Item/year	2029	2030	2031	2032	2033	
Depreciation and Amortization	13,674.33	14,561.21	15,166.03	15,801.15	16,463.33	
Item/year	2034	2035	2036	2037	2038	
Depreciation and Amortization	17,152.59	17,870.93	18,397.77	18,931.39	24,454.77	

Net loan

The loan and repayment plan was prepared by Chengming Company. According to the capital structure of the Target Company, as of the Valuation Benchmark Date, the total loan amounted to RMB1,985.374 million, including bank loans and shareholders loans, all of which are expected to be repaid in 2030.

The net amount of loans for each period in the forecast period is as follows:

Currency Unit: ten thousand Yuan

Item/year	July- December	2020	2021	2022	2023
	2019				
Opening Balance	198,537.40	195,521.70	197,156.00	186,856.00	172,456.00
Repayment	9,915.70	6,965.70	12,400.00	14,400.00	20,600.00
Loan increment	6,900.00	8,600.00	2,100.00	–	4,400.00
Ending balance	195,521.70	197,156.00	186,856.00	172,456.00	156,256.00
Item/year	2024	2025	2026	2027	2028
Opening Balance	156,256.00	136,956.00	115,456.00	91,906.00	65,606.00
Repayment	22,100.00	21,500.00	23,550.00	26,300.00	29,300.00
Loan increment	2,800.00	–	–	–	–
Ending balance	136,956.00	115,456.00	91,906.00	65,606.00	36,306.00
Item/year	2029	2030			
Opening Balance	36,306.00	8,306.00			
Repayment	28,000.00	8,306.00			
Loan increment	–	–			
Ending balance	8,306.00	–			

Net Cash Flow

Based on the above forecast, we can get the net cash flow from equity in the forecast period, specific see table below:

Net cash flow forecast for future operating period

Currency Unit: ten thousand Yuan

Item	July- December 2019	2020	2021	2022	2023
1. Operating revenue	9,697.19	20,180.77	23,058.16	26,402.82	28,815.68
Including: main business income	9,692.69	20,171.77	23,049.16	26,393.82	28,806.68
other business income	4.50	9.00	9.00	9.00	9.00
2. Operating costs	4,709.95	8,969.17	10,424.34	11,424.05	12,159.72
Including: main business costs	4,709.95	8,969.17	10,424.34	11,424.05	12,159.72
other business costs	—	—	—	—	—
Less: taxes and surcharges	34.92	72.66	83.02	95.06	103.75
Less: sales expenses	—	—	—	—	—
Less: management expenses	36.56	195.67	200.25	204.97	209.83
Less: financial expenses	4,781.80	9,536.34	9,331.59	8,736.12	7,999.22
3. Operating profit	133.96	1,406.93	3,018.95	5,942.62	8,343.15
Plus: non-operating income	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—
4. Total profit	133.96	1,406.93	3,018.95	5,942.62	8,343.15
Less: tax adjustment	3,737.84	3,414.73	2,576.90	1,621.77	931.79
Less: income tax deduction of losses	-13,780.44	-9,783.37	-8,666.14	-5,029.77	-2,348.99
5. Taxable income	—	—	—	—	5,062.37
Less: income tax	—	—	—	—	1,265.59
6. Net profit	133.96	1,406.93	3,018.95	5,942.62	7,077.56
Plus: depreciation and amortization	3,212.05	6,883.11	7,731.00	8,699.44	9,407.04
Less: capital expenditure – renewal	147.27	147.27	147.27	147.27	147.27
Less: capital expenditure – large and medium-sized repairs	—	9,652.64	155.00	—	—
Less: changes in working capital	-10.43	-49.31	-27.99	-81.15	21.13
Less: net changes in liability	3,015.70	-1,634.30	10,300.00	14,400.00	16,200.00
Plus: recovery of working capital	—	—	—	—	—
7. Free cash flow to equity	193.46	173.75	175.67	175.94	116.20

Item	2024	2025	2026	2027	2028
1. Operating revenue	31,533.75	34,313.25	36,594.83	39,026.30	41,736.15
Including: main business income	31,524.75	34,304.25	36,585.83	39,017.30	41,727.15
other business income	9.00	9.00	9.00	9.00	9.00
2. Operating costs	12,963.38	13,833.28	14,324.96	14,570.60	15,363.68
Including: main business costs	12,963.38	13,833.28	14,324.96	14,570.60	15,363.68
other business costs	—	—	—	—	—
Less: taxes and surcharges	113.53	123.54	131.75	140.51	150.26
Less: sales expenses	—	—	—	—	—
Less: management expenses	214.84	219.99	225.30	230.77	236.40
Less: financial expenses	7,145.60	6,160.63	5,068.56	3,855.73	2,496.84
3. Operating profit	11,096.41	13,975.81	16,844.25	20,228.70	23,488.96
Plus: non-operating income	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—
4. Total profit	11,096.41	13,975.81	16,844.25	20,228.70	23,488.96
Less: tax adjustment	177.24	-641.12	-1,086.89	-1,284.37	-2,026.32
Less: income tax deduction of losses	-4,104.79	-2,007.80	—	—	—
5. Taxable income	6,814.39	12,609.12	17,931.14	21,513.07	25,515.28
Less: income tax	1,703.60	3,152.28	4,482.79	5,378.27	6,378.82
6. Net profit	9,392.81	10,823.53	12,361.46	14,850.43	17,110.14
Plus: depreciation and amortization	10,180.85	11,020.09	11,482.52	11,697.70	12,458.58
Less: capital expenditure – renewal	147.27	147.27	147.27	147.27	147.27
Less: capital expenditure – repairs	—	—	—	—	—
Less: changes in working capital	-59.32	10.83	9.48	-22.50	-53.77
Less: net changes in liability	19,300.00	21,500.00	23,550.00	26,300.00	29,300.00
Plus: recovery of working capital	—	—	—	—	—
7. Free cash flow to equity	185.71	185.53	137.23	123.36	175.22

Item	2029	2030	2031	2032	2033
1. Operating revenue	44,388.09	47,337.89	49,348.17	51,595.34	53,649.05
Including: main business income	44,379.09	47,328.89	49,339.17	51,586.34	53,640.05
other business income	9.00	9.00	9.00	9.00	9.00
2. Operating costs	15,858.85	17,510.92	18,146.44	18,813.88	19,508.33
Including: main business costs	15,858.85	17,510.92	18,146.44	18,813.88	19,508.33
other business costs	—	—	—	—	—
Less: taxes and surcharges	159.81	170.43	177.67	185.76	193.15
Less: sales expenses	—	—	—	—	—
Less: management expenses	242.21	248.18	254.34	260.68	267.21
Less: financial expenses	1,092.99	203.50	—	—	—
3. Operating profit	27,034.23	29,204.86	30,769.73	32,335.02	33,680.37
Plus: non-operating income	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—
4. Total profit	27,034.23	29,204.86	30,769.73	32,335.02	33,680.37
Less: tax adjustment	-2,815.63	-3,658.05	-4,229.98	-4,830.57	-5,456.75
Less: income tax deduction of losses	—	—	—	—	—
5. Taxable income	29,849.86	32,862.91	34,999.71	37,165.59	39,137.12
Less: income tax	7,462.47	8,215.73	8,749.93	9,291.40	9,784.28
6. Net profit	19,571.76	20,989.13	22,019.80	23,043.62	23,896.09
Plus: depreciation and amortization	13,674.33	14,561.21	15,166.03	15,801.15	16,463.33
Less: capital expenditure – renewal	147.27	147.27	147.27	147.27	147.27
Less: capital expenditure – repairs	5,000.00	—	—	—	—
Less: changes in working capital	-97.53	-19.21	8.00	25.35	18.76
Less: net changes in liability	28,000.00	8,306.00	—	—	—
Plus: recovery of working capital	—	—	—	—	—
7. Free cash flow to equity	196.35	27,116.28	37,030.55	38,672.14	40,193.39

Item	2034	2035	2036	2037	2038
1. Operating revenue	55,934.67	58,314.65	60,244.90	61,879.29	54,247.91
Including: main business income	55,925.67	58,305.65	60,235.90	61,870.29	54,240.41
other business income	9.00	9.00	9.00	9.00	7.50
2. Operating costs	20,231.49	20,984.86	21,545.69	22,107.90	26,351.02
Including: main business costs	20,231.49	20,984.86	21,545.69	22,107.90	26,351.02
other business costs	—	—	—	—	—
Less: taxes and surcharges	201.38	209.95	216.89	222.78	195.30
Less: sales expenses	—	—	—	—	—
Less: management expenses	273.93	280.86	288.00	295.35	252.43
Less: financial expenses	—	—	—	—	—
3. Operating profit	35,227.87	36,838.98	38,194.32	39,253.26	27,449.16
Plus: non-operating income	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—
4. Total profit	35,227.87	36,838.98	38,194.32	39,253.26	27,449.16
Less: tax adjustment	-6,108.53	-6,787.81	-7,286.01	-7,792.23	-9,949.30
Less: income tax deduction of losses	—	—	—	—	—
5. Taxable income	41,336.40	43,626.79	45,480.33	47,045.49	37,398.46
Less: income tax	10,334.10	10,906.70	11,370.08	11,761.37	9,349.61
6. Net profit	24,893.77	25,932.28	26,824.24	27,491.89	18,099.55
Plus: depreciation and amortization	17,152.59	17,870.93	18,397.77	18,931.39	24,454.77
Less: capital expenditure – renewal	147.27	147.27	147.27	147.27	147.27
Less: capital expenditure – repairs	—	—	—	—	5,000.00
Less: changes in working capital	23.44	24.37	22.99	14.74	-585.49
Less: net changes in liability	—	—	—	—	—
Plus: recovery of working capital	—	—	—	—	-150.27
7. Free cash flow to equity	41,875.65	43,631.58	45,051.75	46,261.27	37,842.27

DISCOUNT RATE

The discount rate which is also known as the expected rate of return on investment. The discount rate depends fundamentally on the implied risk of future cash flow. Income approach requires the valuation of the company keeping consistent with income type as well as the discount rate. We have chosen the cost of equity capital as the discount rate.

We have used Capital Assets Pricing Model (the “CAPM”) to estimate the required return on equity capital, and the formula is as follows:

$$R_E = R_f + \beta \times ERP + R_s$$

In the formula:	R_E	Cost of equity capital
	R_f	Risk-free rate of return
	β	Systematic risk coefficient of equity
	ERP	Excess Risk Premium
	R_s	Company-specific risk excess return

(1) Risk-free rate of return (R_f)

Because of the much more active market that book-entry treasury bonds have, the liquidity risk is generally not included in the consideration. Moreover, the national credit rating is high, there is little risk that the debt cannot be paid at maturity, and generally the risk of default is not taken into account either. The long-term Treasury bond rate contains the market’s expectations for future inflation as well. Therefore, we choose book-entry treasury bonds from the Valuation Benchmark Date to the national debt maturity date more than 5 years, and calculate the yield to maturity, as the risk-free rate of return. The calculated risk-free rate of return is 3.64%.

(2) Excess Risk Premium (ERP)

Risk premium (ERP) is the portion of the investor’s investment in the stock market that exceeds the risk-free rate of return, namely:

$$\text{Risk premium (ERP)} = \text{return on investment (} R_m \text{) expected by the market as a whole} - \text{risk-free rate of return (} R_f \text{)}$$

According to the current domestic assessment of the industry’s approach, calculation of ERP based on the following way:

- A. Determination of the index of the stock market: Estimating the return on investment in the stock market first requires identifying an index that measures changes in stock market volatility, according to the experience of relevant US institutions to estimate the United States ERP selecting Standard & Poor’s 500 index, we selected Shanghai and Shenzhen 300 Index.

- B. Selection of calculation period: China's stock market began in the early 90s of last century, but the development of the first few years was non-standard. It was not until 1996-1997 that it gradually became standard. Taking into account the above situation, we calculate the Chinese stock market ERP calculation time from 1998, that is, we estimate the time interval from 31 December 1998 to 30 June 2019.
- C. Determination of index constituent stock: The Shanghai and Shenzhen 300 Index constituent stocks are changing each year, so we use the constituent stock of the Shanghai and Shenzhen 300 at the end of each year when estimating. For 1998 to 2005 before the introduction of the Shanghai and Shenzhen 300, use the extrapolation, that is, constituent stocks from 1998 to 2005 are the same as the end of 2005.
- D. Data collection: The ERP calculation based on closing price of the selected constituent stocks at the end of each year provided by the data system of Wind Information. Since the constituent stock returns should include the proceeds of annual dividends, dividend payout and bonus shares, so the selected year-end closing price is the restoration closing price of Wind data from 31 December 1997 to 30 June 2019. The above-mentioned prices have been effective in reflecting the annual income due to dividends and other in the price.
- E. Geometric mean method is adopted in the calculation of annual profit rate:

Set the geometric mean from first year to year i as C_i , and P_i is the closing price of the end of year i (after rehabilitation), thus:

$$C_i = (i-1)\sqrt{\frac{P_i}{P_1}} - 1 (i = 2, 3, \dots, n)$$

By estimating the 2001-2019 annual market risk of excess return, calculating from the average of the calendar year, the ERP is 6.69%.

(3) Company-specific risk excess return (R_s)

Capital pricing model is generally considered to be a combination of the estimated income of a portfolio. A single company's investment risk is generally considered to be higher than the risk of a portfolio, therefore, consideration should be given to the excess return required to compensate for the company's unique risks when considering the investment returns of individual companies or stocks.

The individual risks of enterprises mainly include business risk. The main factors affecting business risk are: The operating stage of the enterprise; the historical operating status; the distribution of the business operations, products and regions of the enterprise; internal management and control mechanisms; management and qualifications of managers; dependence on key customers and suppliers and so on.

(4) Parameters for CAPM (R_e)

$$\begin{aligned}
 R_e &= R_f + \beta \times ERP + R_s \\
 &= 3.64\% + 0.8102 \times 6.69\% + 1.1\% \\
 &= 10.16\%
 \end{aligned}$$

Among them: in the calculation process of β , because the capital structure of the Target Company is relatively unreasonable, the liability with interest on Valuation Benchmark Date is too large, while its actual rate of return on risk investment is not high. This valuation adopts the target capital structure within the industry. The specific calculation process is detailed in Exhibit E – ANALYSIS OF COMPARABLE LISTED COMPANIES AND BETA CALCULATION.

RISK FACTORS**Traffic flow**

Traffic flow can be affected by various factors, including alternative routes, tolls, fuel prices, and economic conditions in the regions concerned. Any significant changes in these factors will have a significant impact on the profitability of the Target Company. In addition, if any large-scale maintenance is visible in the future, the traffic volume of the Target Company will also be affected.

Traffic flow forecast

Forecasts of traffic and revenues of the Target Company are affected by a number of statistical factors, including sampling, variation of independent variables, and correlation stability. If there is a development that is different from the historical trend in the future, it may affect the value of the Target Company.

Competition-related uncertainty

The profitability of the Target Company is influenced by the interaction of other transportation channels such as railways and air transportation. We do not rule out that other high quality competition projects (such as faster or lower charges, or even free roads) will be built later in the forecast period.

Toll increase

The profitability of the Target Company is largely affected by the increase in future tolls. We do not rule out that future applications for increased tolls require local approval. If there is any difference between the estimated increase in tolls applied in this valuation and the future increase, it will have an impact on the valuation results.

VALUATION CONCLUSION

The lists of assets and liabilities involved in the valuation have been provided by the entrusting party and Chengming Company and confirmed by signatures. Some of the analysis involved in the valuation report is based on the relevant financial 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. We also consider the potential impact of various risks and uncertainties on the Target Company. We determine the prerequisites, assumptions for the report is true at the Valuation Benchmark Date. When the future economic environment changes greatly, we don't take the responsibility that different evaluation results are derived due to the different prerequisites, assumptions.

During the valuation work, we followed the principle of independence, objectivity, and impartiality. Based on the information we collected in the valuation process, the statements in this valuation report are objective, and we are legally responsible for the reasonableness of the valuation conclusion. However, the valuation opinion should not be considered as an assurance to the assessable price.

As at 30 June 2019, the fair market value of 100 percent equity interest in Chengming Company adopting income approach is stated as follows:

Valuation Benchmark Date	Fair Market Value of 100 Percent Equity Interest
30 June 2019	RMB955,000,000.00

Yours faithfully,
For and on behalf of
Tianyuan Appraisal Co., Ltd.

YouYan Qian
Legal Representative

EXHIBIT A – LIMITING CONDITIONS

The use of this valuation report is subject to the following restrictions:

1. The valuation report is prepared solely for the disclosed report users in the valuation report for the specified purpose. The Public Valuers and their appraisal agency shall not assume the responsibility for the consequences resulting from the improper use of the valuation report.
2. Once all or part of the contents of the evaluation report is copied, quoted or disclosed in the public media, needs the appraisal agency to review the related contents, except laws and regulations as well as related parties as agreed upon.
3. The valuation conclusions are established solely as at the Valuation Benchmark Date which is specified in the valuation report. The valid use period of the valuation conclusions should be determined in accordance with the changes of the asset status and the market after the Valuation Benchmark Date. When the changes of the assets status and the market are small, the validity of the valuation conclusions is within one year of the Valuation Benchmark Date, namely, from 30 June 2019 to 29 June 2020.
4. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Target Company. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in arriving at our calculation of value. Since predictions relate to the future, there will usually be differences between predictions and actual results and in some cases, and those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

EXHIBIT B – DECLARATION

- I. In the implementation of the valuation, we adhere to the principles of independence, objectivity and fairness. According to the information we collected during the practice, the contents of the valuation report are objective. We assume corresponding legal responsibility for the reasonableness of the valuation conclusions, whereas the evaluation conclusion should not be regarded as the guarantee for the valuation object's achievable price.
- II. The list of assets and liabilities in the valuation is provided and confirmed by the entrusting party and Chengming Company. The authenticity, legality, completeness, and proper use of the valuation report are the responsibility of the above mentioned parties.
- III. The appraisers have no present or prospective interest in valuation object of this report, and have no personal interest or bias with respect to the parties involved.
- IV. We have performed the necessary verification procedures for the objects in the valuation report and the assets and liabilities involved, but the field investigation of physical assets such as equipment, buildings, and structures has not relied on any quality testing equipment. Site surveys of objects are limited to visible parts such as location, appearance, interior type and decoration, and Site surveys of structures are limited to observable content. We are not responsible for investigating the structural quality and potential defects of buildings and structures.
- V. We have given necessary attention to the legal status of the valuation object and the assets involved, and have checked the legal ownership information of the valuation object and the assets involved, as well as have truthfully disclosed the discovered problems. The entrusting party and relevant parties have been requested to improve the property rights to meet the requirements of economic behavior. However, it is not within our practice to confirm or express opinions on the legal rights of the valuation object.
- VI. The reported analyses, opinions, and conclusions are subject to the assumptions as stated in the report. The users of the valuation report should fully consider the assumptions, qualifications, special events and their impact on the valuation conclusions.
- VII. We have the required qualifications and relevant professional valuation experience required for this valuation project. Except for the work of valuation agencies or experts disclosed in the valuation report, no other agency or expert work results have been used in the valuation process.

