THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 01052)

(1) MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF INTERESTS IN COMPANIES OPERATING THREE EXPRESSWAYS IN HUBEI PROVINCE, THE PRC AND (2) NOTICE OF SPECIAL GENERAL MEETING

Financial advisers to the Company

CLSA A CITIC Securities Company

DBS

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

SOMERLEY CAPITAL LIMITED

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

The Board Letter is set out on pages 7 to 31 in this circular. The Independent Board Committee Letter is set out on pages 32 to 33 in this circular. The IFA Letter is set out on pages 34 to 64 in this circular.

A notice convening the SGM to be held at Plaza I-IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, on Tuesday, 5 November 2019 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

17 October 2019

CONTENTS

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

"AADT"	Annual Average Daily Traffic
"Acquisition"	collectively, the Equities Acquisition and the Loan Acquisition
"Andi"	Wuhan Andi Technology Industry Development Company Limited* (武漢安帝科技產業發展有限公司)
"ASN"	Hubei A'shennan Expressway Development Company Limited* (湖北阿深南高速公路發展有限公司)
"ASN Minority Shareholder"	the shareholder holding 10% of the equity interest in ASN as at the LPD
"Asset Management Creditor"	an asset management company which made a debt investment of RMB1,500,000,000.00 in ASN
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Board Letter"	the section headed "LETTER FROM THE BOARD" of this circular
"Borrowed Bridging Loan"	the loan borrowed by YXHB under the Bridging Loan Facility
"Bridging Loan Facility"	the loan facility granted by the Vendor to YXHB under the New Shareholder's Loan Agreement
"Central China"	Hubei Province, Hunan Province, Anhui Province, Henan Province, Jiangxi Province and Shanxi Province
"CLSA"	CLSA Capital Markets Limited, a financial adviser of the Group in relation to the Acquisition
"Company"	Yuexiu Transport Infrastructure Limited, an exempted company incorporated in Bermuda
"Concession Right"	the concession right over a Target Expressway, including the toll collection right, advertising operation right and facilities operation right

"connected person"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Daguangnan Expressway"	the expressway operated by ASN as described in more detail in section 4.2 of the Board Letter
"DBS"	DBS Bank Ltd. (incorporated in Singapore with limited liability), a financial adviser of the Group in relation to the Acquisition
"Director"	a director of the Company
"DLOM"	as defined in section 5.1(a)(vi) of the Board Letter
"Enlarged Group"	the Group as enlarged by the Acquisition
"E'zhou"	E'zhou City in Hubei Province
"Effective Date"	the date on which the Equities Condition set out in section 2(g)(ii) of the Board Letter is fulfilled
"Equities Acquisition"	the acquisition of the Target Equities
"Equities Completion"	the completion of the sale and purchase of the Equities Acquisition in accordance with the SPA
"Equities Completion Date"	the date on which the Equities Completion occurs
"Equities Conditions"	the conditions precedent for the Equities Completion
"Equities Consideration"	the total consideration for the acquisition of the Target Equities pursuant to the SPA, being RMB1,107,000,000.00
"Financial Advisers"	collectively, CLSA and DBS
"Group"	the Company and its subsidiaries
"Guangzhou Yue Xiu Holdings"	Guangzhou Yue Xiu Holdings Limited* (廣州越秀集團有限公司), a company established in the PRC
"Guarantee Fee Arrangement"	as defined in section 10.3 of the Board Letter
"Hancai"	Hancai Expressway Company Limited of Hubei Province* (湖北省漢蔡高速公路有限公司)
"Hancai Expressway"	the expressway operated by Hancai as described in more detail in section 4.3 of the Board Letter

"Hancai Minority Shareholder A"	the shareholder holding 26% of the equity interest in Hancai as at the LPD
"Hancai Minority Shareholder B"	the shareholder holding 7% of the equity interest in Hancai as at the LPD
"Han'e"	Hubei Yue Xiu Han'e Expressway Company Limited* (湖北越秀漢鄂高速公路有限公司)
"Han'e Expressway"	the expressway operated by Han'e as described in more detail in section 4.4 of the Board Letter
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFA"	the independent financial adviser appointed by the Company in accordance with the Listing Rules for the purposes of advising and making recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder
"IFA Advice"	the advice given by the IFA as set out in the IFA Letter
"IFA Letter"	the section headed "LETTER FROM THE IFA" of this circular
"Independent Board Committee"	the independent board committee of the Company established in accordance with the Listing Rules to advise and to make recommendations to the Independent Shareholders on the Acquisition and the transactions contemplated thereunder
"Independent Board Committee Letter"	the section headed "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" of this circular
"Independent Director"	an independent non-executive Director
"Independent Shareholders"	Shareholders other than those who (i) have a material interest in the Acquisition and therefore are, together with their associates, required to abstain from voting on the resolution(s) to approve the Acquisition under the Listing Rules; or (ii) are otherwise required to abstain from voting on (or voting in favour of) the resolution(s) to approve the Acquisition under other applicable laws, rules or regulations

"Jie Cheng"	Jie Cheng Consultants Limited, the traffic consultant of the Group in relation to the Acquisition
"km"	kilometre
"Latest Practicable Date"	11 October 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Acquisition"	the acquisition of the Target Shareholder's Loan
"Loan Completion"	the completion of the sale and purchase of the Target Shareholder's Loan in accordance with the SPA
"Loan Completion Date"	the date on which the Loan Completion occurs
"Loan Consideration"	as defined in section 2(d)(iii) of the Board Letter
"Loan Transfer Agreement"	the conditional loan transfer agreement dated the date of the SPA and entered into among the Vendor, the Purchaser and YXHB in relation to the transfer of the Target Shareholder's Loan
"LPD"	has the same meaning given to the expression "Latest Practicable Date"
"New Shareholder's Loan Agreement"	as defined in section 10.2 of the Board Letter
"Party"	a party to the SPA
"percentage ratios"	has the meaning ascribed to it under Rule 14.04(9) of the Listing Rules
"PRC"	the People's Republic of China
"Previous Loan Facility"	the unsecured 5-year loan facility up to RMB4,654,503,531.78 at 6.5% per annum granted by the Vendor to YXHB prior to the New Shareholder's Loan Agreement and pre-existing as at the date of the SPA
"Profit Forecast"	as defined in section 2(e) of the Board Letter
"Pro Forma Financial Information"	as defined in section 6 of the Board Letter

"Project Companies"	collectively, ASN, Hancai and Han'e
"Purchaser"	Guangzhou Yueda Investment Company Limited* (廣州越達投資有限責任公司)
"Reporting Accountant"	PricewaterhouseCoopers, the reporting accountant of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Savills"	Savills Valuation and Professional Services Limited, the business valuer appointed by the Group in relation to the Acquisition
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition (including any adjournment thereof)
"Shareholder"	a holder of the Shares
"Shares"	ordinary shares of nominal value of HK$0.10 each in the capital of the Company
"SPA"	the conditional sale and purchase agreement in relation to the transfer of the Target Assets entered into between the Vendor and the Purchaser on 12 September 2019
"SPA Announcement"	the announcement of the Company dated 12 September 2019 wherein the Company announced, among other things, that the Parties had entered into the SPA
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Assets"	collectively, the Target Equities and the Target Shareholder's Loan
"Target Equities"	collectively, 100% of the equity interests in YXHB and 38.5% of the equity interests in Hancai
"Target Expressways"	collectively, Daguangnan Expressway, Hancai Expressway and Han'e Expressway
"Target Group"	the group of companies comprising YXHB, Andi, ASN, Hancai and Han'e

"Target Group Member"	a member of the Target Group
"Target Shareholder's Loan"	the entire amount of the outstanding shareholder's loan in the principal amount of RMB4,654,503,531.78 owed by YXHB to the Vendor as at the date of the SPA together with the interest accrued thereon at the interest rate of 6.5% per annum calculated from 20 March 2019 under the Previous Loan Facility
"Total Consideration"	as defined in section 2(d) of the Board Letter
"Traffic Study Reports"	collectively, the traffic consultancy and evaluation reports prepared by Jie Cheng in respect of Daguangnan Expressway, Hancai Expressway and Han'e Expressway respectively
"Valuation Date"	30 June 2019
"Valuation Report"	the valuation report prepared by Savills in relation to the valuation of the Target Equities as at the Valuation Date
"Vendor"	Guangzhou Yue Xiu Enterprises (Holding) Limited* (廣州越秀企業集團有限公司)
"YX Back-to-Back Guarantee"	as defined in section 10.3(a) of the Board Letter
"YXHB"	Yuexiu (Hubei) Expressway Company Limited* (越秀(湖北)高速公路有限公司), formerly known as Guangsheng Expressway Group Company Limited of Hubei Province* (湖北省廣晟高速公路集團有限公司)

Notes:

* *For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and the English names are for identification purposes only. In the event of inconsistency, the Chinese language shall prevail.*

^ *Where the context so permits or requires, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.*

越秀交通基建有限公司
Yuexiu Transport Infrastructure Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 01052)

Executive Directors:
LI Feng *(Chairman)*
HE Baiqing
CHEN Jing

Independent Non-Executive Directors:
FUNG Ka Pun
LAU Hon Chuen Ambrose
CHEUNG Doi Shu

Registered Office:
Victoria Place, 5th Floor, 31 Victoria Street,
Hamilton HM 10, Bermuda

Principal place of business in Hong Kong:
17A Yue Xiu Building, 160 Lockhart Road,
Wanchai, Hong Kong

17 October 2019

To the Shareholders

Dear Sir/Madam,

(1) MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF INTERESTS IN COMPANIES OPERATING THREE EXPRESSWAYS IN HUBEI PROVINCE, THE PRC
AND
(2) NOTICE OF SPECIAL GENERAL MEETING

1. INTRODUCTION

Reference is made to the SPA Announcement.

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

2. THE SPA

(a) Date

12 September 2019.

(b) Parties

The Vendor and the Purchaser.