The under mentioned persons provided professional assistance in the compilation of this report.

Youyan Qian

Legal Representative

Xuenan LU

Chief Valuer

Xiaoqiang Wu

Chief Quality Control Manager

Xianghua Li

Quality Control Manager

Yong Lin

Vice General Manager

Guixian Gu

Vice General Manager

Shanshan Chang

Manager

Siqi Yu

Assistant Manager

Wei Wang

Assistant

EXHIBIT C – VALUATION MODEL

1. Selection of the income approach model

According to the investigation situation, asset structure and the main business trait, assets usage status, capital structure as well as future business model and development trend of profits of the valuation subject, Free Cash Flow to Equity Model has been applied in this valuation. The basic idea is to predict the value of business asset value of the valuation object plus values of other non-operating or excess assets (liabilities) as the value of all shareholders' equity, which based on the free cash flow of equity.

In summary, the following formula has applied in this income approach:

$$\begin{aligned} \text{All equity value of} &= \text{Valuation value of equity cash flow} + \text{Value of non-operating assets} - \\ \text{shareholders} &\quad \text{Value of non-operating liabilities} + \text{Value of excess assets} - \text{Value of} \\ &\quad \text{excess liabilities} \end{aligned}$$

According to the field surveys and interviews, we have understood the industry characteristics, the competitive advantages and disadvantages as well as the analysis of future prospects of Chengming Company, which shows that Chengming Company possesses capacity of continuous operation. At the same time, the relevant assets of expressways will be transferred gratis when the toll period expires. Therefore, we have selected discounted cash flow model within a finite period in this valuation. The basic formula is:

$$P = \sum_{t=1}^n \frac{F_t}{(1+r)^t} + \frac{P_n}{(1+r)^n} + \sum C$$

In the formula:

P	Valuation value of all shareholders' equity
F_t	Equity cash flow in the future t-th earning period
r	Discount rate, consistent with the cash flow, using CAPM
t	Future t-th earning period
n	Forecast period
P_n	Value of recoverable assets in the end of prediction
$\sum C$	Value of excess assets or non-operating assets (liabilities) as at Valuation Benchmark Date

2. Calculation of all equity value of shareholders

(1) Net Excess Asset and Non-Operating asset (ΣC)

Excess asset represents such asset in excess of those necessary for the daily operation in the entity, not being directly related to the entity's revenue. The non-operating asset (liability) represents those assets (liabilities) that have no involvement in the entity's daily operation.

Based on the information provided by the Target Company and the review on the major asset and liability, the excess asset and non-operating asset on the Target Company's Valuation Benchmark Date are as follows:

Currency Unit: ten thousand Yuan

Item	Amount	Remark
Monetary fund	10,678.46	Excess asset
Other receivable-farmland conversion tax duplicate records	818.92	Non-operating asset
land use rights of west Qionglai service area		Non-operating asset
land use rights of east Qionglai service area		Non-operating asset
land use rights of Mingshan B service area	806.44	Non-operating asset
land use rights of Mingshan A service area		Non-operating asset
land use rights of Pingle petrol station		Non-operating asset
Total of excess asset and non-operating asset	12,303.83	
Accounts payable – farmland conversion tax duplicate records	818.92	Non-operating liability
Accounts payable – removal compensation	123.12	Non-operating liability
Other accounts payable – Chengdu Highway Construction & Development Co., Ltd.		
– interest	641.14	Non-operating liability
Other accounts payable – Sichuan Xuyang Petrochemical Trading Co., Ltd.		
– land-transferring fees	683.32	Non-operating liability
Total of excess liability and non-operating liability	2,266.51	
Total of net excess asset and non-operating asset	10,037.32	

(2) Shareholder's Total Equity Value

The formula will be applied with the free cash flow to equity, discount rate, excess and non-operating asset value in the exact forecast period to calculate the shareholder's total equity value on the appraised entity's Valuation Benchmark Date. The present value of the free cash flow to equity will be as follows:

Currency Unit: ten thousand Yuan

Item	July- December	2020	2021	2022	2023
	2019				
Free cash flow to equity	193.46	173.75	175.67	175.94	116.20
Discount rate	10.16%	10.16%	10.16%	10.16%	10.16%
Discount period	0.25	1.00	2.00	3.00	4.00
Discount factor	0.9761	0.9078	0.8240	0.7480	0.6791
Discount amount	188.84	157.73	144.75	131.60	78.91
Item	2024	2025	2026	2027	2028
Free cash flow to equity	185.71	185.53	137.23	123.36	175.22
Discount rate	10.16%	10.16%	10.16%	10.16%	10.16%
Discount period	5.00	6.00	7.00	8.00	9.00
Discount factor	0.6164	0.5596	0.5080	0.4611	0.4186
Discount amount	114.47	103.82	69.71	56.88	73.35
Item	2029	2030	2031	2032	2033
Free cash flow to equity	196.35	27,116.28	37,030.55	38,672.14	40,193.39
Discount rate	10.16%	10.16%	10.16%	10.16%	10.16%
Discount period	10.00	11.00	12.00	13.00	14.00
Discount factor	0.3800	0.3449	0.3131	0.2842	0.2580
Discount amount	74.61	9,352.40	11,594.27	10,990.62	10,369.89
Item	2034	2035	2036	2037	2038
Free cash flow to equity	41,875.65	43,631.58	45,051.75	46,261.27	37,842.27
Discount rate	10.16%	10.16%	10.16%	10.16%	10.16%
Discount period	15.00	16.00	17.00	18.00	18.83
Discount factor	0.2342	0.2126	0.1930	0.1752	0.1616
Discount amount	9,807.28	9,276.07	8,694.99	8,104.97	6,115.31
Appraised value of the free cash flow to equity			85,500.00		

Shareholder's total equity value	=	Present value of free cash flow to equity + excess or non-operating asset value – non-operating liability value
	=	85,500.00 + 12,303.83 – 2,266.51
	=	95,500.00 (rounding, currency unit: ten thousand Yuan)

Under the assumptions revealed in this report, the market value of the Target Company on the Valuation Benchmark Date is RMB955.00 million. Market value increased by RMB520.2007 million compared with book value, and the value-added rate is 119.64%. The main reason for the increase is: The business of Chengming company is stable and the annual traffic volume is relatively considerable, and the profitability is strong. The income approach is a valuation method based on the forecast of the future earnings of the enterprise. It is considered from the perspective of the future profit of the enterprise, and reflects overall profitability of the enterprise as a whole, including intangible assets held by the enterprise such as service concession arrangements that are not recorded on the books.

EXHIBIT D – SENSITIVITY ANALYSIS

A sensitivity analysis was prepared to profile the results based on a 5%, 10% and 15% variations. The following table summarizes the resulting values of the Target Company:

Discount Rate (%)	Base 10.16%	+5% 10.67%	+10% 11.18%	+15% 11.68%
100% Equity Value (Currency Unit: ten thousand Yuan)	95,500.00	90,000.00	84,900.00	80,200.00
Discount Rate (%)	Base 10.16%	-5% 9.65%	-10% 9.14%	-15% 8.64%
100% Equity Value (Currency Unit: ten thousand Yuan)	95,500.00	101,500.00	107,900.00	114,800.00

EXHIBIT E – ANALYSIS OF COMPARABLE LISTED COMPANIES AND BETA CALCULATION

Beta risk factor is considered to be the indicator of measuring the entity's relative risk. During this evaluation, we selected the listed companies in the expressway industry as the comparable companies. *Beta coefficients* of the comparable listed companies were arrived at after inspecting WIND's financial terminal. The forementioned *Beta coefficients* were also effected by the financial leverages in the comparable companies. We shall first disregard the financial leverages in the comparable companies, then consider the Target Company's financial leverage based on its objective capital structure. The calculation formula of *Beta coefficient* with or without financial leverage is as follows:

$$\beta \text{ without financial leverage} = \frac{\beta \text{ with financial leverage}}{1 + \frac{\text{liability capital}}{\text{equity capital}} \times 100\% \times (1 - \text{income tax rate})}$$

Beta coefficient of 5 comparable listed companies is as follows:

No.	Stock Code	Stock Name	Beta (no exclusion)	Capital structure (D/E)	T(%)	Beta (exclusion)
1	600033.SH	Fujian Expressway	0.7456	48.43%	25.00	0.5470
2	601518.SH	Jilin Expressway	0.9094	56.74%	25.00	0.6379
3	000429.SZ	Guangdong Expressway A	0.6490	36.00%	25.00	0.5110
4	600548.SH	Shenzhen Expressway	0.6504	65.97%	25.00	0.4351
5	600012.SH	Wantong Expressway	1.0327	23.15%	25.00	0.8799
		Average	0.7974	46.06%		0.6022

The average Beta coefficient without financial leverage is 0.6022.

Then, according to the target capital structure of the valued object, it is converted into a Beta coefficient with the Target Company's financial leverage. The calculation formula is:

$$\beta L = \beta U \times [1 + (D/E) \times (1 - T)]$$

In the formula:

βL	Beta with financial leverage
βU	Beta without financial leverage
D/E	The ratio of interest-bearing debt to owner's equity
T	The income tax rate, 25%

The capital structure of the Target Company references the industry level, that is, select 46.06% as D/E, and the β coefficient of the Target Company is 0.8102.

EXHIBIT F – SPECIAL NOTES

1. According to the relevant information provided by Chengming Company:

As at the Valuation Benchmark Date, the intangible assets-the land listed in the book of the Target Company contains a total of 5 commercial lands, which are the lands for petrol station in Qionglai, Mingshan and Pingle service areas obtained by the Companies in August 2013 and May 2014 respectively. The land for the station has a legal life of 40 years. According to the concession contract signed between the Target Company and the Ya'an Municipal Government and the Chengdu Municipal Government, the operating period of the Target Company is up to 7 November, 2038 (the date is shorter than the land expiration day). Chengming company has transferred all the rights between the "expiration date of the operation period" and the "land expiration date" of the Qionglai and Mingshan service areas, as well as operational right within the legal period of Pingle service area to Xuyang Company. As at the Valuation Benchmark Date, Xuyang company did not pay the corresponding transfer price in accordance with the contract.

According to the opinions of lawyers in mainland China, whether the commercial land occupied by the petrol station of Chengming company needs to be handed over after the expiration of the operation period is uncertain. At the same time, the limitation for action for the Chengming Company to require payment of land rent or the operating right has passed. Unless Xuyang Company voluntarily fulfills the payment, there is also an obstacle for Chengming Company to request its performance through litigation. In summary, whether the lease/transfer price in the agreement between Chengming company and Xuyang Company can be recovered after date has a large uncertainty, so in this valuation the excess intangible assets-lands and the related liabilities recorded duplicately were treated as book value retention, and the impact of the equity of Qionglai and Mingshan service area from the expiration of the operational right to the land maturity date and the related interests of Pingle service area on the valuation conclusions were not considered.

2. The Linji toll station involved in the business of Chengming Company is funded by the government. The toll booths, toll facilities, office buildings, computer rooms and other station facilities of the toll station are funded by the local government, according to [2016] No. 57 approval document issued jointly by the Sichuan Provincial Department of Transportation and Sichuan Development and Reform Commission, the Target Company has the right to use the Linji toll station. The impact of the toll station is considered in the future earnings of this valuation process.
3. Reference of the conclusions of reports issued by other agencies
 - (1) Ernst & Young will issue an Accountants' report from 2016 to 30 June 2019. Our valuation calculation is based on this report;
 - (2) The forecast of future income is based on the revenue excluding VAT in the Research Report on the Traffic Volume Forecast of Sichuan province Qiongmeng expressway (Research Report on the Traffic Volume) – Basic Scheme provided by Master Alliance.

4. As at the Valuation Benchmark Date, the Target Company has the following asset pledges:

According to the Target Company's ZGZY2013 No. 02, 2018 high-tech (pledge) 0048, 2018 Zhongwuyin 002 pledge contract signed with China Construction Bank Corporation Chengdu Second Branch, China Commercial Bank Chengdu Chengnan Branch, Bank of China Chengdu Wuhou Branch, respectively, the Target Company pledges its toll right. This valuation has not taken into account the impact of the pledge.

5. Liquidity factors, control of equity and minority equity and other factors that may cause a premium or discount were not considered in this assessment.

The report users shall pay attention to the impact of the above issues on the assessment results as well as the economic behavior.

The following is the text of report prepared from Master Alliance (China) Limited, the Company's traffic consultant, in connection with independent traffic forecast study on the "Qiongming Expressway" in Sichuan Province, PRC.



Master Alliance (China) Limited,
Unit 907, 9/F,
Silvercord Tower 2,
30 Canton Road, Tsim Sha Tsui,
Kowloon, Hong Kong

The Directors
Chengdu Expressway Co., Ltd.

23 October 2019

Dear Sirs,

QIONGMING EXPRESSWAY IN SICHUAN PROVINCE TRAFFIC FORECASTING STUDY REPORT

In accordance with your instructions and for Chengdu Expressway Co., Ltd. (the "**Company**"), Master Alliance (China) Limited (the "**Consultant**" or "**MA**") has conducted an independent traffic forecast study (the "**Study**") on a toll road in Sichuan Province, the People's Republic of China ("**PRC**"). This report summarizes the results and findings based on the technical analyses conducted. We confirm that the future traffic forecasts for the Qiongming Expressway toll roads were projected in an independent and professional manner.

A summary of the findings of this report is set out below:

1 INTRODUCTION

This report summarizes the results and findings based on the technical analyses conducted. We confirm that future traffic for the remainder of the concession periods were projected in an independent and professional manner. In conducting the Study, we have based our analyses on adequate site investigations, interviews with local authorities/toll road operators, and reviews of available traffic data, feasibility reports and other relevant information. In utilizing the given information from the Company, we also sought confirmation from the management of the toll roads that no relevant material factors have been omitted. We conclude that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

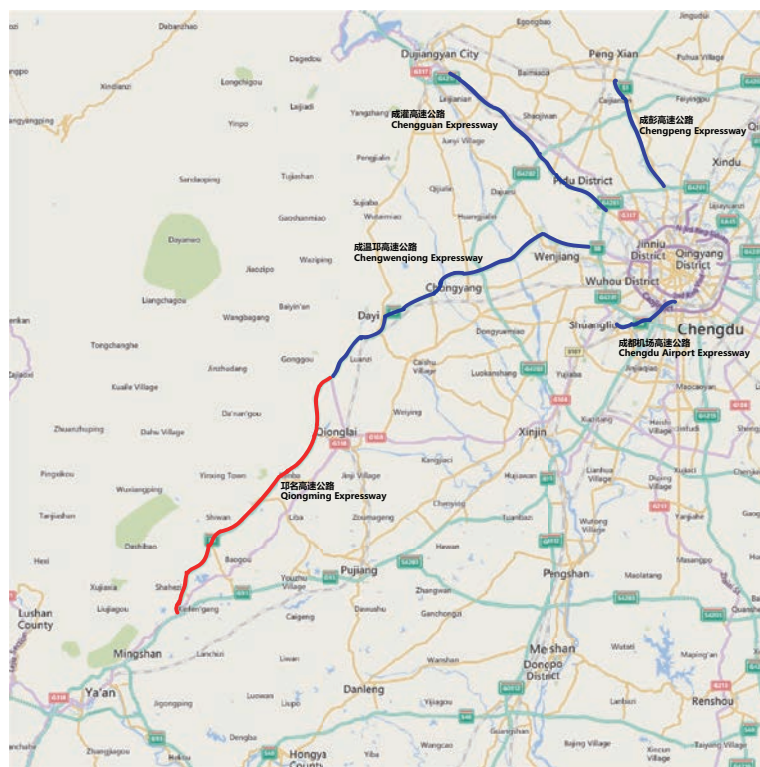
1.1 The Routes

Qiongmíng Expressway

Qiongmíng Expressway is a four-lane asphalt-concrete-paved expressway with five toll plazas and a total distance of 52.68 km. The maximum design speed at 80 km/hour. This close system expressway was opened to traffic in November 2010. Located in Sichuan Province, Qiongmíng Expressway traverses through Dayi County (大邑縣) in Chengdu City, Qionglai City, Mingshan District (名山區) in Ya'an and ends in Xindian Hutong Interchange (新店互通立交橋).

The locations and general description of the project road are summarised on Figure 1-1 and Table 1-1.

Figure 1-1 Location of the Project Road



Source: Chengdu Expressway Co., Ltd., 2019

Table 1-1 Summary of General Project Description

	Length (km)	Number of Lanes	Number of Toll Plazas	Commencement of Operation	Expiration Date
Qiongmíng Expressway	52.68	4	5	November 2010	November 2038

Source: Chengdu Expressway Co., Ltd., 2019

Major Connections

- Chengdu, is a sub-provincial city and has served as the capital of the Sichuan Province in China. The main industries in Chengdu – including machinery, automobile, medicine, food, and information technology – are supported by numerous major enterprises. In addition, an increasing number of high-tech enterprises from outside Chengdu have also started to settle down there. Chengdu’s transport network has been well developed, and serves as the starting point for many national highways, with major routes going from Sichuan-Shaanxi, Sichuan-Tibet, and Sichuan-Yunnan.
- Shuangliu International Airport is located in Shuangliu County which is 16 km southwest of the Chengdu downtown. Chengdu Shuangliu International Airport is the busiest airport in Central and Western China and the nation’s 4th-busiest airport, with a total passenger traffic of 52.9 million in 2018.
- Our expressway connect Chengdu to many of the renowned tourist attractions in Sichuan, including Xiling Snow Mountain (西嶺雪山), Huashuiwan (花水灣), Tiantai Mountain (天台山), Pingle Ancient Town (平樂古鎮), Baizhang Lake (百丈湖), Bifengxia (碧峰峽) and Zhou Gongshan (周公山).

Existing Competing Roads/Rails

- Qiongming Expressway faces competition from the following:
 - Chengya Expressway (成雅高速) is a 4-lane expressway with a total distance of 141.2 kilometers. The maximum design speed is 80 km/hour. It starts from Chengdu and ends in Ya’an, is a toll expressway and has diverted certain freight traffic and passenger traffic to and from Ya’an area;

Source: Chengdu Expressway Co., Ltd., 2018

2 OBJECTIVES AND SCOPE OF SERVICES

The major objective of the Study is to provide the Company with an independent study on future traffic projections on the Qiongming Expressway.

The scope of work includes:

- Collection and analyses of historical traffic data;
- Collection and review of socio-economic data of the study region;
- Interviews of toll road operators, local highway bureau officials and local planning department officials;
- Review of available planning and feasibility reports related to the traffic corridors of the study highways;
- Development of a socio-economic and traffic forecast model;
- Impact analyses of competing roads within the area of influence; and
- Preparation of traffic forecasts for future years.

3 TRAFFIC FORECASTING METHODOLOGY

To enable reliable forecasting of future traffic projections for the project expressway, the Consultant developed a comprehensive socio-economic and traffic forecasting model (“**traffic model**”). The traffic model is based on traditional traffic forecast methodologies that are widely adopted for toll road studies in the Sichuan Province and PRC. Relevant information has been collected and accumulated by the Consultant from other toll road projects in the Sichuan Province. This section summaries the main approach and the key assumptions used by the Consultant in its traffic forecast model.

- (i) Data Collection and Analysis – The key objective of this technical stage is to obtain and organize existing available information for the next stage of work. Typical information to be inventoried includes historic highway network data, Station-to-station Origin-Destination (O-D) data, toll road traffic and revenue data, existing and future socio-economic forecasts of the relevant regions, and previous relevant analyses and reports.
- (ii) Traffic Forecasting Model Development – The professional computer model simulation software was used to develop the traffic forecasting model for this study. The Consultant developed over 200 traffic analysis zones (TAZs) within the Sichuan Province in order to facilitate the future analyses. The applications of the traffic forecasting model included base year calibration, adoption of reasonable traffic growth assumptions and forecasting of traffic distribution and assignment patterns on the expressway network in order to obtain reasonable future traffic forecast results.

- (iii) Model Inputs Assumptions – The model inputs included the existing traffic data (refer to section 4.1), socio-economic data and future assumptions (refer to section 4.2). The model will then calculate the future traffic demands (called future-year demand matrices by different vehicle classes). Other model inputs included road networks assumptions (refer to section 4.3), transport model parameters such as congestion delay, road capacity (refer to section 4.4) and toll rate assumptions (refer to section 4.5), etc.
- (iv) Traffic flow – The computer model will apply appropriate traffic engineering algorithm to assign the future-year demand matrices (by different types of vehicles) on the future road networks. This process is called “traffic assignment” and the model adopted “generalised-cost” as the factor to influence the decisions to select travel paths by the trip makers. This arrives at a balanced trip distribution on the road network within the study area. The “generalised cost” includes all elements and factors (such as travel time, travel distance, vehicle operation cost and toll costs etc) that may affect the choice of travel paths of the car drivers.

The traffic assignment model used by the Consultant has taken into consideration road users’ willingness to pay certain travel costs and travelling speed/congestion levels on the project roads in comparison to other competing expressways. From the trip matrices, the trips between any two TAZs are allocated by the model to the paths of the lowest generalised cost. Trip distribution is an iterative process, in which every trip during an iteration would be assigned to the path of the lowest generalised cost. The total traffic volume on the project roads can then be obtained.

4 MAJOR ASSUMPTIONS

The major assumptions used in the traffic forecasting are as follows.

4.1 Existing Traffic Data

The project road have been opened to public for almost 9 years. The Consultant has obtained the 2016 – July 2019 historical traffic data from the Project Company. The Consultant considers that the traffic composition, vehicular modes and traffic volume for the study expressway have become stabilised by the time of this study.

The Consultant obtained from the Sichuan Province Traffic Hall Highway Monitoring Settlement Center the Station-to-Station traffic data and revenue including VAT data for the periods of January 2016 to July 2019 for the project road. This information included all relevant traffic information on the project roads such as in-out time and locations (i.e. the origins and destinations), vehicle types, toll charge categories, toll revenue and gross weight. This enabled the Consultant to understand the composition of the vehicle streams, the origins and destinations of the traffic, variations in traffic volume during the week and distance travelled on the project road.

There are several advantages of deriving the traffic distribution pattern on the expressway system from the Station-to-Station Revenue Records. First of all, the results were recorded by electronic devices instead of on-site investigations and surveys. Secondly, the results were directly issued from the Tolling System of the Sichuan Provincial Expressway Network without mistakes possibly made through the manual data entry and coding processes. This enhanced the accuracy of the base traffic data used in subsequent analyses. Thirdly, the information represented 100% universe and 24 hour records on the expressway system. The discrepancies and problems likely to be incurred by the survey sampling method could be avoided.

Table 4-1 Historical Traffic and Revenue

Passenger Cars							
Year	PV1	PV2	PV3	PV4	PV5	Free (PV)	
2016	6,934	80	92	26	0	227	
2017	8,104	99	108	38	0	267	
2018	9,158	112	105	38	1	287	
Trucks							
Year	GV1	GV2	GV3	GV4	GV5	Green Passage (GV)	Total ⁽¹⁾
2016	785	475	159	380	822	686	10,666
2017	809	462	126	445	1,190	697	12,345
2018	847	433	108	372	1,263	616	13,340
Average Daily and Annual Revenue							
Year	Average Daily Revenue (RMB)		Annual Revenue including VAT (RMB)		Excluding VAT Annual Revenue (RMB) ⁽³⁾		
2016	362,212		132,569,463 ⁽²⁾		129,979,800		
2017	444,869		162,377,281		157,647,846		
2018	479,981		175,193,117		170,090,405		

Source: Sichuan province traffic hall highway monitoring settlement center, 2019

Notes: PV: Passenger Car, GV: Truck
Vehicle Classification please refer to Table 4-4

- (1) Annual average daily traffic: The summation of the product of daily traffic volume and mileage of each section, and divided by the sum of the mileage.
- (2) From 1 May 2016, the state fully implemented the business tax to change the value-added tax. In 2016, the annual income data including VAT, only VAT is included in May-December.
- (3) After the annual income of VAT is deducted by 3% VAT, it is excluding VAT annual income.

4.2 Socio-Economic Development

Past studies conducted in the study region and in other areas of PRC have indicated that growth in GDP has been more closely related to the passenger and goods vehicles travels than any other factors or parameters. Therefore, the use of “Gross Domestic Product” (“GDP”) statistics as the prime indicator to determine future traffic growth on the project roads under this study. Future economic growth trends in the related study region are consistent with existing regional economic policies in the PRC as well as in Sichuan Province, including the Thirteenth Five-Year Plan, the provincial development master plan and the local governmental policies. The adopted economic growth parameters are given in the table below:

Table 4-2 Annual GDP Growth (%) Assumptions

	2018-2020	2021-2025	2026-2030	2031-2035	2036-2038
China	6.0-6.5%	5.0%	4.0%	3.0%	2.5%
Sichuan Province	7.5%	6.0%	4.5%	3.5%	3.0%
Chengdu City	7.5%	6.0%	4.5%	3.5%	3.0%
DeYang City	8.0%	6.5%	5.0%	4.0%	3.5%
MianYang City	8.0%	6.5%	5.0%	4.0%	3.5%
Ya'an City	7.5%	6.0%	4.5%	3.5%	3.0%

Source: 13th Five Year Plan of Sichuan Province and Consultant's assumptions in 2019

4.3 Road Network and Other Infrastructures

For the base-year road network, the Consultant made use of the existing Sichuan Province Expressway Network map which was coded into the traffic modelling software. All major highway facilities were included in the network of the traffic modelling software, including expressways and national highways.

In the future-year forecasts, the road networks for all model forecast years were developed based on the base-year road network, the infrastructure plans available in the Sichuan Provincial Expressways Plan (《四川高速公路路網規劃全圖》) and the 13th Five Year Plan. These infrastructure plans were inputted into the traffic modelling software for all traffic forecast scenarios. There is no official source available for planned highway infrastructure projects after 2021.

Major new infrastructures under construction in the province include Chengdu Tianfu Airport Expressway (88.73 kilometers long, 6/8 lanes, maximum design speed 120 km/hour), Chengdu Economic Zone Ring Expressway (442.4 kilometers long, 6 lanes, maximum design speed 100/120 km/hour) and Chengyi Expressway (157 kilometers long, 6 lanes, maximum design speed 120 km/hour). Major new infrastructures have been planned in the province include Chengziyu Expressway (110 kilometers long, 4/6 lanes, maximum design speed 100 km/hour), Chengmian Expressway Parallel Line (6 lanes, maximum design speed 100 km/hour), Cheng'a Expressway (82 kilometers long, 4 lanes, maximum design speed 80 km/hour) and Tianqiong Expressway (42 kilometers long, 6 lanes, maximum design speed 120 km/hour).

These planned and under-construction major new infrastructures in the vicinity of the study corridors which may have impacts on the project road include the following:

- Chengdu Economic Zone Ring Expressway (442.4 kilometers long, 6 lanes, maximum design speed 100/120 km/hour) – This will form an outer ring road of Chengdu connecting Deyang (德陽), Dujiangyan (都江堰), Dayi (大邑), Pujiang (蒲江), Pengshan (彭山), Jianyang (簡陽) and Zhongjiang (中江). Chengdu Economic Zone Ring Expressway is expected to be opened in end 2019 for East and West Sections and fully opened in 2021. It is predicted from model analysis that vehicle trips traveled from Deyang, Shifang, Guanghan from the north of Sichuan Province will divert from Chengya Expressway to use Qiongming Expressway.

The Consultant performed the traffic assignment using the future year travel demand matrices (obtained in section 4.1 and 4.2) and the future year road network. According to the traffic assignment model results, certain traffic impacts on the four project roads were observed to happen in 2020. Other planned expressways were also tested in the traffic model. However, the traffic impacts would be insignificant due to the characteristics of the different alignments and catchment areas.

4.4 Congestion Delay and Road Capacity

The design speeds for the four project roads are 80km/hour. The major factors that affect the road capacity of an expressway include the design standards (e.g. design speed), composition of vehicle types, and hourly distribution of traffic volume (peak hour factor). According to the Highway Engineering Technical Specifications (JTG B01-2014), the traffic capacity of a highway section at level of service 3 is 1,500 (PCU/lane/hour). The traffic capacity of the project expressway are shown as follows:

Table 4-3 Capacity Assumptions of the Project Roads

	Length	Number of Lanes	Design Speed	Capacity
	(km)		(km/hr)	(vehicles per day)
Qiongming Expressway	52.68	4	80	75,000

Source: Consultant, 2019

Since the traffic patterns of passenger cars and trucks will be different in the future, the capacity of the project highways will likely have some changes with the current calculation value in the coming years.

The travel time generally depends on the travel speed, which varies with the level of congestion. The level of congestion of the project expressway may below in the base year, but will grow with traffic in the coming years. It is necessary to estimate travel speeds through traffic assignment with capacity constraints. The volume and level of service obtained from traffic assignment were stored in the traffic model's database.

4.5 Toll Rates

Toll rate is one of the parameters that would affect traveller's route choice. In the traffic model, the actual toll rates in Sichuan Province for different vehicle classes were inputted for traffic assignment to predict the traveller's route. The existing vehicle classification standards and toll rates in Sichuan Province are set forth below:

Table 4-4 Vehicle classification standards and toll rates in Sichuan Province

Vehicle Model and Specification		
Type	Passenger Vehicle (seat)	Freight Vehicle (ton)
1	≤ 7 (inclusive of 7)	≤ 2
2	8-19 (inclusive of 19)	2-5(inclusive of 5)
3	20-39 (inclusive of 39)	5-10 (inclusive of 10), vehicles towing 20-ft container
4	≥ 40	10-15 (inclusive of 15), vehicles towing 40-ft container
5	—	> 15

Toll Rates for Passenger Vehicles (RMB/km)

Type	Qiongmíng Expressway
1	0.5
2	1.0
3	1.5
4	2.0
5	2.5

* Cars driving through the Qionglai South Bridge need to pay extra 3 RMB/veh for type 1 vehicles and pro-rata for other vehicle types on top of the toll rates above.

The rates of weight-based toll for goods vehicles are calculated as follows:

Toll Charges	Category	Toll Charges By Vehicle Weight
Toll Charges by Regular Weight	Standard Rate	0.075 RMB/ton-km
	< 20 tons (including 20 tons)	0.075 RMB/ton-km
	20 tons ~ 40 tons (including 40 tons)	The first 20 tons of standard rate The remaining portion of linear reduction to 50% of standard rate
	> 40 tons	The first 20 tons of standard rate The second 20 tons of linear reduction to 50% of standard rates 50% of standard rate for the remaining portion

Overweight penalty: Any 0-30% overweight portion is charged with standard rate; any 30%-100% overweight portion is charged with 3-5 times the standard rate; any > 100% overweight portion is charged with 5 times the standard rate. For truck's cargo weight > 55 tons, the toll rate is charged at 16 times the standard rate.

In addition to the standard toll rates disclosed above, there are other toll discounts and exemption arrangements as follows:

- Vehicles select ETC as payment method will get a 5% discount from the standard toll rates above;
- Vehicles bearing military registration plates, fire engines, police vehicles, and vehicles performing rescue and relief duties approved by the government authorities are exempted from paying tolls;
- Legal goods vehicles that carry agricultural products are allowed to use a green passage exemption from paying tolls;

On 16 May 2019, the General Office of the State Council issued the “Toll Highway System Reform and the Cancellation of Expressway Provincial Toll Stations”(深化收費公路制度改革取消高速公路省界收費站實施方案), proposing that the weight based toll collection for trucks will be changed to vehicle type (by axis) on 1 January 2020. It stated that toll charges overall for truck will not be increased, and will implement non-stopping weight detection for trucks at toll stations for closed expressway system. This report assumes that the toll charging before the implementation of the weight based in Sichuan will be restored.

5 TRAFFIC FORECAST RESULTS

Based on the above assumptions and considerations, the projected traffic for the concession periods are estimated. Future traffic forecast is based upon the Annual Average Daily Traffic (AADT). The projected traffic for the project road is summarized below.

In addition to the base case, sensitivity tests for the project road were also carried out. The content of the sensitivity tests is presented in Table 5-1.

Table 5-1 Sensitivity Tests of Project Road

	Content
(1) Base Case	Based on the key assumptions in Section 4
(2) Sensitivity Test 1	Based on the Base Case, but with the socio-economic growth assumptions described in Chapter 4 increased by 10%
(3) Sensitivity Test 2	Based on the Base Case, but with the socio-economic growth assumptions described in Chapter 4 reduced by 10%

5.1 Base Case

According to the assumptions summarised in Chapter 4, the forecast traffic volumes from the Project Expressway are shown in the table below.

**Table 5-2 Annual Average Daily Traffic (Base Case)
on Qiongming Expressway (Vehicles/Day)**

Year	PV1	PV2	PV3	PV4	PV5	Free (PV)
2019	10,589	74	150	55	0	317
2020	11,116	71	115	41	0	373
2021	12,694	81	133	48	0	443
2022	14,489	93	154	55	0	523
2023	15,800	100	168	60	0	570
2024	17,229	109	183	66	1	621
2025	18,783	118	199	71	1	676
2026	20,015	126	212	76	1	721
2027	21,329	134	226	81	1	767
2028	22,733	142	241	86	1	818
2029	24,228	151	256	92	1	871
2030	25,822	161	273	98	1	927
2031	26,901	167	285	102	1	966
2032	28,037	174	297	106	1	1,007
2033	29,220	182	309	111	1	1,049
2034	30,453	189	322	115	1	1,093
2035	31,738	197	335	120	1	1,139
2036	32,666	202	345	124	1	1,173
2037	33,610	208	355	128	1	1,206
2038	34,550	214	365	131	1	1,240

Year	GV1	GV2	GV3	GV4	GV5	Green Passage (GV)	Total ⁽¹⁾
2019	862	394	93	279	998	649	14,460
2020	883	407	96	287	1,011	768	15,168
2021	1,015	467	110	330	1,163	877	17,361
2022	1,166	536	127	380	1,337	1,001	19,861
2023	1,275	586	138	415	1,461	1,094	21,667
2024	1,394	641	151	454	1,597	1,196	23,642
2025	1,523	700	165	496	1,745	1,307	25,784
2026	1,627	748	176	530	1,863	1,396	27,491
2027	1,737	799	188	565	1,989	1,490	29,306
2028	1,855	853	201	604	2,123	1,591	31,248
2029	1,980	910	214	645	2,267	1,699	33,314
2030	2,114	972	229	688	2,420	1,814	35,519
2031	2,206	1,014	239	718	2,525	1,892	37,016
2032	2,301	1,058	249	750	2,634	1,974	38,588
2033	2,401	1,104	260	782	2,748	2,060	40,227
2034	2,505	1,152	272	816	2,866	2,149	41,933
2035	2,613	1,202	283	852	2,989	2,242	43,711
2036	2,696	1,240	292	879	3,084	2,313	45,015
2037	2,780	1,280	302	906	3,181	2,383	46,340
2038	2,865	1,318	311	934	3,277	2,456	47,662

Source: Consultant, 2019

Note: PV: Passenger Car, GV: Truck
Vehicle Classification please refer to Table 4-4

(1) Annual average daily traffic: The summation of the product of daily traffic volume and mileage of each section, and divided by the sum of the mileage.

Table 5-3 Annual and Daily revenue (Base Case) on Qiongming Expressway

Year	Average Daily Revenue (RMB)	Annual Revenue including VAT (RMB)	Excluding VAT annual Revenue ⁽²⁾ (RMB)
2019	521,353	190,293,935	184,751,393
2020	567,676	207,769,255	201,717,723
2021	650,428	237,406,325	230,491,578
2022	744,812	271,856,338	263,938,192
2023	812,901	296,708,763	288,066,760
2024	887,172	324,704,941	315,247,516
2025	968,038	353,333,815	343,042,539
2026	1,032,422	376,834,032	365,858,283
2027	1,101,036	401,878,188	390,172,998
2028	1,174,289	429,789,611	417,271,467
2029	1,252,341	457,104,631	443,790,904
2030	1,335,582	487,487,550	473,288,883
2031	1,392,311	508,193,497	493,391,745
2032	1,451,747	531,339,318	515,863,416
2033	1,513,678	552,492,515	536,400,500
2034	1,578,176	576,034,359	559,256,659
2035	1,645,337	600,548,175	583,056,481
2036	1,695,163	620,429,813	602,359,042
2037	1,745,929	637,264,007	618,702,919
2038 ⁽¹⁾	1,796,386	558,676,182	542,404,060

Source: Consultant, 2019

Note: (1) Annual Revenue in 2038 is calculated until the end of concession in November
 (2) After the annual income of VAT is deducted by 3% VAT, it is excluding VAT annual income.

5.2 Sensitivity Test 1

Based on the basic plan, assuming the social and economic growth increases by 10%, the traffic volume and revenue from the forecast sensitivity test 1 of the project are shown in the following table. Sensitivity tests are only to illustrate the degree of impact on traffic volume, and any other changes may exceed the test range given.