(c) Assets to be acquired

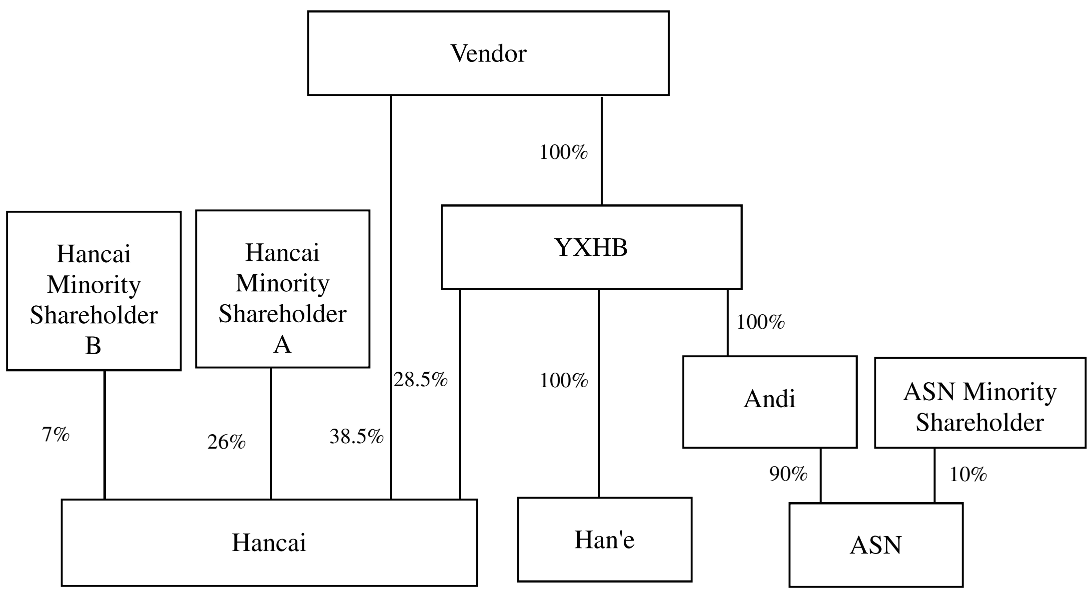
The assets to be acquired by the Purchaser are:

(i) 100% of the equity interests in YXHB;

(ii) 38.5% of the equity interests in Hancai; and

(iii) all the rights, benefits and title of and in the entire shareholder's loan owed by YXHB to the Vendor from 20 March 2019 under the Previous Loan Facility, the principal amount of which is RMB4,654,503,531.78 together with the interest accrued thereon at the interest rate of 6.5% per annum.

YXHB and Hancai are members of the Target Group, the structure of which as at the LPD is set out below:



(d) Consideration: amount and the financing thereof

The total consideration for the Acquisition ("**Total Consideration**") shall be the sum of:

(i) RMB633,000,000.00, being the consideration for 100% of the equity interest in YXHB;

(ii) RMB474,000,000.00, being the consideration for 38.5% of the equity interest in Hancai; and

(iii) an amount representing the sum of (A) the principal amount of the Target Shareholder's Loan (being RMB4,654,503,531.78); and (B) the interest on such principal amount to be calculated at 6.5% per annum from 20 March 2019 up to the date on which this part of the Total Consideration is paid ("**Loan Consideration**") as the consideration for the acquisition of the Target Shareholder's Loan.

The final amount of the Loan Consideration depends on the actual date on which the Loan Consideration is paid as disclosed in detail in section 2(f) of the Board Letter. Under the SPA, the Parties agreed to use their best endeavours to procure the occurrence of both the Equities Completion and the Loan Completion on or before 31 December 2019. For illustrative purposes, if the Loan Completion occurs on 31 December 2019, the Total Consideration payable by the Purchaser for the Target Assets would be RMB5,998,564,410.29.

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

(e) Basis for determining the Total Consideration

The Total Consideration, as determined after arm's length negotiation between the Parties, is equal to the aggregate of: (a) the appraised market value of the Target Equities (in the amount of RMB1,107,000,000.00 according to the Valuation Report); and (b) the principal amount of the Target Shareholder's Loan (RMB4,654,503,531.78) plus accrued interest.

The market value of the Target Equities as at 30 June 2019 was appraised by Savills under the combination of the asset approach and income approach with discounted cash flow method which constituted a profit forecast ("**Profit Forecast**") under Rule 14.61 of the Listing Rules. The income approach was adopted as the primary approach to estimate the market value of the Project Companies while the asset approach was adopted for YXHB and Andi as investment holding companies. Based on the free cash flow to equity and the appraised market value of the Target Equities at RMB1,107,000,000.00, the internal rate of return is estimated at 9.4%. Please refer to section 5.1 below for the principal assumptions on which the Profit Forecast was based.

Based on the information provided by the Vendor, the original cost of the Target Assets to the Vendor was RMB5,483,613,903.78, being the aggregate of: (a) the appraised market value of the Target Equities as at 30 June 2018 in the amount of RMB829,110,372.00; and (b) the principal amount of the Target Shareholder's Loan (RMB4,654,503,531.78). While completion of the previous transaction took place on 20 March 2019, part of the consideration in the amount of RMB3,000,000,000.00 was pre-paid by the Vendor in September 2017 (i.e. around 18 months in advance) with no interest payable to the Vendor on such amount.

The Total Consideration payable by the Purchaser for the Target Assets (in the amount of RMB5,998,564,410.29 if the Loan Completion occurs on 31 December 2019, as illustrated in section 2(d) in the Board Letter) would be higher than the original cost of the Target Assets to the Vendor. Such difference is primarily attributable to: (a) the appreciation in the appraised market value of the Target Equities from RMB829,110,372.00 (as at 30 June 2018 and as referred to above) to RMB1,107,000,000.00 (as at 30 June 2019, being the Valuation Date); and (b) the interest accrued on the Target Shareholder's Loan for the period from 20 March 2019 (being the date of completion of the Vendor's previous transaction) to the Loan Completion Date.

(f) Payment schedule of the Total Consideration

The Equities Consideration shall be paid within five working days after the Effective Date.

Subject to the occurrence of the Equities Completion, the Loan Consideration shall be paid within 90 days from the Effective Date.

(g) Equities Conditions and effectiveness

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

(i) there being no material adverse change to any Target Group Member up to the Equities Completion Date;

(ii) the Company having issued the circular in relation to the SPA and the Shareholders having approved the transactions contemplated in the SPA, each in accordance with the Listing Rules; and

(iii) each Party and the relevant Target Group Members having performed and complied with the relevant obligations, warranties and undertakings on or before the Equities Completion Date in accordance with the SPA.

The Purchaser may waive the Equities Conditions to be fulfilled by the Vendor and/or the Target Group as procured by the Vendor set out in (i) and (iii) above.

The Vendor may waive the Equities Condition to be fulfilled by the Purchaser set out in (iii) above.

If the Equities Conditions cannot be fulfilled (or waived, where applicable) on or before 31 December 2019, the SPA shall be terminated automatically unless the Parties agree to an extension.

As at the LPD, none of the Equities Conditions has been fulfilled.

The SPA shall only come into effect upon the fulfilment of the Equities Condition set out in section 2(g)(ii) above. As advised by the Company's PRC legal counsel, the SPA has been constituted after it has been signed by the authorized representatives of the Parties and sealed. Notwithstanding that the SPA has not yet come into effect as at the LPD, the Parties are obliged not to take any action that may or actually constitute a breach of the SPA or is contrary to the objectives of the SPA. If a Party breaches the SPA and the objectives of the SPA cannot be achieved as a result, the innocent Party may make a claim against the defaulting Party.

(h) Equities Completion

Subject to the fulfilment (or waiver, where applicable) of the Equities Conditions, the Equities Completion will take place within three working days after the Effective Date.

Upon the Equities Completion, the Company will indirectly own 100% of the equity interests in YXHB, 100% of the equity interests in Andi, 90% of the equity interests in ASN, 67% of the equity interests in Hancai and 100% of the equity interests in Han'e and the Purchaser will replace the Vendor as the holding company of the Target Group. Accordingly, all the Target Group Members will become the indirect subsidiaries of the Company and their financial results will be consolidated in the financial statements of the Group.

(i) Loan Transfer Agreement

Concurrent with the entry into the SPA, the Parties and YXHB entered into the Loan Transfer Agreement for the transfer of the Target Shareholder's Loan contemplated in the SPA.

(j) Loan Completion

After the occurrence of the Equities Completion, the Parties must proceed to complete the transfer of the Target Shareholder's Loan. Loan Completion shall take place on the date on which the Loan Consideration is paid to the Vendor (i.e. a date falling within 90 days from the Effective Date).

3. INFORMATION ON THE TARGET GROUP

3.1 Principal business

Each Target Group Member is a company established in the PRC whose principal business is set out below:

Target Group Member	Principal business
YXHB	Investment holding in Andi and the Project Companies
Andi	Investment holding in ASN
ASN	Owns the Concession Right in respect of, and operates, the Daguangnan Expressway
Hancai	Owns the Concession Right in respect of, and operates, the Hancai Expressway
Han'e	Owns the Concession Right in respect of, and operates, the Han'e Expressway

Please refer to section 4 below for the information on the Target Expressways.

3.2 Financial information

Set out below is the audited financial information on the Target Group in relation to the two financial years ended 31 December 2017 and 2018 respectively and the six months ended 30 June 2019 which were prepared in accordance with the HKFRS:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019
	(audited)	*(audited)*	*(audited)*
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Loss before income tax	(211,394)	(61,076)	(97,453)
Loss and total comprehensive loss for the year/period	(215,857)	(50,624)	(104,529)
Revenue	782,444	847,241	373,396
Total equity	(1,866,014)	(1,916,638)	(2,021,167)
Total asset	11,162,533	10,893,209	10,521,926

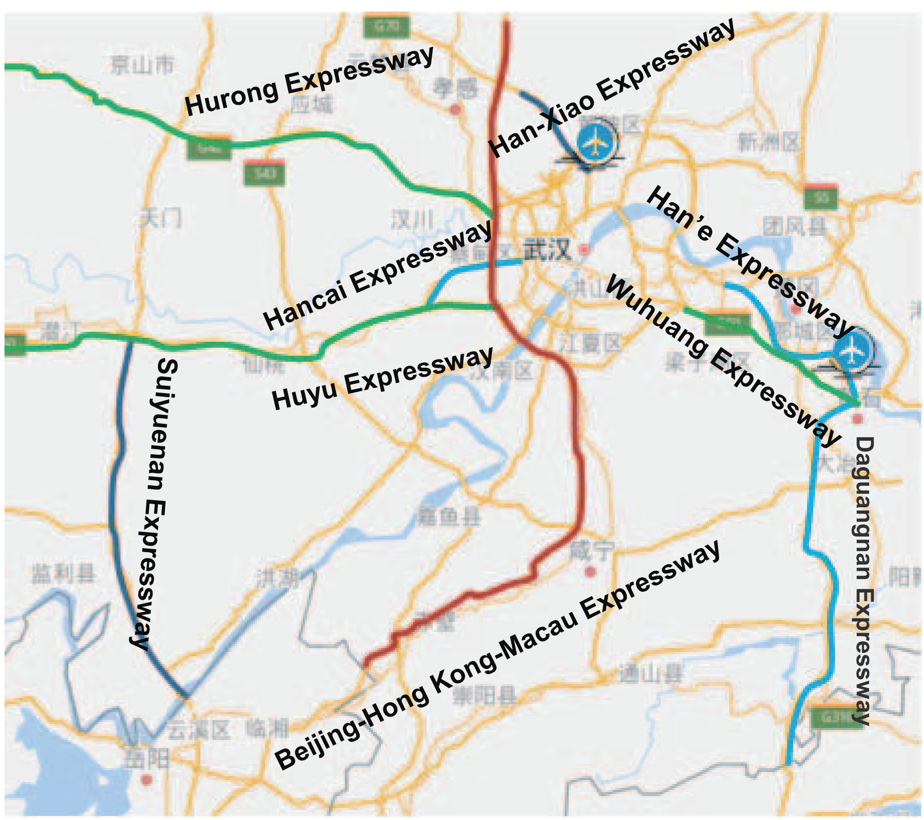
4. INFORMATION ON THE TARGET EXPRESSWAYS