**Table 5-4 Annual Average Daily Traffic (Sensitivity Test 1)
on Qiongming Expressway (Vehicles/Day)**

Year	PV1	PV2	PV3	PV4	PV5	Free (PV)
2019	10,589	74	150	55	0	317
2020	11,214	71	115	41	0	377
2021	12,965	83	136	49	0	454
2022	14,983	95	159	57	0	545
2023	16,474	104	175	63	1	598
2024	18,113	114	192	69	1	657
2025	19,911	125	211	75	1	722
2026	21,347	133	226	81	1	774
2027	22,889	143	242	86	1	829
2028	24,546	153	259	93	1	888
2029	26,322	163	278	99	1	952
2030	28,227	174	298	106	1	1,020
2031	29,525	182	311	111	1	1,067
2032	30,895	191	326	116	1	1,117
2033	32,330	199	341	122	1	1,168
2034	33,811	208	356	127	1	1,221
2035	35,240	217	371	133	1	1,272
2036	36,200	223	382	137	1	1,306
2037	37,096	229	392	141	1	1,337
2038	38,011	234	403	144	1	1,367

Year	GV1	GV2	GV3	GV4	GV5	Green Passage (GV)	Total ⁽¹⁾
2019	862	394	93	279	998	649	14,460
2020	893	411	97	290	1,022	775	15,306
2021	1,040	479	113	338	1,191	896	17,744
2022	1,210	557	131	394	1,387	1,036	20,554
2023	1,334	614	145	435	1,528	1,142	22,613
2024	1,471	677	160	479	1,684	1,259	24,876
2025	1,621	746	176	528	1,856	1,388	27,360
2026	1,742	802	189	567	1,994	1,491	29,347
2027	1,872	861	203	610	2,142	1,602	31,480
2028	2,012	926	218	655	2,301	1,722	33,774
2029	2,161	994	234	704	2,473	1,850	36,231
2030	2,322	1,068	251	756	2,656	1,987	38,866
2031	2,433	1,119	263	793	2,783	2,082	40,670
2032	2,549	1,173	276	831	2,915	2,181	42,571
2033	2,670	1,229	290	871	3,053	2,285	44,559
2034	2,796	1,287	303	912	3,196	2,393	46,611
2035	2,919	1,343	317	952	3,337	2,500	48,602
2036	3,008	1,384	327	981	3,439	2,578	49,966
2037	3,093	1,425	336	1,010	3,540	2,649	51,249
2038	3,179	1,465	346	1,040	3,643	2,723	52,556

Source: Consultant, 2019

Note: PV: Passenger Car, GV: Truck
Vehicle Classification please refer to Table 4-4

(1) Annual average daily traffic: The summation of the product of daily traffic volume and mileage of each section, and divided by the sum of the mileage.

Table 5-5 Annual and Daily revenue (Sensitivity Test 1) on Qiongming Expressway

Year	Average Daily Revenue (RMB)	Annual Revenue including VAT (RMB)
2019	521,353	190,293,935
2020	572,950	209,699,535
2021	664,872	242,678,370
2022	771,099	281,451,267
2023	848,643	309,754,520
2024	933,935	341,820,302
2025	1,027,579	375,066,390
2026	1,102,762	402,507,980
2027	1,183,382	431,934,380
2028	1,269,989	464,815,853
2029	1,362,847	497,439,142
2030	1,462,495	533,810,650
2031	1,530,832	558,753,643
2032	1,602,718	586,594,953
2033	1,677,930	612,444,473
2034	1,755,577	640,785,639
2035	1,830,985	668,309,579
2036	1,883,701	689,434,705
2037	1,934,038	705,923,697
2038 ⁽¹⁾	1,985,138	617,377,917

Source: Consultant, 2019

Note: (1) Annual Revenue in 2038 is calculated until the end of concession in November.

5.3 Sensitivity Test 2

Tables 5-6 illustrate the sensitivity of the forecast future traffic volume due to 10% reductions in the socio-economic growth parameters assumptions set out in Chapter 4. The sensitivity illustrations are for reference only in order to illustrate the impact on traffic volume, and any variation could exceed the ranges given.

**Table 5-6 Annual Average Daily Traffic (Sensitivity Test 2)
on Qiongming Expressway (Vehicles/Day)**

Year	PV1	PV2	PV3	PV4	PV5	Free (PV)
2019	10,589	74	150	55	0	317
2020	11,019	71	114	41	0	370
2021	12,426	80	131	47	0	432
2022	14,006	90	150	54	0	502
2023	15,146	97	162	58	0	543
2024	16,379	104	175	63	1	586
2025	17,709	112	188	68	1	633
2026	18,754	119	200	72	1	671
2027	19,863	126	211	76	1	710
2028	21,039	133	224	80	1	752
2029	22,285	140	237	85	1	796
2030	23,604	148	250	90	1	842
2031	24,492	154	260	93	1	874
2032	25,422	159	270	97	1	907
2033	26,388	165	280	101	1	941
2034	27,390	171	290	104	1	977
2035	28,431	178	301	108	1	1,014
2036	29,179	182	309	111	1	1,041
2037	29,946	187	318	114	1	1,068
2038	30,746	192	326	117	1	1,096

Year	GV1	GV2	GV3	GV4	GV5	Green Passage (GV)	Total ⁽¹⁾
2019	862	394	93	279	998	649	14,460
2020	873	402	95	283	1,001	760	15,029
2021	991	456	108	322	1,137	857	16,987
2022	1,124	516	122	365	1,289	967	19,185
2023	1,218	560	132	396	1,397	1,048	20,757
2024	1,320	607	143	429	1,514	1,136	22,457
2025	1,430	657	155	465	1,640	1,231	24,289
2026	1,518	697	164	494	1,740	1,306	25,736
2027	1,610	740	174	524	1,846	1,385	27,266
2028	1,708	785	185	556	1,958	1,470	28,891
2029	1,812	833	196	590	2,077	1,559	30,610
2030	1,923	884	208	626	2,203	1,654	32,433
2031	1,998	918	216	650	2,289	1,719	33,664
2032	2,076	954	225	676	2,378	1,786	34,951
2033	2,157	992	234	702	2,470	1,855	36,286
2034	2,240	1,030	243	730	2,566	1,927	37,669
2035	2,327	1,070	252	758	2,666	2,002	39,108
2036	2,394	1,101	260	780	2,741	2,060	40,159
2037	2,462	1,133	267	802	2,820	2,116	41,234
2038	2,533	1,165	274	825	2,900	2,177	42,352

Source: Consultant, 2019

Note: PV: Passenger Car, GV: Truck
Vehicle Classification please refer to Table 4-4

(1) Annual average daily traffic: The summation of the product of daily traffic volume and mileage of each section, and divided by the sum of the mileage.

Table 5-7 Annual and Daily revenue (Sensitivity Test 2) on Qiongming Expressway

Year	Average Daily Revenue (RMB)	Annual Revenue including VAT (RMB)
2019	521,353	190,293,935
2020	562,402	205,838,974
2021	636,147	232,193,656
2022	719,147	262,488,729
2023	778,314	284,084,618
2024	842,312	308,286,342
2025	911,410	332,664,504
2026	965,963	352,576,434
2027	1,023,739	373,664,566
2028	1,085,035	397,122,929
2029	1,149,942	419,728,666
2030	1,218,730	444,836,538
2031	1,265,315	461,839,970
2032	1,313,926	480,897,028
2033	1,364,371	497,995,507
2034	1,416,692	517,092,600
2035	1,470,950	536,896,900
2036	1,511,037	553,039,485
2037	1,552,190	566,549,380
2038 ⁽¹⁾	1,594,789	495,979,411

Source: Consultant, 2019

Note: (1) Annual Revenue in 2038 is calculated until the end of concession in November.

6 CONCLUSION

The Consultant concluded that the traffic forecasts developed with the above methodology and assumptions are consistent with conventional professional practice and would meet the objectives of the agreed scope of work with the Company. Current professional practices and procedures were used in the development of these findings. However, there are still considerable uncertainties in the future traffic forecasts for any toll facility. There will be differences between projected and actual results caused by events and circumstances beyond the control of the Consultant. These differences may be significant. It should also be recognised that traffic forecasts are intended to reflect the overall long-term trend. Discrepancies for certain individual year(s) may still be possible. Actual experience in any given year may vary due to changing economic conditions, infrastructure plans and other factors. The Consultant endeavours to ensure the accuracy and reliability of the forecast provided, but does not guarantee its accuracy and reliability and accepts no liability for any loss or damage arising from any inaccuracies or omissions.

Yours sincerely,
For and on behalf of
MASTER ALLIANCE (CHINA) LIMITED

1. FINANCIAL OVERVIEW OF THE GROUP

The financial information of the Group for the years ended 31 December 2016 and 2017 is set out in the Prospectus of the Company dated 28 December 2018, the financial information of the Company for the year ended 31 December 2018 is set out in the 2018 annual report of the Company, and the financial information of the Company for the six months ended 30 June 2019 is set out in the 2019 interim report of the Company, which are available for inspection on the websites of the Company (www.chengdugs.com) and the Stock Exchange (www.hkexnews.hk).

- The Prospectus of the Company is available at:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/1228/ltn20181228055.pdf>
- The 2018 annual report of the Company is available at:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251735.pdf>
- The 2019 interim report of the Company is available at:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0916/2019091600430.pdf>

2. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

As at 31 October 2019, being the latest practicable date of the Enlarged Group, for the purpose of this statement of indebtedness, the Group and Chengming Company had the following outstanding indebtedness:

(a) Borrowings

- (i) As at 31 October 2019, the Group had total interest-bearing bank and other borrowings of RMB1,198,500,000, of which RMB974,000,000 were secured and RMB224,500,000 were unsecured; and
- (ii) As at 31 October 2019, Chengming Company had total interest-bearing bank and other borrowings of RMB1,961,217,000, of which RMB1,189,157,000 were secured and RMB772,060,000 were unsecured.

(b) Contingent Liabilities

As at 31 October 2019, the Group and Chengming Company had no material contingent liabilities and guarantees on a group consolidated basis.

(c) Lease Liabilities

- (i) As at 31 October 2019, the Group had lease liabilities of RMB35,193,000. These lease liabilities were unsecured and unguaranteed; and
- (ii) As at 31 October 2019, Chengming Company did not have any material lease liabilities.

Save as those disclosed above or elsewhere in this circular and except for the inter-group liabilities during the ordinary course of business and normal trade payables, as at 31 October 2019, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases commitments, guarantees or other contingent liabilities.

3. WORKING CAPITAL OF THE ENLARGED GROUP

The Directors are of the opinion that, following Completion of the Acquisition and in the absence of unforeseeable circumstances, after taking into account the Enlarged Group's business prospects, internal resources and available credit facilities, the Enlarged Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

4. FINANCIAL AND OPERATING PROSPECT OF THE ENLARGED GROUP

Upon Completion of the Acquisition, the total mileage of expressways operated by the Group will be increased from approximately 149.69km to approximately 202.37km. Based on the operation and management experience of similar expressways in the industry and the financial test, it is expected that Qiongming Expressway promises sound potential in traffic volume, toll income and profit in the future. The Directors believe that the Acquisition will facilitate the Company to expand its business scale, tap new sources of income and profit drivers, thus enhancing the Company's brand image and core competitiveness. Meanwhile, the Acquisition will also help the Company to give full play to its mature management experience and advantages of expressway toll collection business, control operating costs, and consolidate the basis for future development of the Company.

Qiongming Expressway enjoys an advantageous geographical location. On the one hand, it is an extension of Chengwenqiong Expressway and a high-speed thoroughfare out of western Sichuan (to Yunnan and Tibet). On the other hand, it also connects a series of scenic spots alongside, such as Xiling Snow Mountain (西嶺雪山), Huashui Bay (花水灣), Tiantai Mountain (天台山), Pingle Ancient Town (平樂古鎮), Baizhang Lake (百丈湖), Bifeng Gorge (碧峰峽) and Zhougong Mountain (周公山). The Directors expect that upon Completion of the Acquisition, due to the relevance of location and the unity of internal management, Qiongming Expressway and Chengwenqiong Expressway will have a synergistic effect, thereby bringing positive effects to the Group's operating results.

Set out below is the full text of the report issued by Ernst & Young, certified public accountants in Hong Kong, the reporting accountants of the Company, for the purpose of inclusion in this circular.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Chengdu Expressway Co., Ltd.

Dear Sirs,

We report on the historical financial information of China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (the “**Target Company**”) set out on page 142 to page 198, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019 (the “**Relevant Periods**”), and the statements of financial position of the Target Company as at 31 December 2016, 2017 and 2018 and 30 June 2019, and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on page 142 to page 198 forms an integral part of this report, which has been prepared for inclusion in the circular of Chengdu Expressway Co., Ltd. (the “**Company**”) dated 29 November 2019 (the “**Circular**”) in connection with the proposed acquisition of 51% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2016, 2017 and 2018 and 30 June 2019, and of the financial performance and cash flows of the Target Company for the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (the "**IAASB**"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES
ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP
AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 142 have been made.

Dividends

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

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

29 November 2019

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

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

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

Statements of profit or loss and other comprehensive income

		Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	6	128,202	157,080	169,478	79,343	87,453
Cost of sales		<u>(79,912)</u>	<u>(82,154)</u>	<u>(86,205)</u>	<u>(40,578)</u>	<u>(44,930)</u>
Gross profit		48,290	74,926	83,273	38,765	42,523
Other income	6	3,389	3,378	3,315	1,648	1,702
Administrative expenses		(2,700)	(2,159)	(1,970)	(1,110)	(1,536)
Other expenses		(2,146)	(1,372)	(1,380)	(686)	(684)
Interest expenses	7	<u>(101,668)</u>	<u>(99,126)</u>	<u>(98,474)</u>	<u>(49,078)</u>	<u>(47,014)</u>
LOSS BEFORE TAX	8	(54,835)	(24,353)	(15,236)	(10,461)	(5,009)
Income tax expense	10	<u>(5,230)</u>	<u>(959)</u>	<u>(4,817)</u>	<u>(1,544)</u>	<u>(3,147)</u>
LOSS FOR THE YEAR/PERIOD		<u>(60,065)</u>	<u>(25,312)</u>	<u>(20,053)</u>	<u>(12,005)</u>	<u>(8,156)</u>
Other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		<u>(60,065)</u>	<u>(25,312)</u>	<u>(20,053)</u>	<u>(12,005)</u>	<u>(8,156)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY						
– Basic and diluted	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

APPENDIX IV-A ACCOUNTANTS' REPORT OF CHENGMING COMPANY

Statements of financial position

		As at 31 December			As at
		2016	2017	2018	30 June
	Notes	RMB'000	RMB'000	RMB'000	2019
					RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	12	70,823	63,201	55,563	54,056
Right-of-use assets	13	—	—	—	6,963
Prepaid land lease payments	13	7,271	7,066	6,861	—
Service concession arrangement	14	2,526,809	2,478,923	2,427,276	2,400,283
Total non-current assets		2,604,903	2,549,190	2,489,700	2,461,302
CURRENT ASSETS					
Trade receivable	16	611	8,281	1,886	783
Prepayments, other receivables and other assets	17	769	769	421	8,421
Due from a shareholder	27	55,206	102,779	104,470	—
Cash and cash equivalents	18	11,048	2,024	2,439	117,501
Total current assets		67,634	113,853	109,216	126,705
CURRENT LIABILITIES					
Trade payables	19	10,626	10,271	9,920	9,866
Other payables and accruals	20	14,003	15,158	15,237	21,025
Interest-bearing bank and other borrowings	21	141,257	394,027	376,927	109,157
Total current liabilities		165,886	419,456	402,084	140,048
NET CURRENT LIABILITIES	2.1	(98,252)	(305,603)	(292,868)	(13,343)
TOTAL ASSETS LESS CURRENT LIABILITIES					
		2,506,651	2,243,587	2,196,832	2,447,959
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	21	1,882,141	1,646,698	1,618,447	1,876,217
Deferred income	20	68,093	64,825	61,557	59,923
Deferred tax liabilities	15	68,097	69,056	73,873	77,020
Total non-current liabilities		2,018,331	1,780,579	1,753,877	2,013,160
Net assets		488,320	463,008	442,955	434,799
EQUITY					
Paid-in capital	22	100,000	100,000	100,000	100,000
Reserves	23	388,320	363,008	342,955	334,799
Total equity		488,320	463,008	442,955	434,799

APPENDIX IV-A ACCOUNTANTS' REPORT OF CHENGMING COMPANY

Statements of changes in equity

	Paid-in capital <i>RMB'000</i>	Capital reserve* <i>RMB'000</i>	Accumulated losses* <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2016	100,000	887,700	(439,315)	548,385
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(60,065)</u>	<u>(60,065)</u>
At 31 December 2016 and 1 January 2017	100,000	887,700	(499,380)	488,320
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(25,312)</u>	<u>(25,312)</u>
At 31 December 2017 and 1 January 2018	100,000	887,700*	(524,692)	463,008
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(20,053)</u>	<u>(20,053)</u>
At 31 December 2018 and 1 January 2019	100,000	887,700	(544,745)	442,955
Total comprehensive loss for the period	<u>—</u>	<u>—</u>	<u>(8,156)</u>	<u>(8,156)</u>
At 30 June 2019	<u>100,000</u>	<u>887,700</u>	<u>(552,901)</u>	<u>434,799</u>
At 1 January 2018	100,000	887,700	(524,692)	463,008
Total comprehensive loss for the period	<u>—</u>	<u>—</u>	<u>(12,005)</u>	<u>(12,005)</u>
At 30 June 2018	<u>100,000</u>	<u>887,700</u>	<u>(536,697)</u>	<u>451,003</u>

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

Statements of cash flows

		Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(54,835)	(24,353)	(15,236)	(10,461)	(5,009)
Adjustments for:						
Depreciation	8	7,883	7,874	7,832	3,947	3,781
Amortisation of service concession arrangement	8	41,534	47,886	51,647	25,294	26,993
Amortisation of prepaid land lease payments/depreciation of right-of-use assets	8	205	205	205	103	103
Loss on disposal of items of property, plant and equipment	8	682	–	–	–	–
Interest expenses	7	101,668	99,126	98,474	49,078	47,014
		97,137	130,738	142,922	67,961	72,882
(Increase)/decrease in trade receivable		12,298	(7,670)	6,395	6,244	1,103
(Increase)/decrease in other receivables		5,220	127	427	38	(8,000)
Increase/(decrease) in trade payables		7	(355)	(351)	–	(54)
Decrease in other payables and accruals		(8,023)	(2,426)	(3,340)	(1,377)	(1,522)
Cash generated from operations		106,639	120,414	146,053	72,866	64,409
Interest received from banks		116	106	46	14	66
Net cash flows from operating activities		<u>106,755</u>	<u>120,520</u>	<u>146,099</u>	<u>72,880</u>	<u>64,475</u>

		Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		–	(252)	(194)	–	(2,274)
Proceeds from disposal of items of property, plant and equipment		230	–	–	–	–
Repayment of loans from a shareholder		25,000	208,000	157,500	62,500	104,470
Loans granted to a shareholder		<u>(80,000)</u>	<u>(255,700)</u>	<u>(159,270)</u>	<u>(41,980)</u>	<u>–</u>
Net cash flows from/(used in) investing activities		<u>(54,770)</u>	<u>(47,952)</u>	<u>(1,964)</u>	<u>20,520</u>	<u>102,196</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of bank loans		(112,400)	(141,257)	(126,257)	(40,000)	(10,000)
Proceeds from shareholders' loans		168,600	158,584	80,906	–	–
Interest paid		<u>(106,219)</u>	<u>(98,919)</u>	<u>(98,369)</u>	<u>(49,078)</u>	<u>(41,609)</u>
Net cash flows used in financing activities		<u>(50,019)</u>	<u>(81,592)</u>	<u>(143,720)</u>	<u>(89,078)</u>	<u>(51,609)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
		1,966	(9,024)	415	4,322	115,062
Cash and cash equivalents at beginning of year/period		<u>9,082</u>	<u>11,048</u>	<u>2,024</u>	<u>2,024</u>	<u>2,439</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	18	<u>11,048</u>	<u>2,024</u>	<u>2,439</u>	<u>6,346</u>	<u>117,501</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. Corporate information**

China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (the “**Target Company**”) is a limited liability company established in the People’s Republic of China (the “**PRC**”). The registered office of the Target Company is located at Room 1704, 17/F, Block 1, No. 139 Tianfu 2nd Road, Hi-tech Zone, Chengdu, the PRC.