4.1 Introduction

The Target Expressways, the information of which is set out in sections 4.2 to 4.4 below respectively, are all located in Hubei Province. Located in the mid-stream of the Yangtze River in Central China where the east meets the west, Hubei Province is situated at a core location as it connects to Central China, which then connects to the whole country. It is an intersection for north-bound westward (北上西進) in the core of the PRC economy that links the east, the west, the south and the north. Situated at the intersection of the Yangtze River golden waterway and the core section of the Beijing-Guangzhou railway network, Wuhan, the provincial capital, is the largest sea, land and air transportation hub in the inner land of the PRC. It is approximately 1,000 km from the large cities in the PRC, such as Beijing, Shanghai, Guangzhou, Chengdu and Xi'an, and is the heart of the PRC economically and geographically, and it serves to connect every direction in the PRC. Wuhan has long been known as the "Thoroughfare to Nine Provinces" (九省通衢) as it can be connected to nine provinces, namely Sichuan, Shaanxi, Henan, Hunan, Guizhou, Jiangxi, Anhui, Jiangsu and Hubei whether through land or sea transport.

The transportation and logistics industry is known as the pioneer in socio-economic development. In the past few decades, as Hubei Province has vigorously developed an integrated transportation and logistics system and has been committed to becoming the overpass of the country (祖國立交橋), its transportation infrastructure has developed rapidly. Wuhan was also listed by the PRC as the experimental city for research in integrated transportation hubs in June 2009, which emphasizes the superiority of its transportation system and further enhances the city's overall competitiveness. As of 2018, Wuhan's freight transport volume was 625 million tons, of which the freight transport volume for expressways made up more than 60% at 386 million tons. The year-on-year growth rates were 9.2% and 10.4% respectively.

With the benefit of a unique geographical location and an advanced integrated transportation and logistics network, Hubei Province is able to grasp the opportunities arising from the nation's "Rise of Central China" (中部崛起) strategic plan. Wuhan is expected to further welcome major development opportunities and will develop as a core city in the PRC, and a crucial industrial base and a core transportation hub in the PRC. For reference purposes, a map showing the locations of Wuhan and the Target Expressways is depicted below:



4.2 Daguangnan Expressway

Daguangnan Expressway is an important component of the Daguang Expressway (大廣高速), which is a part of the national "71118" expressway network of the PRC. Daguangnan Expressway starts at the Huahu interchange (花湖樞紐互通) in Huahu Town (花湖鎮) of E'zhou, where it intersects with the Huyu Expressway (滬渝高速). It then passes through, among others, Xialu (下陸), Fushui (富水), Longgang (龍港) and ends in Tongshan County (通山縣). A section of Daguangnan Expressway is part of the Wuhan Metropolitan Area Expressway (武漢城市圈環綫高速). For reference purposes, a map showing the location of Daguangnan Expressway is depicted below:

Daguangnan Expressway is situated in the Wuhan Metropolitan Area and connects E'zhou, Huangshi (黃石) and Huanggang (黃岡) which forms a "city belt" in Hubei Province that is under concentrated development pursuant to the cities and towns development plan of Hubei Province. E'zhou is an excellent tourist city in the PRC and a famous historical and cultural site in Hubei Province. Huangshi is an important raw materials manufacturing base in central PRC and is a city along the Yangtze River which has been approved to open to foreign businesses by the State Council of the PRC* (中國國務院). Huanggang is rich in mineral resources and is the largest base for yellow sand in the mid to downstream area of the Yangtze River. In addition, the traffic volume of Daguangnan Expressway may benefit from the Shunfeng E'zhou Airport which is expected to open for service in September 2021. At the same time, Daguangnan Expressway, being part of the national "71118" expressway network of the PRC, is part of the expressway that runs from Daqing (大慶) to Guangzhou and connects the north and the south over Central China.

Further information on Daguangnan Expressway is set out below:

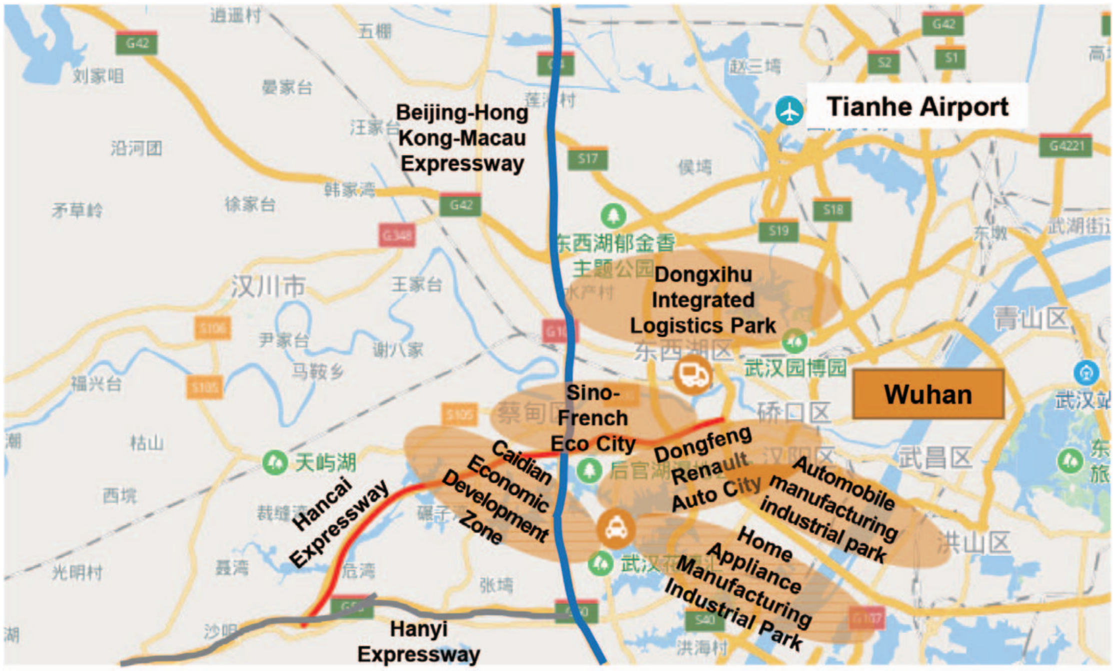
Toll mileage	:	Approximately 107.1 km
Design speed	:	100 km per hour
Number of lanes	:	Dual two lanes
Number of toll collection stations	:	Seven
Completion examination and acceptance	:	Not yet occurred. The Group anticipates that the determination of the total investment in construction in relation to Daguangnan Expressway would be completed within one year after the Equities Completion and the completion examination and acceptance of Daguangnan Expressway would occur in one year thereafter
Concession period	:	30 years which will expire in April 2042

The toll level of Daguangnan Expressway is subject to the approval of provincial governmental authorities responsible for transport and prices. The toll level of Daguangnan Expressway is primarily based on the classification of vehicles by reference to the number of seats (in the case of passenger vehicles) and weight (in the case of trucks). Please refer to the summary of the Traffic Study Report in relation to Daguangnan Expressway set out in Appendix VI to this circular for details of the approved toll rates of Daguangnan Expressway as at the LPD.

4.3 Hancai Expressway

Hancai Expressway starts at Miliangshan (米糧山), which is located at the Wuhan Middle Ring Road (武漢中環線) and ends at the Yongan section (永安段) of the Hanyi Expressway (漢宜高速) in the Caidian District (蔡甸區). It is one of the seven fast urban exit roads under Wuhan's planning. It is an important western expressway exit corridor connecting the Middle Ring Route (中環線) and the

Outer Ring Route (外環線) of Wuhan, and extends to the Huyu Expressway (滬渝高速). Hancai Expressway has four interchanges. For reference purposes, a map showing the location of Hancai Expressway is depicted below:



Hancai Expressway passes by the Caidian Economic Development Zone (蔡甸經濟開發區), the Sino-French Wuhan Ecological Demonstration City (中法武漢生態示範城) and Dongfeng Renault Auto City (東風雷諾汽車城). The economic activities of the surrounding industrial parks are expected to support the increase in the traffic volume for Hancai Expressway.

Further information on Hancai Expressway is set out below:

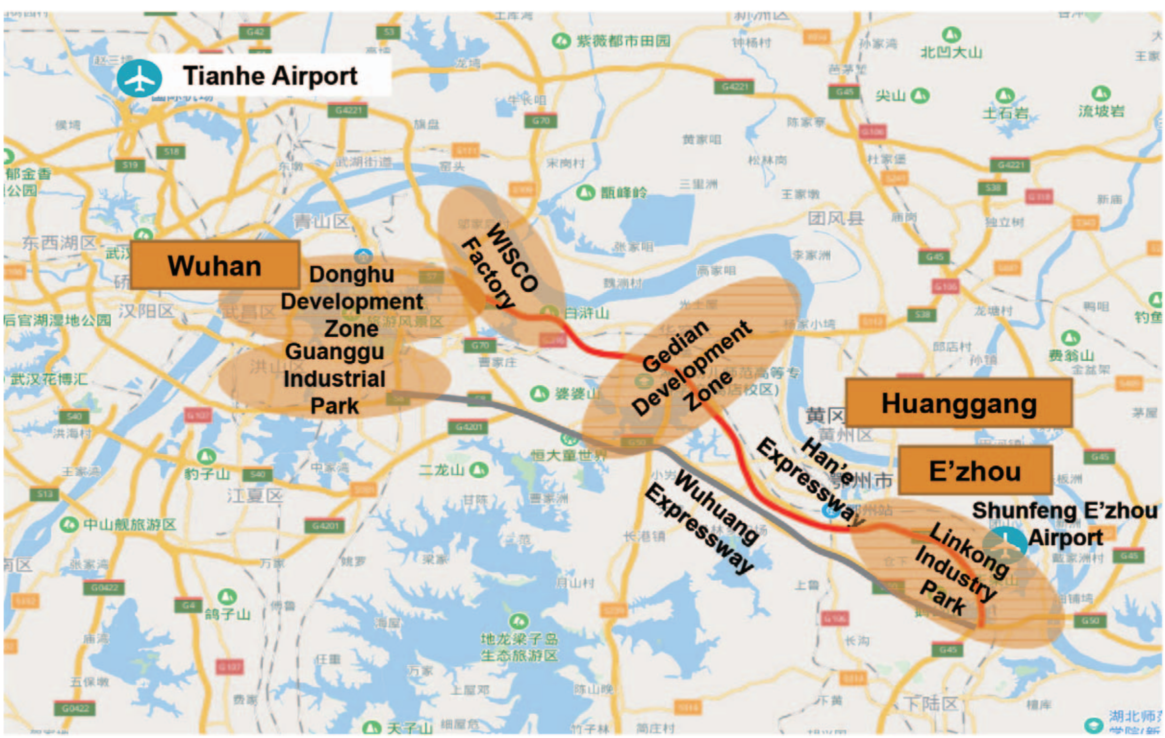
Toll mileage	:	Approximately 35.98 km
Design speed	:	100 km per hour
Number of lanes	:	Dual two lanes, except that the section from Miliangshan to the Outer Ring Route (外環綫) is dual three lanes
Number of toll collection stations	:	Two
Completion examination and acceptance	:	Completed
Concession period	:	30 years which will expire in August 2038