During the Relevant Periods, the Target Company was involved in the management and operation of Qiongmeng Expressway in Mainland China.

In the opinion of the directors of the Target Company (“**Directors**”), as at the date of this report, the parent company of the Target Company is Chengdu Expressway Construction and Development Co., Ltd. (“**Chengdu Expressway Construction**”), a company established in Chengdu, the PRC. The ultimate controlling shareholder of the Target Company is Chengdu Communications Investment Group Co., Ltd. (“**Chengdu Communications**”), which is wholly owned by the State-owned Assets Supervision and Administration Commission of the People’s Government of Chengdu Municipality of the PRC.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”), which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2018, including IFRS 15 and IFRS 9, together with the relevant transitional provisions, have been early adopted by Target Company in the preparation of the financial statements throughout the years ended 31 December 2016 and 2017. The Target Company had adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

The principle effects of adopting IFRS 16 are as follows:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception, the Target Company assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specific asset, whether the Target Company obtains substantially all the economic benefits from the use of that asset, and whether the Target Company has the right to direct the use of the asset.

As a lessee – Leases previously classified as operating leases***Nature of the effect of adoption of IFRS 16***

The Target Company has various lease contracts for land use rights. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Target Company has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Target Company recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

The Target Company has assessed the effect of the adoption of IFRS 16 on its financial statements and it considered that the adoption did not have a significant impact on its financial position and results of operation other than the following reclassification of certain accounts on the statement of financial position arising from the adoption of IFRS 16 as at 1 January 2019:

	Increase/(decrease) <i>RMB'000</i>
Assets	
Increase in right-of-use assets	7,066
Decrease in prepaid land lease payments	(6,861)
Decrease in prepayments, deposit and other receivables	(205)
Increase in total assets	—
Liabilities	
Increase in lease liabilities	—

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

Going concern basis

During the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019, the Target Company incurred a net loss of RMB60,065,000, RMB25,312,000, RMB20,053,000 and RMB8,156,000, respectively. As at 30 June 2019, the Target Company's current liabilities exceeded its current assets by RMB13,343,000, primarily due to the expenditure incurred on the construction of Qiongmeng Expressway.

In view of the net current liabilities position, the Directors have considered the future liquidity and performance of the Target Company and its available sources of finance in assessing whether the Target Company will have sufficient financial resources to continue as a going concern. Chengdu Expressway Construction and the Company have undertaken to provide adequate financial support to the Target Company to enable it to meet its financial obligations as and when they fall due for a period of not less than twelve months from 22 October 2019, the signing date of the financial support letter. The Directors have reviewed the Target Company's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. Having considered the cash flows from operations and its available resource of finance, the Directors are of the opinion that the Target Company is able to meet in full its financial obligations as they fall due for the foreseeable future and it is appropriate to prepare the Historical Financial Information on a going concern basis.

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

2.2 Issued but not yet effective international financial reporting standards

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

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale of Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

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

3. Summary of significant accounting policies

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Target Company;
 - (ii) has significant influence over the Target Company; or
 - (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Target Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Target Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value of 5% over its estimated useful life. The estimated useful lives of items of property, plant and equipment are as follows:

	Useful lives
Buildings	15-40 years
Security equipment	5-15 years
Supervising equipment and others	5-15 years
Toll collection equipment	5-10 years
Motor vehicles	5-8 years

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

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

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

Service concession arrangement

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

During the construction phase of the arrangement, the operator's contract asset (representing its accumulating right to be paid for providing construction services) is presented as an intangible asset.

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

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

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

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

Particulars of the expressway managed and operated by the Target Company as at 30 June 2019 are as follows:

Name	Origin/ destination	Approximate length (km)	Operation period
Qiongming Expressway	Qionglai City/ Mingshan District	52.68	November 2010- November 2038

Operating leases (policies under IAS 17 applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Company is the lessor, assets leased by the Target Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Target Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Right-of-use assets (policies under IFRS 16 applicable from 1 January 2019)

The Target Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made before the commencement date less any lease incentives received. Unless the Target Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities (policies under IFRS 16 applicable from 1 January 2019)

At the commencement date of the lease, the Target Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Company and payments of penalties for terminating a lease, if the lease term reflects the Target Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets (policies under IFRS 16 applicable from 1 January 2019)

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

Investments and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Target Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

For debt investments at fair value through other comprehensive income, the Target Company applies the low credit risk simplification. At each reporting date, the Target Company evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Target Company reassesses the external credit ratings of the debt investments. In addition, the Target Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Financial liabilities*Initial recognition and measurement*

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

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

The Target Company's financial liabilities include trade payables, other payables and accruals, amounts due to related parties and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Provision of road operation services

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

Other Income

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

Employee benefits

Defined contribution pension scheme

The employees of the Target Company which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Target Company is required to contribute a certain percentage of the relevant part of its payroll costs of these employees to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Supplementary defined contribution pension scheme

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

Housing fund

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

Borrowing costs

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

Dividends

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

4. Significant accounting estimates

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

Estimation uncertainty

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

(a) Impairment of non-financial assets

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

(b) Amortisation of costs of service concession arrangement

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

(c) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised based upon the likely timing and level of future taxable profits together with future tax strategies. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Target Company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. Further details are contained in note 15 to the Historical Financial Information.

(d) Provision for maintenance and resurfacing obligations

Provisions for maintenance and resurfacing of the toll roads are recognised when: the Target Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The expenditures expected to incur in order to settle the obligations are determined based on the frequency of major maintenance and resurfacing activities throughout the operating periods of toll roads operated by the Target Company under the service concessions and the expected costs to be incurred for each event. The expected costs for maintenance and resurfacing and the timing of such events involve estimates. Such estimates are developed based on the Target Company's resurfacing plan and historical costs incurred for similar activities. The costs are then discounted to the present value based on the market rate which can reflect the time value of money and the risks specific to the obligation.

As the expressway of the Target Company meets the obligation to maintain the toll road infrastructure to a specified level of serviceability under the service concessions, there was no provision for maintenance and resurfacing obligations at the end of each of the Relevant Periods.

5. Operating segment information

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

Entity-wide disclosures

Geographical information

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

Information about major customers

During the Relevant Periods and the six months ended 30 June 2018, no revenue derived from a customer accounted for 10% or more of the Target Company's total revenue.

6. Revenue and other income

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue from contracts with customers					
Toll income	128,202	157,080	169,478	79,343	87,453

Toll income is recognised at a point in time when the relevant services have been provided and the Target Company has received the payment or the right to receive payment has been established. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

An analysis of other income is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income					
Bank interest income	116	106	46	14	66
Rental income	3,268	3,268	3,268	1,634	1,634
Miscellaneous	5	4	1	–	2
Other income	3,389	3,378	3,315	1,648	1,702
Total revenue and other income	131,591	160,458	172,793	80,991	89,155

7. Interest expenses

An analysis of interest expenses is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest expense on loans due to related parties	20,908	28,133	34,419	16,587	17,569
Interest expenses on bank loans	80,760	70,993	64,055	32,491	29,445
	<u>101,668</u>	<u>99,126</u>	<u>98,474</u>	<u>49,078</u>	<u>47,014</u>

8. Loss before tax

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

		Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cost of operating services		<u>79,912</u>	<u>82,154</u>	<u>86,205</u>	<u>40,578</u>	<u>44,930</u>
Employee benefit expense (including Directors' remuneration (note 9)):						
Wages, salaries and allowances, social security and benefits		851	841	1,270	730	971
Pension scheme contributions						
– Defined contribution fund		48	83	114	55	34
Other staff benefits		<u>71</u>	<u>111</u>	<u>97</u>	<u>30</u>	<u>68</u>
		<u>970</u>	<u>1,035</u>	<u>1,481</u>	<u>815</u>	<u>1,073</u>
Depreciation	12	7,883	7,874	7,832	3,947	3,781
Amortisation in respect of:						
– service concession arrangement	14	41,534	47,886	51,647	25,294	26,993
– prepaid land lease payments	13	205	205	205	103	–
Depreciation of right-of-use assets	13	–	–	–	–	103
Loss on disposal of items of property, plant and equipment		682	–	–	–	–
Auditor's remuneration		50	40	30	–	–
Minimum lease payments under operating leases of buildings		605	605	–	–	–
Bank Interest income	6	<u>(116)</u>	<u>(106)</u>	<u>(46)</u>	<u>(14)</u>	<u>(66)</u>

9. Directors' and supervisors' remuneration and five highest paid employees

(a) Directors' and supervisors' remuneration

The aggregate amounts of remuneration of directors and supervisors of the Company during the Relevant Periods and the six months ended 30 June 2018 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	—	—	—	—	—
Pension scheme contributions	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The names of the directors and supervisors and their remuneration for the Relevant Periods and the six months ended 30 June 2018 are as follows:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016				
Non-executive directors:				
Mr. Ding Yongquan	—	—	—	—
Mr. Wang Wei	—	—	—	—
Mr. Ma Fumin	—	—	—	—
Mr. Zhao Yu	—	—	—	—
Mr. Song Jiahua	—	—	—	—
Mr. Li Donglin	—	—	—	—
Mr. Zhang Yisong	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Supervisors:				
Mr. Dang Wei	—	—	—	—
Mr. Lu Yonghua	—	—	—	—
Mr. Yang Biao	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2017				
Non-executive directors:				
Mr. Ding Yongquan	—	—	—	—
Mr. Wang Wei	—	—	—	—
Mr. Ma Fumin	—	—	—	—
Mr. Zhao Yu	—	—	—	—
Mr. Song Jiahua	—	—	—	—
Mr. Li Donglin	—	—	—	—
Mr. Zhang Yisong	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Supervisors:				
Mr. Li Jiajun ⁽ⁱ⁾	—	—	—	—
Mr. Dang Wei ⁽ⁱ⁾	—	—	—	—
Mr. Lu Yonghua	—	—	—	—
Mr. Yang Biao	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2018				
Non-executive directors:				
Mr. Zhao Yu ⁽ⁱⁱ⁾	—	—	—	—
Mr. Ding Yongquan ⁽ⁱⁱⁱ⁾	—	—	—	—
Mr. Wang Wei ⁽ⁱⁱⁱ⁾	—	—	—	—
Mr. Ma Fumin	—	—	—	—
Mr. Song Jiahua	—	—	—	—
Mr. Zhang Yisong	—	—	—	—
Mr. Li Donglin ⁽ⁱⁱ⁾	—	—	—	—
Mr. Lin Jingfeng ⁽ⁱⁱ⁾	—	—	—	—
Mr. Mo Yongbiao ⁽ⁱⁱ⁾	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Supervisors:				
Mr. Li Jiajun	—	—	—	—
Mr. Lu Yonghua	—	—	—	—
Mr. Yang Biao	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

APPENDIX IV-A ACCOUNTANTS' REPORT OF CHENGMING COMPANY

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Six months ended 30 June 2018 (unaudited)				
Non-executive directors:				
Mr. Zhao Yu	—	—	—	—
Mr. Ding Yongquan	—	—	—	—
Mr. Wang Wei	—	—	—	—
Mr. Ma Fumin	—	—	—	—
Mr. Song Jiahua	—	—	—	—
Mr. Zhang Yisong	—	—	—	—
Mr. Li Donglin	—	—	—	—
Mr. Lin Jingfeng	—	—	—	—
Mr. Mo Yongbiao	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Supervisors:				
Mr. Li Jiajun	—	—	—	—
Mr. Lu Yonghua	—	—	—	—
Mr. Yang Biao	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Six months ended 30 June 2019				
Non-executive directors:				
Mr. Ma Fumin ^(v)	—	—	—	—
Mr. Song Jiahua ^(v)	—	—	—	—
Mr. Zhang Yisong ^(v)	—	—	—	—
Mr. Lin Jingfeng ^(v)	—	—	—	—
Mr. Mo Yongbiao ^(v)	—	—	—	—
Mr. Wang Gang ^(iv)	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Supervisors:				
Mr. Li Jiajun ^(v)	—	—	—	—
Mr. Lu Yonghua ^(v)	—	—	—	—
Mr. Yang Biao ^(v)	—	—	—	—
Mr. Ou Zhijian ^(iv)	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

- (i) On 22 May 2017, Mr. Li Jiajun was appointed as a supervisor and Mr. Dang Wei resigned as a supervisor of the Target Company.
- (ii) On 21 May 2018, Mr. Lin Jingfeng and Mr. Mo Yongbiao were appointed as directors, Mr. Zhao Yu and Mr. Li Donglin resigned as directors of the Target Company.
- (iii) Mr. Ding Yongquan and Mr. Wang Wei resigned as directors of the Target Company with effect from 30 November 2018.
- (iv) On 23 April 2019, Mr. Ou Zhijian was appointed as a supervisor, and Mr. Wang Gang was appointed as a director of the Target Company.
- (v) Mr. Ma Fumin, Mr. Lin Jingfeng, Mr. Song Jiahua, Mr. Mo Yongbiao and Mr. Zhang Yisong resigned as directors, and Mr. Li Jiajun, Mr. Lu Yonghua and Mr. Yang Biao resigned as supervisors of the Target Company with effect from 23 April 2019.

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2018. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducement to join or upon joining the Target Company or as compensation for loss of office.

(b) Five highest paid employees

During the Relevant Periods and the six months ended 30 June 2018, all the five highest paid employees are non-director and non-supervisor.

Details of the remuneration of the non-director and non-supervisor, five highest paid employees are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	886	854	939	614	1,019
Pension scheme contributions	48	69	77	39	20
	<u>934</u>	<u>923</u>	<u>1,016</u>	<u>653</u>	<u>1,039</u>

The remuneration of each of the above five highest paid non-director and non-supervisor during the Relevant Periods and the six months ended 30 June 2018 was below HK\$1,000,000.

10. Income tax

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the Relevant Periods and the six months ended 30 June 2018.

No tax provision has been made as the Target Company did not generate any taxable income in Mainland China during the Relevant Periods and the six months ended 30 June 2018.

The major components of the income tax expense for the Relevant Periods and the six months ended 30 June 2018 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current – Mainland China charge for the year/period	–	–	–	–	–
Deferred (<i>note 15</i>)	5,230	959	4,817	1,544	3,147
Total tax charge for the year/period	<u>5,230</u>	<u>959</u>	<u>4,817</u>	<u>1,544</u>	<u>3,147</u>

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

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Loss before tax	<u>(54,835)</u>	<u>(24,353)</u>	<u>(15,236)</u>	<u>(10,461)</u>	<u>(5,009)</u>
Notional Income tax charge at the statutory tax rate of 25%	(13,709)	(6,088)	(3,809)	(2,615)	(1,252)
Expenses not deductible for tax	5,243	7,047	8,626	4,159	4,399
Tax losses not recognised	<u>13,696</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Tax charge at the Target Company's effective tax rate	<u>5,230</u>	<u>959</u>	<u>4,817</u>	<u>1,544</u>	<u>3,147</u>

11. Loss per share attributable to ordinary equity holders of the target company

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

12. Property, plant and equipment

	Safety equipment RMB'000	Supervising equipment and others RMB'000	Toll collection equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:					
At 1 January 2016	110,893	899	2,442	7,006	121,240
Disposals	—	—	—	(3,795)	(3,795)
At 31 December 2016 and 1 January 2017	110,893	899	2,442	3,211	117,445
Additions	—	—	—	252	252
At 31 December 2017 and 1 January 2018	110,893	899	2,442	3,463	117,697
Additions	—	64	—	130	194
At 31 December 2018 and 1 January 2019	110,893	963	2,442	3,593	117,891
Additions	—	379	1,895	—	2,274
At 30 June 2019	<u>110,893</u>	<u>1,342</u>	<u>4,337</u>	<u>3,593</u>	<u>120,165</u>
Accumulated depreciation and impairment:					
At 1 January 2016	35,702	668	426	4,826	41,622
Provided during the year	7,023	84	395	381	7,883
Disposals	—	—	—	(2,883)	(2,883)
At 31 December 2016 and 1 January 2017	42,725	752	821	2,324	46,622
Provided during the year	7,023	65	395	391	7,874
At 31 December 2017 and 1 January 2018	49,748	817	1,216	2,715	54,496
Provided during the year	7,023	39	395	375	7,832
At 31 December 2018 and 1 January 2019	56,771	856	1,611	3,090	62,328
Provided during the period	3,512	48	198	23	3,781
At 30 June 2019	<u>60,283</u>	<u>904</u>	<u>1,809</u>	<u>3,113</u>	<u>66,109</u>

	Safety equipment <i>RMB'000</i>	Supervising equipment and others <i>RMB'000</i>	Toll collection equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Net carrying amount:					
At 1 January 2016	<u>75,191</u>	<u>231</u>	<u>2,016</u>	<u>2,180</u>	<u>79,618</u>
At 31 December 2016	<u>68,168</u>	<u>147</u>	<u>1,621</u>	<u>887</u>	<u>70,823</u>
At 31 December 2017	<u>61,145</u>	<u>82</u>	<u>1,226</u>	<u>748</u>	<u>63,201</u>
At 31 December 2018	<u>54,122</u>	<u>107</u>	<u>831</u>	<u>503</u>	<u>55,563</u>
At 30 June 2019	<u>50,610</u>	<u>438</u>	<u>2,528</u>	<u>480</u>	<u>54,056</u>

13. Prepaid land lease payments and right-of-use assets

	Prepaid land lease payments As at 31 December			Right-of-use assets As at 30 June
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount at beginning of the year/period*	7,681	7,476	7,271	—
Effect of adoption of IFRS 16	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,066</u>
Carrying amount at beginning of the year/period (restated)*	7,681	7,476	7,271	7,066
Depreciation/amortisation charged for the year/period (<i>note 8</i>)	<u>(205)</u>	<u>(205)</u>	<u>(205)</u>	<u>(103)</u>
Carrying amount at end of the year/period	7,476	7,271	7,066	6,963
Portion classified as current assets (<i>note 17</i>)	<u>(205)</u>	<u>(205)</u>	<u>(205)</u>	<u>—</u>
At end of the year/period	<u>7,271</u>	<u>7,066</u>	<u>6,861</u>	<u>6,963</u>

* The Target Company has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Accordingly, the Target Company reclassified prepaid land lease payments of RMB7,066,000 to right-of-use assets as at 1 January 2019.

14. Service concession arrangement

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:				
At beginning and end of the year/period	<u>2,704,806</u>	<u>2,704,806</u>	<u>2,704,806</u>	<u>2,704,806</u>
Accumulated amortisation:				
At beginning of the year/period	136,463	177,997	225,883	277,530
Charged for the year/period	<u>41,534</u>	<u>47,886</u>	<u>51,647</u>	<u>26,993</u>
At end of the year/period	<u>177,997</u>	<u>225,883</u>	<u>277,530</u>	<u>304,523</u>
Net carrying amount:				
At beginning of the year/period	<u>2,568,343</u>	<u>2,526,809</u>	<u>2,478,923</u>	<u>2,427,276</u>
At end of the year/period	<u>2,526,809</u>	<u>2,478,923</u>	<u>2,427,276</u>	<u>2,400,283</u>

Qiongming Expressway operating right was granted by the service concession grantors of Qionglai and Ya'an People's Government for a period of 28 years. During the expressway concessionary period, the Target Company has the right of operation and management of Qiongming Expressway and the toll-collection right thereof. The Target Company is required to manage and operate the expressway in accordance with the regulations promulgated by the Ministry of Communication and relevant government authorities. Upon the end of the concession service period, the toll expressway will be returned to the grantors at nil consideration.