The toll level of Hancai Expressway is subject to the approval of provincial governmental authorities responsible for transport and prices. The toll level of Hancai Expressway is primarily based on the classification of vehicles by reference to the number of seats (in the case of passenger vehicles) and weight (in the case of trucks). Please refer to the summary of the Traffic Study Report in relation to Hancai Expressway set out in Appendix VII to this circular for details of the approved toll rates of Hancai Expressway as at the LPD.

4.4 Han'e Expressway

Han'e Expressway starts in Xinqiao Village (新橋村) of Zuoling Town (左嶺鎮) in Wuhan. It connects with the Hezuo Expressway (和左高速), which leads to Heping (和平) in Wuhan and Zuoling (左嶺), and then turns to the east where it passes through, among others, the Economic and Technological Development Zone of Gedian (葛店) in E'zhou, Huarong Town (華容鎮) in Huarong District (華容區) in E'zhou, Zelin Town (澤林鎮), Huahu Town (花湖鎮) and ends at the Huahu interchange (花湖互通), which is the southern route of the E'Dong Changjiang Bridge (鄂東長江大橋) of the Daguang Expressway (大廣高速). It then connects with the Huyu Expressway (滬渝高速) and the Daguang Expressway (大廣高速).

Han'e Expressway is an important component of the expressway network of Hubei Province and is one of the seven fast urban exit roads under Wuhan's planning and is also the port highway of the Yangtze River ports in the east of Wuhan. It also has the function of connecting Wuhan with three cities located in the east of Hubei, namely E'zhou, Huanggang (黃岡) and Huangshi (黃石). For reference purposes, a map showing the location of Han'e Expressway is depicted below:



Han'e Expressway is a major expressway leading to Shunfeng E'zhou Airport. Shunfeng E'zhou Airport is positioned to become a national logistics hub and air cargo freight transshipment airport. After its completion, Shunfeng E'zhou Airport will become the fourth cargo airport in the world and the first cargo airport in Asia. As such, it may drive the development of surrounding service areas and the demand for transportation. The airport's surrounding ancillary industries and facilities, such as the planning for an international airport logistics base (國際空港物流基地), an airport industry park

(臨空產業園), Yanji Airpark* (燕磯航空小鎮), and Tingzu Aviation Logistics Industrial Park* (汀祖航空物流產業園) are expected to improve and expand over time. As such, it is expected that there will be a considerable demand for road transportation, and it may bring a continued and steady increase in the traffic volume for Han'e Expressway.

Further information on Han'e Expressway is set out below:

Toll mileage	:	Approximately 54.75 km
Design speed	:	100 km per hour
Number of lanes	:	Dual two lanes
Number of toll collection stations	:	Five
Completion examination and acceptance	:	Not yet occurred. The Group anticipates that the determination of the total investment in construction in relation to Han'e Expressway would be completed within one year after the Equities Completion and the completion examination and acceptance of Han'e Expressway would occur in one year thereafter
Concession period	:	29.5 years which will expire in June 2042

The toll level of Han'e Expressway is subject to the approval of provincial governmental authorities responsible for transport and prices. The toll level of Han'e Expressway is primarily based on the classification of vehicles by reference to the number of seats (in the case of passenger vehicles) and weight (in the case of trucks). Please refer to the summary of the Traffic Study Report in relation to Han'e Expressway set out in Appendix VIII to this circular for details of the approved toll rates of Han'e Expressway as at the LPD.

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

5.1 Principal assumptions

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

(a) Specific assumptions

(i) The future financial performance of the Project Companies will be in line with the traffic and maintenance cost projections provided by Jie Cheng with the effort of the management of the Company at the required rate of return.

(ii) The toll rate and charging mechanism will remain unchanged over the remaining concession period for the Target Expressways as forecasted by Jie Cheng.

(iii) The financial and operational information provided and confirmed by the Company are accurate. The Project Companies, Andi and YXHB will have sufficient financial support as required to remain operating as a going concern.

(iv) ASN will be able to refinance its loans as contemplated at the specific time, amount and interest rate according to the forecast by the Company.

(v) The capital expenditure and maintenance cost forecast are sufficient for maintaining the Target Expressways at satisfactory conditions for the forecast traffic and the regulatory requirement, there are no hidden or unexpected conditions associated with the assets of the Project Companies, Andi and YXHB that might adversely affect the reported value.

(vi) As the equity of the Project Companies are not publicly listed and not readily marketable (i.e. illiquid) as at the Valuation Date, Savills has added a 0.7% premium to the discount rate to reflect the applicable Discount for Lack of Marketability ("**DLOM**") to the equity value of the Project Companies as at the Valuation Date with reference to the circumstances of the Project Companies, market factors and the DLOM adopted in other acquisitions of private toll road companies in China.

(vii) Since all stakes involving the Project Companies, Andi and YXHB are controlling stakes, discount for lack of control is not necessary.

In relation to paragraph (i) above, please refer to sections 5.2 to 5.4 below for certain information on the traffic forecast projection on each of the Target Expressways based on the Traffic Study Reports.

(b) General assumptions

(i) There will be no major changes in existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation.