The concession right pertaining to Qiongming Expressway was pledged to secure bank loans granted to the Target Company (note 21).

15. Deferred tax assets/liabilities

Gross deferred tax assets

	Deductible tax losses RMB'000	Deferred income RMB'000	Total RMB'000
At 31 December 2015 and 1 January 2016	8,937	18,657	27,594
Deferred tax credited/(charged) to loss during the year (<i>note 10</i>)	<u>9,362</u>	<u>(817)</u>	<u>8,545</u>
At 31 December 2016 and 1 January 2017	18,299	17,840	36,139
Deferred tax credited/(charged) to loss during the year (<i>note 10</i>)	<u>12,045</u>	<u>(817)</u>	<u>11,228</u>
At 31 December 2017 and 1 January 2018	30,344	17,023	47,367
Deferred tax credited/(charged) to loss during the year (<i>note 10</i>)	<u>7,247</u>	<u>(817)</u>	<u>6,430</u>
At 31 December 2018 and 1 January 2019	37,591	16,206	53,797
Deferred tax credited/(charged) to loss during the period (<i>note 10</i>)	<u>2,593</u>	<u>(408)</u>	<u>2,185</u>
At 30 June 2019	<u><u>40,184</u></u>	<u><u>15,798</u></u>	<u><u>55,982</u></u>

The Group has tax losses arising in Mainland China of RMB516,739,000, RMB440,535,000, RMB290,419,000 and RMB221,517,000 as at 31 December 2016, 2017, 2018 and 30 June 2019 that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Gross deferred tax liabilities

	Amortisation tax allowance in excess of related accounting amortisation RMB'000
At 31 December 2015 and 1 January 2016	90,461
Deferred tax charged to loss during the year (<i>note 10</i>)	<u>13,775</u>
At 31 December 2016 and 1 January 2017	104,236
Deferred tax charged to loss during the year (<i>note 10</i>)	<u>12,187</u>
At 31 December 2017 and 1 January 2018	116,423
Deferred tax charged to loss during the year (<i>note 10</i>)	<u>11,247</u>
At 31 December 2018 and 1 January 2019	127,670
Deferred tax charged to loss during the period (<i>note 10</i>)	<u>5,332</u>
At 30 June 2019	<u><u>133,002</u></u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statements of financial position. The following is an analysis of the deferred tax balances of the Target Company for reporting purposes:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gross deferred tax assets	36,139	47,367	53,797	55,982
Gross deferred tax liabilities	<u>104,236</u>	<u>116,423</u>	<u>127,670</u>	<u>133,002</u>
Net deferred tax liabilities	<u><u>68,097</u></u>	<u><u>69,056</u></u>	<u><u>73,873</u></u>	<u><u>77,020</u></u>

16. Trade receivable

At the end of each of the Relevant Periods, trade receivable represents receivable from the Inter-network Toll Collection and Electronic Toll Collection in respect of toll income receivable from the settlement centre of Sichuan Province.

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Gross receivable	611	8,281	1,886	783
Impairment allowance	—	—	—	—
	<u>611</u>	<u>8,281</u>	<u>1,886</u>	<u>783</u>

Trade receivable is normally settled within one month. The Target Company seeks to maintain strict control over the outstanding receivable to minimise credit risk. Trade receivable are non-interest-bearing.

The trade receivable as at the end of each of the Relevant Periods are all within three months and they are neither past due nor impaired.

The Target Company does not hold any collateral or other credit enhancements over these balances.

17. Prepayments, other receivables and other assets

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Prepaid land lease payments, current portion (<i>note 13</i>)	205	205	205	—
Other receivable from a former shareholder ^(a)	—	—	—	8,189
Others	<u>564</u>	<u>564</u>	<u>216</u>	<u>232</u>
	769	769	421	8,421
Impairment allowance	—	—	—	—
	<u>769</u>	<u>769</u>	<u>421</u>	<u>8,421</u>

Note:

- (a) The balance as at 30 June 2019 represents the receivable from a former shareholder for settle of certain construction payables which had been fully refunded in September 2019.

At the end of each of the Relevant Periods, none of the above assets is either past due nor impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

18. Cash and cash equivalents

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Cash and bank balances	<u>11,048</u>	<u>2,024</u>	<u>2,439</u>	<u>117,501</u>

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

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

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

19. Trade payables

An ageing analysis of trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within 3 months	77	107	72	–
3 to 6 months	128	124	–	–
6 to 12 months	223	80	–	149
Over 1 year	10,198	9,960	9,848	9,717
	<u>10,626</u>	<u>10,271</u>	<u>9,920</u>	<u>9,866</u>
<i>Trade payables included:</i>				
Retention monies	450	481	491	471
Trade payables to related parties	<u>1,886</u>	<u>1,837</u>	<u>2,073</u>	<u>–</u>

Trade payables are non-interest-bearing. Except for retention money payables arising from construction which are normally settled between six-months and one-year, credit periods granted by each individual supplier or contractor are on a case-by-case basis and set out in the respective contracts.

20. Other payables and accruals and deferred income

		As at 31 December			As at
		2016	2017	2018	30 June
	Notes	RMB'000	RMB'000	RMB'000	2019
					RMB'000
<i>Current portion</i>					
Payroll and welfare payables		–	25	51	44
Deferred income	(a)	3,268	3,268	3,268	3,268
Taxes and surcharge payables		821	967	489	544
Interest payables	27(c)	693	900	1,005	6,410
Other payable to a related party	27(c)	263	1,057	1,176	–
Other payables	(b)	6,833	6,833	6,833	6,833
Others		2,125	2,108	2,415	3,926
		<u>14,003</u>	<u>15,158</u>	<u>15,237</u>	<u>21,025</u>
<i>Non-current portion</i>					
Deferred income	(a)	<u>68,093</u>	<u>64,825</u>	<u>61,557</u>	<u>59,923</u>
		<u>82,096</u>	<u>79,983</u>	<u>76,794</u>	<u>80,948</u>

Notes:

- (a) The balance represented leasing income received in advance for leasing the Target Company's land along the Qiongmíng Expressway. Deferred income of the Target Company to be released to profit or loss after twelve months from the end of each of the Relevant Periods has been recorded as a non-current liability.
- (b) The balance represented the amount of a land use right paid by the third party on behalf of the Target Company.

21. Interest-bearing bank and other borrowings

		2016			As at 31 December 2017			2018			As at 30 June 2019		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
		Notes											
Current:													
Bank loans:													
Secured and guaranteed	(a)	4.41-4.90	2017	81,257	4.41-4.90	2018	81,257	4.41-4.90	2019	94,157	4.41-4.90	2019-2020	109,157
Guaranteed	(b)	4.41-4.90	2017	45,000	4.41-4.90	2018	30,000						-
Secured	(c)	4.90	2017	15,000	4.90	2018	15,000	4.90	2019	15,000			-
				<u>141,257</u>			<u>126,257</u>			<u>109,157</u>			<u>109,157</u>
Other borrowings:													
Unsecured	(d)			-	4.75	2018	267,770	4.75	on demand	267,770			-
Total current interest-bearing bank and other borrowings													
				<u>141,257</u>			<u>394,027</u>			<u>376,927</u>			<u>109,157</u>
Non-current:													
Bank loans:													
Secured and guaranteed	(a)	4.41-4.90	2018-2027	852,571	4.41-4.90	2019-2027	771,314	4.41-4.90	2020-2027	997,157	4.41-4.90	2021-2027	1,104,157
Guaranteed	(b)	4.41-4.90	2018-2027	350,000	4.41-4.90	2019-2027	320,000			-			-
Secured	(c)	4.90	2018-2025	147,000	4.90	2019-2025	132,000	4.90	2020-2025	117,000			-
				<u>1,349,571</u>			<u>1,223,314</u>			<u>1,114,157</u>			<u>1,104,157</u>
Other borrowings:													
Unsecured	(d)	4.75	2018-2021	532,570	4.75	2020-2022	423,384	4.75	2020-2022	504,290	4.90	2024	772,060
Total non-current interest-bearing bank and other borrowings													
				<u>1,882,141</u>			<u>1,646,698</u>			<u>1,618,447</u>			<u>1,876,217</u>
				<u>2,023,398</u>			<u>2,040,725</u>			<u>1,995,374</u>			<u>1,985,374</u>

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Analysed into:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
Within one year	141,257	126,257	109,157	109,157
In the second year	126,257	109,157	69,657	69,657
In the third to fifth years, inclusive	302,814	317,657	452,000	492,000
Beyond five years	<u>920,500</u>	<u>796,500</u>	<u>592,500</u>	<u>542,500</u>
Total bank loans	<u>1,490,828</u>	<u>1,349,571</u>	<u>1,223,314</u>	<u>1,213,314</u>
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Other borrowings repayable:				
Within one year	–	267,770	267,770	–
In the second year	267,770	–	126,200	–
In the third to fifth years, inclusive	<u>264,800</u>	<u>423,384</u>	<u>378,090</u>	<u>772,060</u>
Total other borrowings (note 27(c))	<u>532,570</u>	<u>691,154</u>	<u>772,060</u>	<u>772,060</u>
	<u>2,023,398</u>	<u>2,040,725</u>	<u>1,995,374</u>	<u>1,985,374</u>
Portion classified as current liabilities	<u>141,257</u>	<u>394,027</u>	<u>376,927</u>	<u>109,157</u>
Non-current portion	<u>1,882,141</u>	<u>1,646,698</u>	<u>1,618,447</u>	<u>1,876,217</u>

Notes:

- (a) The bank loans of approximately RMB933,828,000, RMB852,571,000, RMB1,091,314,000 and RMB1,213,314,000 were secured by the service concession right of Qiongmeng Expressway (note 14) as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. In addition to the pledge of the service concession right of Qiongmeng Expressway, the bank loans of approximately RMB933,828,000, RMB852,571,000 and RMB1,091,314,000 as at 31 December 2016, 2017 and 2018, respectively, were also guaranteed by Sinohydro Group Ltd. at nil consideration (note 27). The bank loan of approximately RMB1,213,314,000 as at 30 June 2019 was guaranteed by Chengdu Communications at nil consideration (note 27).
- (b) The bank loans of approximately RMB395,000,000 and RMB350,000,000 as at 31 December 2016 and 2017, respectively, were guaranteed by Sinohydro Group Ltd. at nil consideration (note 27).

- (c) The bank loans of approximately RMB162,000,000, RMB147,000,000, RMB132,000,000 were solely secured by the service concession right of Qiongming Expressway (note 14) as at 31 December 2016, 2017 and 2018, respectively.
- (d) Interest-bearing other borrowings represented interest-bearing loans received from the shareholders of the Target Company at the end of each of the Relevant Periods (note 27(c)).

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

22. Paid-in capital

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Paid-in capital	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

23. Reserves

The amounts of the Target Company's reserves and the movements therein for the Relevant Periods and the six months ended 30 June 2018 are presented in the statements of changes in equity.

The amounts of the Target Company's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity of the financial statements.

(a) Capital reserve

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

(b) Statutory reserve

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

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

24. Notes to the statement of cash flows

(a) Major non-cash transaction

On 26 April 2019, Chengdu Expressway Construction had made repayment of loans to PowerChina, Sinohydro No.5, Sinohydro No.7, Sinohydro No.14 aggregating to RMB772,060,000 on behalf of the Target Company.

(b) Changes in liabilities arising from financing activities

	Bank loans <i>RMB'000</i>	Other borrowings <i>RMB'000</i>	Interest payable <i>RMB'000</i>
At 1 January 2016	1,603,228	363,970	5,244
Changes from financing cash flows	(112,400)	168,600	(106,219)
Interest expenses	—	—	101,668
At 31 December 2016 and 1 January 2017	1,490,828	532,570	693
Changes from financing cash flows	(141,257)	158,584	(98,919)
Interest expenses	—	—	99,126
At 31 December 2017 and 1 January 2018	1,349,571	691,154	900
Changes from financing cash flows	(126,257)	80,906	(98,369)
Interest expenses	—	—	98,474
At 31 December 2018 and 1 January 2019	1,223,314	772,060	1,005
Changes from financing cash flows	(10,000)	—	(41,609)
Interest expenses	—	—	47,014
At 30 June 2019	<u>1,213,314</u>	<u>772,060</u>	<u>6,410</u>
At 1 January 2018	1,349,571	691,154	900
Changes from financing cash flows	(40,000)	—	(49,078)
Interest expenses	—	—	49,078
At 30 June 2018 (unaudited)	<u>1,309,571</u>	<u>691,154</u>	<u>900</u>

25. Contingent liabilities

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

26. Commitments

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

27. Related party transactions and balances

The Directors are of the view that the following companies are related parties that had material transactions or balances with the Target Company during the Relevant Periods and 30 June 2018.

(a) Name and relationships with related parties

Related parties	Relationships
Chengdu Communications ⁽ⁱ⁾	Ultimate holding company
Chengdu Expressway Construction ⁽ⁱ⁾	Parent company
Sinohydro Bureau No. 5 Co., Ltd. (“ Sinohydro No. 5 ”) ⁽ⁱⁱ⁾	Former shareholder
Sinohydro Bureau No. 7 Co., Ltd. (“ Sinohydro No. 7 ”) ⁽ⁱⁱ⁾	Former shareholder
Sinohydro Bureau No. 14 Co., Ltd. (“ Sinohydro No. 14 ”) ⁽ⁱⁱ⁾	Former shareholder
PowerChina Roadbridge Group Co., Ltd. (“ PowerChina Roadbridge ”) ⁽ⁱⁱ⁾	Former shareholder
Power Construction Corporation of China (“ PowerChina ”) ⁽ⁱⁱ⁾	Former ultimate holding company
Sinohydro Group Ltd. ⁽ⁱⁱ⁾	A company controlled by PowerChina
PowerChina Expressway Operation Management Co., Ltd. (“ PowerChina Management ”) ⁽ⁱⁱ⁾	A company controlled by Sinohydro No. 5
Sinohydro Bureau No.10 Co., Ltd. (“ Sinohydro No.10 ”) ⁽ⁱⁱ⁾	A company indirectly controlled by PowerChina

Notes:

- (i) Chengdu Expressway Construction and Chengdu Communications became the related parties of the Target Company when Chengdu Expressway Construction acquired the entire equity interests in the Target Company on 7 May 2019.
- (ii) Upon the completion of the transfer of the 100% equity interest in the Target Company to Chengdu Expressway Construction as disclosed in (i) above, these companies ceased to be the related parties of the Target Company.

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

(b) Transactions with related parties

(1) Details of interest-bearing loans received from the shareholders of the Target Company

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Received of loans from					
– PowerChina Roadbridge	97,020	124,761	42,882	–	–
– Sinohydro No. 5	33,860	8,000	15,949	–	–
– Sinohydro No. 7	23,860	17,823	6,126	–	–
– Sinohydro No. 14	13,860	8,000	15,949	–	–
	<u>168,600</u>	<u>158,584</u>	<u>80,906</u>	<u>–</u>	<u>–</u>

In addition to the above, during the six months ended 30 June 2019, Chengdu Expressway Construction had made repayment of loans to PowerChina, Sinohydro No.5, Sinohydro No.7 and Sinohydro No.14 aggregating to RMB772,060,000 on behalf of the Target Company.

(2) Details of interest-free loans provided to/(repayment of loans from) PowerChina Roadbridge

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Provision of loans	80,000	255,700	159,270	41,980	–
Repayment of loans	<u>(25,000)</u>	<u>(208,000)</u>	<u>(157,500)</u>	<u>(62,500)</u>	<u>(104,470)</u>

(3) *Interest expenses*

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
PowerChina Roadbridge	14,995	20,138	24,793	11,948	7,811
Sinohydro No. 5	1,943	2,600	3,076	1,471	1,116
Sinohydro No. 7	1,862	2,627	3,487	1,697	1,116
Sinohydro No. 14	2,108	2,768	3,063	1,471	1,116
Chengdu Expressway Company	—	—	—	—	6,410
	<u>20,908</u>	<u>28,133</u>	<u>34,419</u>	<u>16,587</u>	<u>17,569</u>

The interest rate was 4.75% per annum during the years ended 31 December 2016, 2017 and 2018 and ranged from 4.75% to 4.9% during the six months ended 30 June 2019 for loans received from the respective shareholders.

(4) *Office property leased from a related party*

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
PowerChina Roadbridge	<u>605</u>	<u>605</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Directors consider that the office rental paid by the Target Company to PowerChina Roadbridge as determined under the tenancy agreement are based on market rates for similar locations.

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(5) *Bank loans guarantees provided by related parties (note 21)*

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sinohydro Group Ltd.	1,328,828	1,202,571	1,091,314	1,167,571	–
Chengdu Communications	–	–	–	–	1,213,314

The bank loans were guaranteed by related parties for nil consideration.

(6) *Operation management and other services from related parties*

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
PowerChina Management	20,136	20,444	22,246	11,015	7,343
Sinohydro No.10	–	–	440	440	–

The Directors consider that operation management and other services expenses paid by the Target Company to PowerChina Management and Sinohydro No. 10 were determined as agreed by parties entered into the management and services agreements.

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(c) Balances with related parties

		As at 31 December			As at
		2016	2017	2018	30 June
	Notes	RMB'000	RMB'000	RMB'000	2019
					RMB'000
Due from a shareholder					
PowerChina Roadbridge					
– Principal of loans granted	(i)	55,000	102,700	104,470	–
– Other receivable		206	79	–	–
		<u>55,206</u>	<u>102,779</u>	<u>104,470</u>	<u>–</u>
Due to related parties					
Principal of borrowings received:					
Chengdu Expressway Construction	(ii)	–	–	–	772,060
PowerChina Roadbridge	(iii)	372,799	497,560	540,442	–
Sinohydro No. 5	(iii)	53,257	61,257	77,206	–
Sinohydro No. 7	(iii)	53,257	71,080	77,206	–
Sinohydro No. 14	(iii)	53,257	61,257	77,206	–
Total other borrowings	21	<u>532,570</u>	<u>691,154</u>	<u>772,060</u>	<u>772,060</u>
Interest payables					
Chengdu Expressway Construction		–	–	–	6,410
PowerChina Roadbridge		486	647	705	–
Sinohydro No. 5		69	80	100	–
Sinohydro No. 7		69	93	100	–
Sinohydro No. 14		69	80	100	–
Total interest payables	20	<u>693</u>	<u>900</u>	<u>1,005</u>	<u>6,410</u>
Other payable					
PowerChina Roadbridge	20	<u>263</u>	<u>1,057</u>	<u>1,176</u>	<u>–</u>
Trade payables					
PowerChina Management		1,886	1,837	2,051	–
Sinohydro No. 10		–	–	22	–
		<u>1,886</u>	<u>1,837</u>	<u>2,073</u>	<u>–</u>

Notes:

- (i) The balance represented interest-free loans granted to PowerChina Roadbridge. The loans were unsecured and with no fixed terms of repayment.
- (ii) The loan from Chengdu Expressway Construction is unsecured, with repayment term of five-years and bear annual interest at a fixed rate of 4.90% per annum during six months ended 30 June 2019.
- (iii) These loans are unsecured, with repayment terms of three to five years and bear annual interest at a fixed rate of 4.75% per annum during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

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

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fee	–	–	–	–	–
Salaries, allowances and benefits in kind	–	91	428	146	329
Pension scheme contributions	–	14	37	16	14
	<u>–</u>	<u>105</u>	<u>465</u>	<u>162</u>	<u>343</u>

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

28. Financial instruments by category

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

Financial assets

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost				
Trade receivable	611	8,281	1,886	783
Financial assets included in prepayments, other receivables and other assets	564	564	216	8,421
Due from a shareholder	55,206	102,779	104,470	–
Cash and cash equivalents	11,048	2,024	2,439	117,501
	<u>67,429</u>	<u>113,648</u>	<u>109,011</u>	<u>126,705</u>

Financial liabilities

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at amortised cost				
Trade payables	10,626	10,271	9,920	9,866
Financial liabilities included in other payables and accruals	9,914	10,898	11,429	17,169
Interest-bearing bank and other borrowings	2,023,398	2,040,725	1,995,374	1,985,374
	<u>2,043,938</u>	<u>2,061,894</u>	<u>2,016,723</u>	<u>2,012,409</u>

29. Fair value and fair value hierarchy of financial instruments

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

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amounts				
Financial liabilities				
Interest-bearing bank and other borrowings, non-current portion	<u>1,882,141</u>	<u>1,646,698</u>	<u>1,618,447</u>	<u>1,876,217</u>
Fair values				
Financial liabilities				
Interest-bearing bank and other borrowings, non-current portion	<u>1,780,311</u>	<u>1,561,661</u>	<u>1,533,141</u>	<u>1,770,569</u>

Management has assessed that the fair values of cash and cash equivalents, trade receivable, trade payables, the financial assets included in prepayments, other receivables and other assets, the current portion of financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

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

Fair value hierarchy

The fair value measurement hierarchy of the Target Company's non-current portion of financial liabilities for which fair values are disclosed is considered to be Level 3, which required significant unobservable inputs as at 31 December 2016, 2017 and 2018 and 30 June 2019.

30. Financial risk management objectives and policies

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

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

Interest rate risk

The interest rates and terms of repayment of interest-bearing bank and other borrowings are disclosed in note 21. The Target Company does not have any significant exposure to the risk of changes in market interest rates as the Target Company does not have any long term receivables and loans which are subject to floating interest rates.

Credit risk

The carrying amounts of cash and cash equivalents, trade receivable and financial assets included in prepayments, other receivables and other assets represent the Target Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Target Company's cash and cash equivalents are held in major financial institutions located in Mainland China, which management believes are of high credit quality. The Target Company controls the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the credit exposure to a single financial institution to an acceptable level.

(i) Credit risk of cash and cash equivalents

To manage the credit risk arising from cash and cash equivalents, cash and cash equivalents are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(ii) Credit risk of trade receivable

The Target Company believes that the trade receivable is reliable and of high credit quality, and hence, there is no significant credit risk with the trade receivable. The Directors consider that the expected credit risk of the trade receivable is minimal in view of the history of cooperation with the trade receivable.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from trade receivable are disclosed in note 16 to the Historical Financial Information.

(iii) Credit risk of other receivables and amount due from a shareholder

The Directors consider the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis during the Relevant Periods. To assess whether there is a significant increase in credit risk, the Target Company compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- Actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the third party;
- Significant changes in the expected performance and behaviour of the third party, including changes in the payment status of the third party.

For other receivables, the Directors make periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Directors believe that there is no material credit risk inherent in the Target Company's outstanding balance of other receivables. The amount due from a shareholder is considered to have low credit risk as it has a low risk of default and the counterparty has strong capability to meet its contractual cash flow obligations in the near term. Therefore, the expected credit loss is estimated to be minimal.

Based on historical experience, majority of the other receivables and amount due from a shareholder were settled on time, and hence, the expected credit loss is close to zero.

The Target Company reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Target Company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Target Company considers historical loss rates for each category of debtors, and adjusts for forward-looking macroeconomic data.

No significant changes to estimation techniques or assumptions were made during the Relevant Periods.

Liquidity risk

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

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

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

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

	As at 31 December 2016					Total RMB'000
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	–	23,787	213,294	1,228,290	1,055,275	2,520,646
Trade payables	10,626	–	–	–	–	10,626
Other payables and accruals	9,914	–	–	–	–	9,914
	<u>20,540</u>	<u>23,787</u>	<u>213,294</u>	<u>1,228,290</u>	<u>1,055,275</u>	<u>2,541,186</u>
	As at 31 December 2017					Total RMB'000
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	–	23,995	457,457	1,107,611	887,906	2,476,969
Trade payables	10,271	–	–	–	–	10,271
Other payables and accruals	10,898	–	–	–	–	10,898
	<u>21,169</u>	<u>23,995</u>	<u>457,457</u>	<u>1,107,611</u>	<u>887,906</u>	<u>2,498,138</u>

	As at 31 December 2018					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	267,770	20,231	170,834	1,255,243	647,692	2,361,770
Trade payables	9,920	–	–	–	–	9,920
Other payables and accruals	11,429	–	–	–	–	11,429
	<u>289,119</u>	<u>20,231</u>	<u>170,834</u>	<u>1,255,243</u>	<u>647,692</u>	<u>2,383,119</u>

	As at 30 June 2019					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	–	24,364	178,966	1,650,493	583,740	2,437,563
Trade payables	9,866	–	–	–	–	9,866
Other payables and accruals	17,169	–	–	–	–	17,169
	<u>27,035</u>	<u>24,364</u>	<u>178,966</u>	<u>1,650,493</u>	<u>583,740</u>	<u>2,464,598</u>

Capital management

The Target Company's objectives for capital management are to safeguard the Target Company's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services and products commensurately with the level of risk.

The Target Company sets the amount of capital in proportion to risk. The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Target Company monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt comprises trade payables, interest-bearing bank and other borrowings, and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Target Company.

The Target Company's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the target Company include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Target Company has a reasonable level of capital to support its businesses. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	10,626	10,271	9,920	9,866
Other payables and accruals	14,003	15,158	15,237	21,025
Interest-bearing bank and other borrowings	2,023,398	2,040,725	1,995,374	1,985,374
Less: Cash and cash equivalents	(11,048)	(2,024)	(2,439)	(117,501)
Net debt	2,036,979	2,064,130	2,018,092	1,898,764
Total equity	488,320	463,008	442,955	434,799
Capital and net debt	<u>2,525,299</u>	<u>2,527,138</u>	<u>2,461,047</u>	<u>2,333,563</u>
Gearing ratio	<u>81%</u>	<u>82%</u>	<u>82%</u>	<u>81%</u>

31. Events after the relevant periods

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

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS OF CHENGMING COMPANY FOR THE THREE YEARS ENDED 31 DECEMBER 2018 AND THE SIX MONTHS ENDED 30 JUNE 2019**Revenue**

For the three years ended 31 December 2018, the traffic volume and toll income of Chengming Company were constantly on the rise. According to the Traffic Study Report, the Annual Average Daily Traffic of Chengming Company from 2016 to 2018 was 10,666, 12,345 and 13,340, respectively, with an average annual growth rate of 11.8%; and according to the accountants' report, the toll income was RMB128,202,000, RMB157,080,000 and RMB169,478,000, respectively, with an average annual growth rate of 15.0%.

For the six months ended 30 June 2019, toll income of Chengming Company was RMB87,453,000, an increase of 10.2% from RMB79,343,000 (unaudited) for the same period of last year.

Cost of sales and administrative expenses

For the three years ended 31 December 2018, the cost of sales and administrative expenses of Chengming Company were RMB82,612,000, RMB84,313,000 and RMB88,175,000, respectively, with an average annual growth rate of 3.3%.

For the six months ended 30 June 2019, cost of sales and administrative expenses of Chengming Company were RMB46,466,000, an increase of 11.5% from RMB41,688,000 (unaudited) for the same period of last year. The reason for the significant increase as compared to the previous years was the provision of certain bonus in employee remuneration.

Gross profit and gross profit margin

For the three years ended 31 December 2018, the gross profit from operating activities of Chengming Company was RMB48,290,000, RMB74,926,000 and RMB83,273,000, respectively, with an average annual growth rate of 31.3% and gross profit margin being 37.7%, 47.7% and 49.1%, respectively.

For the six months ended 30 June 2019, the gross profit from operating activities of Chengming Company was RMB42,523,000, an increase of 9.7% from RMB38,765,000 for the corresponding period of last year with corresponding gross profit margin being 48.9% and 48.6%, respectively.

Total comprehensive loss for the year/period

For the three years ended 31 December 2018 and the six months ended 30 June 2019, Chengming Company was loss-making. In particular, total losses of RMB60,065,000, RMB25,312,000 and RMB20,053,000, respectively were recorded from 2016 to 2018 and total loss of RMB8,156,000 was recorded for the six months ended 30 June 2019. The primary reason for the loss is that Chengming Company bore a relatively high interest expense on borrowings (interest expense of RMB101,668,000, RMB99,126,000 and RMB98,474,000, respectively from 2016 to 2018 and RMB47,014,000 for the six months ended 30 June 2019). With the increase in traffic volume and operating income, Chengming Company is narrowing its loss year by year.

Overall situation of assets and liabilities

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the total assets of Chengming Company were RMB2,672,537,000, RMB2,663,043,000, RMB2,598,916,000 and RMB2,588,007,000, respectively, which mainly represent the service concession right of Qiongming Expressway, accounting for 94.5%, 93.1%, 93.4% and 92.7% of the total assets, respectively. Cash and cash equivalents accounted for 0.4%, 0.1%, 0.1% and 4.5% of the total assets, respectively.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the total liabilities of Chengming Company were RMB2,184,217,000, RMB2,200,035,000, RMB2,155,961,000 and RMB2,153,208,000, respectively and the gearing ratio (total liabilities divided by total assets) was 81.7%, 82.6%, 83.0% and 83.2%, respectively.

Borrowings and solvency

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the interest-bearing borrowings of Chengming Company were RMB2,023,398,000, RMB2,040,725,000, RMB1,995,374,000 and RMB1,985,374,000, respectively, of which bank borrowings were RMB1,490,828,000, RMB1,349,571,000, RMB1,223,314,000 and RMB1,213,314,000, respectively, accounting for 73.7%, 66.1%, 61.3% and 61.1% of the total borrowings, respectively. The rest are other borrowings. Among the above borrowings, the interest rate for bank borrowings ranges from 4.41% to 4.9%, while the interest rate for other borrowings is fixed at 4.75%.

For the three years ended 31 December 2018 and the six months ended 30 June 2019, the total interest expenses of Chengming Company were RMB101,688,000, RMB99,126,000, RMB98,474,000 and RMB47,014,000, respectively. Earnings before interest and tax were RMB46,833,000, RMB74,773,000, RMB83,238,000 and RMB42,005,000, respectively, so the interest cover (earnings before interest and tax divided by interest expenses) was 0.46, 0.75, 0.85 and 0.89, respectively.

Liquidity and financial resources

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the current assets of Chengming Company were RMB67,634,000, RMB113,853,000, RMB109,216,000 and RMB126,705,000, respectively, of which cash and cash equivalents were RMB11,048,000, RMB2,024,000, RMB2,439,000 and RMB117,501,000, respectively, accounting for 16.3%, 1.8%, 2.2% and 92.7% of current assets, respectively; trade receivables were RMB611,000, RMB8,281,000, RMB1,886,000 and RMB783,000, respectively, accounting for 0.9%, 7.3%, 1.7% and 0.6% of current assets, respectively; and prepayments, other receivables and other assets were RMB769,000, RMB769,000, RMB421,000 and RMB8,421,000, respectively, accounting for 1.1%, 0.7%, 0.4% and 6.6% of current assets, respectively.

During the above-mentioned periods, the current ratios (current assets divided by current liabilities) of Chengming Company were 40.8%, 27.1%, 27.2% and 90.5%, respectively.

Interest rate risk

Chengming Company does not have any significant exposure to the risk of changes in market interest rates as Chengming Company does not have any long-term receivables and loans which are subject to floating interest rates.

Material investments, significant acquisitions and disposals

For the three years ended 31 December 2018 and the six months ended 30 June 2019, Chengming Company did not conduct any significant acquisitions or disposals of subsidiaries, associates or joint ventures and did not hold any material investments.

Pledge of assets

In order to obtain interest-bearing bank borrowings, Chengming Company has pledged the service concession rights of Qiongming Expressway held by it. For the three years ended 31 December 2018 and the six months ended 30 June 2019, the net carrying value of the service concession rights of Chengming Company were RMB2,526,809,000, RMB2,478,923,000, RMB2,427,276,000 and RMB2,400,283,000, respectively and bank loans of approximately RMB933,828,000, RMB852,571,000, RMB1,091,314,000 and RMB1,213,314,000, respectively were secured by the service concession rights of Qiongming Expressway.

Foreign exchange risk

The main business of Chengming Company is located in the PRC, and the transactions are settled in Renminbi. Therefore, there is no foreign exchange risk.

Contingent liabilities

As of 31 December 2016, 2017 and 2018 and 30 June 2019, Chengming Company did not have any significant contingent liabilities.

Employee and remuneration policy

For the three years ended 31 December 2018 and the six months ended 30 June 2019, the total number of employees of Chengming Company was 9, 9, 9 and 10, respectively. Staff remuneration is determined according to the nature of work and market conditions. Other employee benefits include retirement plans, basic medical insurance, work injury insurance and unemployment insurance in accordance with the relevant regulations and rules promulgated by the government.

Chengming Company currently entrusts the operation and management of Qiongmeng Expressway to Powerchina Expressway Operation Management Co., Ltd. (“**Powerchina Management**”), an Independent Third Party. Term of the relevant operation and management entrustment contract commenced from 1 December 2017 and will expire on 30 November 2019. Chengming Company does not propose to renew such contract with Powerchina Management upon its expiration. The Group preliminarily plans to continue to outsource the operation and management of Chengming Company upon Completion of the Acquisition, and entrust it to one of the Group’s professional operation and management company, which is currently in the preparation process and will be wholly-owned by the Company upon establishment. During the transitional period before the official establishment and operation of the Group’s operation and management company, Chengming Company will recruit its personnel to ensure that its daily operation will not be affected.

For the three years ended 31 December 2018 and the six months ended 30 June 2019, Powerchina Management designated 254, 258, 262, and 262 personnel, respectively to provide operation and management services to Chengming Company.

Outlook

Benefiting from the rapid national, provincial and municipal economic growth, and Sichuan province’s strong support for the construction and operation of transportation infrastructure within the province, the operating performance of Qiongmeng Expressway has registered a rapid growth trend since completion. From 2016 to 2018, the average annual growth rate of traffic volume of Qiongmeng Expressway was 11.8% and the average daily traffic volume in 2018 was 13,340/time. Under the context of progress of domestic macro-economy amid stability and with the advancement of urbanisation, the continuous improvement of regional economic environment, and the growth of vehicles owned by residents and their travel willingness, the traffic volume of Qiongmeng Expressway is expected to continue to maintain a rapid growth, with optimistic development prospects in the future. In addition, the Group has several years of experience in standardised operation and management of expressways and upon Completion of the Acquisition, the operating cost of Chengming Company will be further reduced through internal unified overall management.

REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the directors of Chengdu Expressway Co., Ltd.

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Chengdu Expressway Co., Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), and China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (the “**Target Company**”, together with the Group hereafter collectively referred to as the “**Enlarged Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2019 and related notes (the “**Unaudited Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix V of the circular of the Company dated 29 November 2019 (the “**Circular**”).

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate purpose only, to provide information about how the acquisition of 51% equity interest in the Target Company (the “**Acquisition**”) by the Company might have affected the financial position of the Group as at 30 June 2019 as if the Acquisition had taken place at 30 June 2019. As part of this process, information about the Group’s financial position has been extracted by the Directors from the unaudited interim information for the six months ended 30 June 2019, on which no audit or review report has been published.

Directors’ responsibility for the Unaudited Pro Forma Financial Information

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

Our independence and quality control

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

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

Reporting accountants' responsibilities

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

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

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

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

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

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

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

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

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

29 November 2019

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

This unaudited proforma financial information (the “**Unaudited Pro Forma Financial Information**”) of Chengdu Expressway Co., Ltd. (the “**Company**”) and its subsidiaries (hereafter collectively referred to as the “**Group**”), and China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (the “**Target Company**”) (the Group and the Target Company are hereafter collectively referred to as the “**Enlarged Group**”), comprising the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2019, has been prepared by the directors of the Company (the “**Directors**”) in accordance with Rule 4.29 of the Listing Rules and is solely prepared for the purpose to illustrate the effect of the proposed acquisition of 51% equity interest in the Target Company (the “**Acquisition**”) to the Group as if the Acquisition has been completed on 30 June 2019.

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2019, which has been extracted from the interim report of the Group for the six months ended 30 June 2019; and (ii) the audited statement of financial position of the Target Company as at 30 June 2019, which has been extracted from the financial information of the Target Company thereon set out in Appendix IV-A to the circular dated 29 November 2019 (“**Circular**”), after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. As a result of the hypothetical nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition been completed on 30 June 2019. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group’s future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group, as incorporated by reference in Appendix III to this Circular, and that of the Target Company, as set out in Appendix IV-A to this Circular, and other financial information included elsewhere in this Circular.

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The Unaudited Pro Forma Financial Information

	The Group as at 30 June 2019 RMB'000 Note (1)	The Target Company as at 30 June 2019 RMB'000 Note (2)	Pro forma adjustments			Pro forma Enlarged Group RMB'000
			RMB'000 Note (4)	RMB'000 Note (5)	RMB'000 Note (6)	
NON-CURRENT ASSETS						
Property, plant and equipment	241,273	54,056				295,329
Right-of-use assets	38,732	6,963				45,695
Service concession arrangements	3,260,653	2,400,283	515,962			6,176,898
Software	198	–				198
Goodwill	–	–	8,512			8,512
Investment in an associate	139,716	–				139,716
Financial assets at fair value through profit or loss	500	–				500
Deferred tax assets	3,131	–				3,131
Total non-current assets	<u>3,684,203</u>	<u>2,461,302</u>				<u>6,669,979</u>
CURRENT ASSETS						
Trade receivables	2,901	783				3,684
Prepayments, deposits and other receivables	254,979	8,421				263,400
Cash and cash equivalents	<u>2,082,457</u>	<u>117,501</u>		(485,143)	(393,751)	<u>1,321,064</u>
Total current assets	<u>2,340,337</u>	<u>126,705</u>				<u>1,588,148</u>

APPENDIX V
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group as at 30 June 2019 RMB'000 Note (1)	The Target Company as at 30 June 2019 RMB'000 Note (2)	Pro forma adjustments			Pro forma Enlarged Group RMB'000
			<i>RMB'000 Note (4)</i>	<i>RMB'000 Note (5)</i>	<i>RMB'000 Note (6)</i>	
CURRENT LIABILITIES						
Tax payables	28,485	–				28,485
Trade payables	884,891	9,866				894,757
Lease liabilities	3,677	–				3,677
Other payables and accruals	100,648	21,025				121,673
Dividends payable	215,293	–				215,293
Interest-bearing bank and other borrowings	<u>200,000</u>	<u>109,157</u>				<u>309,157</u>
Total current liabilities	<u>1,432,994</u>	<u>140,048</u>				<u>1,573,042</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>907,343</u>	<u>(13,343)</u>				<u>15,106</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,591,546</u>	<u>2,447,959</u>				<u>6,685,085</u>
NON-CURRENT LIABILITIES						
Deferred income	52,040	59,923				111,963
Interest-bearing bank and other borrowings	1,198,000	1,876,217			(393,751)	2,680,466
Deferred tax liabilities	9,123	77,020	128,991			215,134
Lease liabilities	<u>31,913</u>	<u>–</u>				<u>31,913</u>
Total non-current liabilities	<u>1,291,076</u>	<u>2,013,160</u>				<u>3,039,476</u>
Net assets	<u><u>3,300,470</u></u>	<u><u>434,799</u></u>				<u><u>3,645,609</u></u>
EQUITY						
Equity attributable to owners of the Company						
Paid-in capital/issued capital	1,656,102	100,000	(100,000)			1,656,102
Reserves	1,492,729	334,799	(339,038)			1,488,490
Merger deficit	<u>–</u>	<u>–</u>	429,777	(485,143)		<u>(55,366)</u>
	3,148,831	434,799				3,089,226
Non-controlling interests	<u>151,639</u>	<u>–</u>	404,744			<u>556,383</u>
Total Equity	<u><u>3,300,470</u></u>	<u><u>434,799</u></u>				<u><u>3,645,609</u></u>

Notes:

- (1) The figures are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as set out in the published interim results announcement of the Company for the six months ended 30 June 2019.
- (2) The figures are extracted from the audited statement of financial position of the Target Company as at 30 June 2019 as set out in Appendix IV-A to this Circular.
- (3) As the Company and the Target Company are ultimately controlled by a controlling shareholder of the Company (the “Vendor”), the Acquisition is a business combination under common control. Being consistent with the Group’s accounting policy for common control combination, the Acquisition is accounted for based on the principles of merger accounting in accordance with merger accounting as if the Acquisition had occurred on the date when the Target Company first came under the control of the controlling shareholder. Accordingly, the assets and liabilities of Target Company acquired in the Acquisition are stated at their carrying amounts as if such assets and liabilities had been held or incurred by the Group from the later of the date of the relevant transactions giving rise to such assets or liabilities and the date on which the Target Company first came under the control of the controlling shareholder.

The consolidated financial statements of the Enlarged Group include the financial statements of the Target Company in which the common control combination occurs as if it had been consolidated from the date when the Target Company first came under the control of the controlling shareholder.

- (4) The adjustments represented the recognition of goodwill in relation to the acquisition of the Target Company by the Vendor when the Target Company first came under the control of the controlling shareholder.

	<i>RMB’000</i>
Total identifiable net assets at carrying amounts	439,038
Fair value adjustment for service concession arrangement (<i>note (a)</i>)	515,962
Less: Effect of deferred tax liability at 25% on the fair value adjustment	(128,991)
Total identifiable net assets at fair values	826,009
Non-controlling interests	(404,744)
	421,265
Goodwill on acquisition (<i>note (b)</i>)	8,512
The proportionate share of the consideration paid by the Vendor for the acquisition of the 51% equity interest in the Target Company	429,777

(note (a)):

For the purpose of the Unaudited Pro Forma Financial Information, the Directors had assumed that (i). all identifiable assets or liabilities have been properly identified for the purpose of the accounting of business combination; (ii). the fair values of the identifiable assets and liabilities of the Target Company as at the acquisition date when the Target Company first came under the control of the controlling shareholder as at 7 May 2019 approximated to their value by reference to the valuation report prepared by Tianyuan Appraisal Co., Ltd., an independent valuer as at 30 June 2019, being RMB955,000,000.

	<i>RMB'000</i>
Fair value of identifiable assets and liabilities at 7 May 2019	955,000
Less: total identifiable assets and liabilities at carrying amounts at 7 May 2019	<u>(439,038)</u>
Fair value adjustment	<u><u>515,962</u></u>

In the opinion of the Directors by taking into the reference to the valuation report, the increase in valuation of the Target Company is primarily attributable to the service concession arrangement. Other than the service concession arrangement, the fair values of other assets and liabilities of the Target Company are either approximate to their respective carrying amounts or that any fair value adjustments would be immaterial with reference to the short-term to maturity and the Director's Industry knowledge and the Director's intention to continually manage the normal operation of the assets thereon the completion date of the Acquisition. Accordingly, difference between the fair value and carrying amounts of the identifiable assets and liabilities as at the date of acquisition of RMB515,962,000 was adjusted in the service concession arrangement:

	Carrying amount	Fair value Adjustment	Fair value
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Service concession arrangement	<u>2,409,281</u>	<u>515,962</u>	<u>2,925,243</u>

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

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

(note (b))

The Directors confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group. The Company will adopt accounting policy for goodwill, save for compliance to any new or revised IFRSs that would be issued by the IASB, to perform impairment test of the Enlarged Group's goodwill during the future accounting periods of the Enlarged Group. If the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit will be tested for impairment before the end of the current annual period. The Directors consider that the Group's accounting treatment and principal assumptions used to assess the impairment of such goodwill will be the same as other acquisitions of similar nature. To the best knowledge of the Directors, the Group's independent auditors will conduct the audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board to perform the impairment assessment of the Enlarged Group's goodwill during the future annual audit of the Enlarged Group.

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed if there is any impairment loss on the goodwill arising from the Acquisition in accordance with the IAS 36 which is consistent with the Company's accounting policy. The Directors are of the view that, after performing the impairment assessment, there is no impairment of the goodwill arising from the proposed acquisition of the Target Company as set out in the Unaudited Pro Forma Financial Information.

Since the fair value of the identifiable net assets of the Target Company at the acquisition date when the Target Company first came under the control of the controlling shareholder as at 7 May 2019 may be substantially different from the fair value used in the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the goodwill recognised at the completion date of the acquisition by the Vendor may be different from the amount presented above.

- (5) In accordance with the Agreement, the Company conditionally agreed to acquire a 51% equity interest of the Target Company, with the consideration for the Acquisition amounted to RMB485,143,000, which shall be satisfied by cash payable to the Vendor. The consideration payable is accounted for as a distribution to the owner of the Company (i.e., the Vendor) and accounted for as an equity transaction as the acquisition of the Target Company is a business combination under common control.

The proforma consolidated statement of financial position of the Enlarged Group as at 30 June 2019 has been prepared to present the assets and liabilities of the Target Company using the existing book values from the controlling shareholder's perspective since the date when the Target Company first came under the common control of the controlling shareholder. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Acquisition.

Merger deficit of RMB55,366,000 represents the consideration of RMB429,777,000 paid by the Vendor to acquire 51% equity interest in the Target Company and after netting off the distribution to the Vendor on the acquisition of 51% equity interest in the Target Company of RMB485,143,000.

- (6) According to the Acquisition agreement interest-borrowings of RMB393,751,000 granted by the Vendor to the Target Company will be settled by the Enlarged Group upon the completion of the Acquisition.
- (7) No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisers, reporting accountants, valuer, and other expenses) and the directors determined that such costs are insignificant.
- (8) No adjustments have been made to adjust any trading results or other transactions of the Enlarged Group subsequent to 30 June 2019.

A. REPORT FROM REPORTING ACCOUNTANTS

The following is the full text of the report from Ernst & Young, for the purpose of, among other things, incorporation into this circular.

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN CHINA HYDROPOWER CONSTRUCTION GROUP SICHUAN CHENGMING EXPRESSWAY DEVELOPMENT CO., LTD.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the directors of Chengdu Expressway Co., Ltd. (the “**Company**”)

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 23 October 2019 prepared by Tianyuan Appraisal Co., Ltd. in respect of China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (the “**Target Company**”) as at 30 June 2019 is based. The valuation is in connection with the acquisition of 51% equity interest in the Target Company, as set out in the Company’s announcement dated 28 October 2019 (the “**Announcement**”). The valuation based on Forecast is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the preparation of Forecast. The Forecast has been prepared using a set bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Valuation assumptions” of the Announcement.

Our Independence and Quality Control

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

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

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules, and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions as set out in the Announcement.

Ernst & Young
Certified Public Accountants
Hong Kong

28 October 2019

B. LETTER FROM CHINA SECURITIES (INTERNATIONAL)

The following is the full text of the letter from China Securities (International), for the purpose of, among other things, incorporation into this circular.

28 October 2019

The Board of Directors
Chengdu Expressway Co., Ltd.

Dear Sirs,

Reference is hereby made to the valuation prepared by Tianyuan Appraisal Co., Ltd. (the “**Valuer**”) in relation to 100% equity interest in China Hydropower Construction Group Sichuan Chengming Expressway Development Co., Ltd. (the “**Valuation**”), which is set out in the valuation report dated 23 October 2019, referred to in the announcement of Chengdu Expressway Co., Ltd. (the “**Company**”) dated 28 October 2019 relating to the Acquisition (the “**Announcement**”).

The Valuation has been arrived at using the discounted cash flow method and is regarded as a profit forecast (the “**Forecast**”) under Rule 14.61 of the Listing Rules. We, as financial advisers to the Company in relation to the Acquisition, have reviewed the Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the Valuer the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from Ernst & Young (“**Ernst & Young**”) dated 28 October 2019 addressed to yourselves as set out in Appendix VI to the Circular regarding the calculations of the discounted future estimated cash flows.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Valuer and the Company for which the Valuer and the Company are solely responsible, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, have been made by you after due and careful enquiry.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours Faithfully

For and on behalf of

China Securities (International) Corporate Finance Company Limited

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, SUPERVISORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, based on the information available to the Company and to the best knowledge of the Directors, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, based on the information available to the Company and to the best knowledge of the Directors, the following persons (other than the Company's Directors, Supervisors and chief executive) or corporations had interests or short positions in the Shares or underlying Shares of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or were recorded in the register required to be kept by the Company under section 336 of the SFO:

Domestic Shares

Name of Shareholders	Nature of interest and capacity	Class of Shares	Long position/ Short position	Number of Shares interested	Percentage of relevant class of Shares	Percentage of total issued Share capital
Chengdu Communications Investment Group Corporation Limited (成都交通投資集團有限公司) ⁽¹⁾	Interest in controlled corporation Beneficial owner	Domestic Shares	Long position	900,000,000	100%	72.46%
Chengdu Expressway Construction and Development Co., Ltd. (成都高速公路建設開發有限公司) ⁽²⁾	Beneficial owner	Domestic Shares	Long position	900,000,000	75%	54.34%

Notes:

- (1) Chengdu Communications Investment Group Corporation Limited is wholly owned by Chengdu State-owned Assets Supervision and Administration Commission.
- (2) Chengdu Expressway Construction and Development Co., Ltd. is a wholly-owned subsidiary of Chengdu Communications Investment Group Corporation Limited.

H Shares

Name of Shareholders	Nature of interest and capacity	Class of Shares	Long position/ Short position	Number of Shares interested	Percentage of relevant class of Shares	Percentage of total issued Share capital
Guangdong Provincial Communication Group Company Limited (廣東省交通集團有限公司) ⁽¹⁾	Interest in controlled corporation	H Shares	Long position	100,000,000	21.92%	6.04%
Xin Yue Company Limited (新粵有限公司) ⁽¹⁾	Beneficial owner	H Shares	Long position	100,000,000	21.92%	6.04%
Chengdu Xiecheng Asset Management Co., Ltd. (成都市協成資產管理有限責任公司) ⁽²⁾	Interest in controlled corporation	H Shares	Long position	50,000,000	10.96%	3.02%
Chengdu Jiaozi Financial Holding Group Co., Ltd. (成都交子金融控股集團有限公司) ⁽²⁾	Beneficial owner	H Shares	Long position	50,000,000	10.96%	3.02%
Chengdu Rail Transit Group Co., Ltd. (成都軌道交通集團有限公司) ⁽³⁾	Interest in controlled corporation	H Shares	Long position	49,950,000	10.95%	3.02%
Chengdu Rail Industrial Investment Co., Ltd. (成都軌道產業投資有限公司) ⁽³⁾	Beneficial owner	H Shares	Long position	49,950,000	10.95%	3.02%
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司) ⁽⁴⁾	Investment manager	H Shares	Long position	49,900,000	10.94%	3.01%

Name of Shareholders	Nature of interest and capacity	Class of Shares	Long position/ Short position	Number of Shares interested	Percentage of relevant class of Shares	Percentage of total issued Share capital
Chengdu Urban Construction Investment Management Group Co., Ltd. (成都城建投資管理集團有限責任公司)	Beneficial owner	H Shares	Long position	49,900,000	10.94%	3.01%
Chengdu Environment Investment Group Company Limited (成都環境投資集團有限公司)	Beneficial owner	H Shares	Long position	45,450,000	9.96%	2.74%
Chengdu Tianfu New Area Investment Group Co., Ltd. (成都天府新區投資集團有限公司) ⁽⁵⁾	Interest in controlled corporation	H Shares	Long position	42,939,000	9.41%	2.59%
Chengdu Tianfu New Area Financial Holdings Co., Ltd. (成都天府新區金融控股有限公司) ⁽⁵⁾	Trust beneficiary	H Shares	Long position	42,939,000	9.41%	2.59%
Chengdu Industry Investment Group Co., Ltd. (成都產業投資集團有限公司) ⁽⁶⁾	Interest in controlled corporation	H Shares	Long position	25,646,000	5.62%	1.55%
Chengdu Advanced Manufacturing Industry Investment Co., Ltd. (成都先進製造產業投資有限公司) ⁽⁶⁾	Beneficial owner	H Shares	Long position	25,646,000	5.62%	1.55%

Notes:

- (1) Guangdong Provincial Communication Group Company Limited holds interests in 100,000,000 H Shares of the Company through its wholly-owned subsidiary, Xin Yue Company Limited.
- (2) Chengdu Jiaozi Financial Holding Group Co., Ltd. is owned as to 40% by Chengdu Xiecheng Asset Management Co., Ltd.. Chengdu Jiaozi Financial Holding Group Co., Ltd. is interested in 50,000,000 H Shares of the Company.
- (3) Chengdu Rail Industrial Investment Co., Ltd. is wholly-owned by Chengdu Rail Transit Group Co., Ltd.. Chengdu Rail Industrial Investment Co., Ltd. holds interests in 49,950,000 H Shares of the Company through investment in the trust scheme of China Credit Trust Co., Ltd (中誠信託有限責任公司).
- (4) As an investment manager, Fullgoal Fund Management Co., Ltd. holds interests in 49,900,000 H Shares of the Company. The fund it manages is the Fullgoal Fund Global Allocation No. 6 QDII-Asset Management Plan (富國基金全球配置6號QDII—資產管理計劃).
- (5) Chengdu Tianfu New Area Investment Group Co., Ltd. holds 100% interests in Chengdu Tianfu New Area Financial Holdings Co., Ltd.. Chengdu Tianfu New Area Financial Holdings Co., Ltd. holds interests in 42,939,000 H Shares of the Company through investment in the trust scheme of China Credit Trust Co., Ltd.
- (6) Chengdu Advanced Manufacturing Industry Investment Co., Ltd. is wholly owned by Chengdu Industry Investment Group Co., Ltd.. Chengdu Advanced Manufacturing Industry Investment Co., Ltd. is interested in 25,646,000 H Shares of the Company through investment in the Chengxin No.103 Trusted Overseas Wealth Management Project of China Credit Trust (中誠信託誠信海外配置103號受託境外理財項目).

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than Directors, Supervisors or chief executive of the Company) or corporation which had an interest or short position in the Shares or underlying Shares of the Company which would be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best knowledge of the Directors, there was no material adverse change in the financial or operating condition of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries was involved in any litigation or claim of material importance or any litigation or claim of material importance pending or threatened against the Company or any of its subsidiaries.

6. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or Supervisors or any of their respective associates had any interests in businesses, which compete or are likely to compete, either directly or indirectly, with the business of the Group.

7. INTERESTS OF DIRECTORS AND SUPERVISORS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to (or are proposed to be acquired or disposed of by or leased to) any member of the Group since 31 December 2018, being the date of the latest published audited financial statements of the Group. None of the Directors or Supervisors or any of their respective associates was materially interested in any contract or arrangement which was significant in relation to the business of the Group subsisting as at the Latest Practicable Date.

8. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with any member of the Group which is not determinable by the Group within one (1) year without payment of compensation (other than statutory compensation).

9. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

So far as the Board is aware, as at the Latest Practicable Date, except for Mr. Xiao Jun, the non-executive Director and chairman of the Company who also serves as the vice chairman of Chengdu Communications, none of the Directors or Supervisors served as directors or employees in companies which had interests or short positions in the Shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

10. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
China Securities (International)	a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants
Octal Capital Limited	a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Tianyuan Appraisal Co., Ltd.	Asset valuer
Master Alliance (China) Limited	Traffic Volume Expert

- a. as at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to (or were proposed to be acquired or disposed of by or leased to) any member of the Group since 31 December 2018, being the date of the latest published audited financial statements of the Group.
- b. as at the Latest Practicable Date, none of the above experts had any beneficial interests in the share capital of any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- c. each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name or opinion in the form and context in which it appears.

11. MATERIAL CONTRACTS

The following is the contract (not being contracts entered into in the ordinary course of business) entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular which is material:

- a. the Equity Transfer Agreement.

12. MISCELLANEOUS

- a. the joint company secretaries of the Company are Mr. Zhang Guangwen and Ms. Kwong Yin Ping, Yvonne. Ms. Kwong received a bachelor's degree in accounting from Hong Kong Polytechnic University in November 1997. She has been a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators since December 2012;
- b. the registered office of the Company is situated at 1 Kexin Road, High-tech Zone, Chengdu, Sichuan, the PRC; and
- c. The H Share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular up to and including 13 December 2019:

- a. the articles of association of the Company;
- b. the Equity Transfer Agreement;
- c. the annual report of the Company for the year ended 31 December 2018;
- d. the prospectus of the Company dated 28 December 2018;
- e. the letter from the Independent Board Committee to the Independent Shareholders, the full text of which is set out on page 31 to page 32 of this circular;
- f. the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders, the full text of which is set out on page 33 to page 62 of this circular;
- g. the written consents from the experts as mentioned in the section headed "Qualifications and Consents of Experts" in this appendix;
- h. the Valuation Report on Chengming Company, the full text of which is set out on page 63 to page 115 of this circular;
- i. the Traffic Study Report, the full text of which is set out on page 116 to page 136 of this circular;
- j. the report from the reporting accountants quoted and referred to in this circular, the full text of which is set out on page 139 to page 141 of this circular;
- k. the comfort letters on the profit forecast of Chengming Company, the full text of which is set out on page 212 to page 214 of this circular; and
- l. this circular.