(ii) The long term inflation rate, interest rates and currency exchange rate will not differ materially from those presently prevailing.

(iii) The Project Companies will retain sufficient management and technical personnel to maintain their ongoing operations.

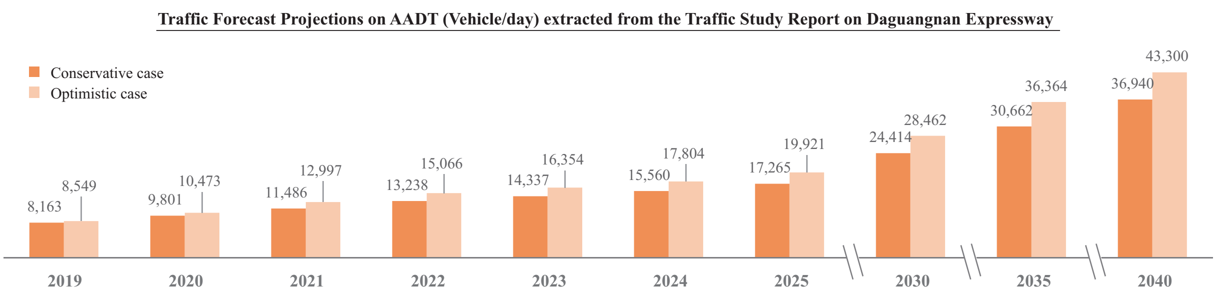
(iv) There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will significantly affect the existing business.

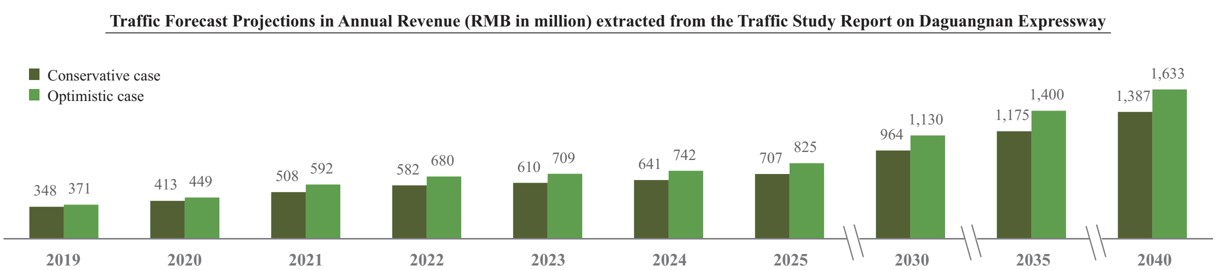
(v) The Project Companies' businesses are unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements. All applicable laws and regulations have been and will be complied with.

(vi) The business is not and will not be subject to any unusual or onerous restrictions or encumbrances which may render the Project Companies' default against their outstanding commitment or obligations.

(vii) Any potential bad debt of the Project Companies will not materially or significantly affect the value of the Project Companies.

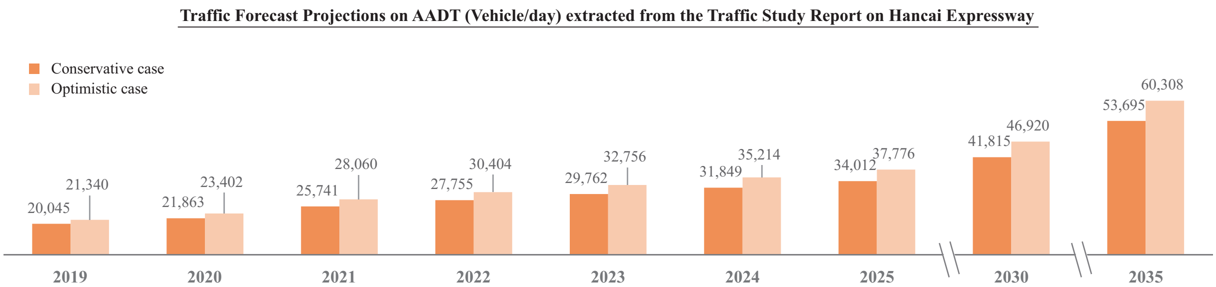
5.2 Traffic and revenue forecast projection in relation to Daguangnan Expressway

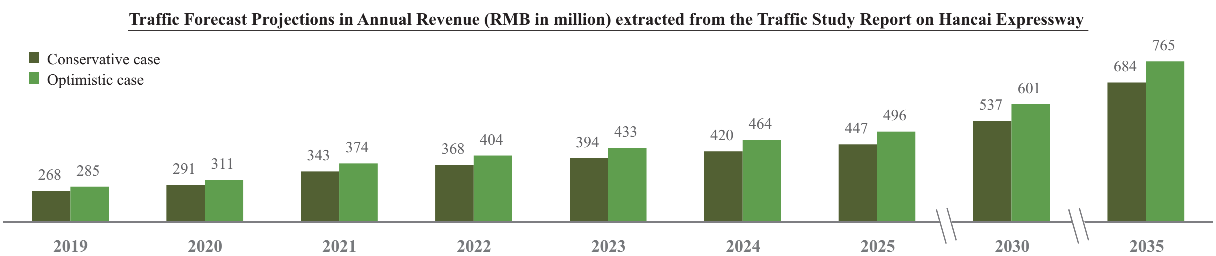




Note: According to the Traffic Study Report on Daguangnan Expressway, it is expected that the northern Hubei section of the Beijing-Hong Kong-Macau Expressway (京港澳高速) will undergo expansion construction work from December 2019 to June 2023. Jie Cheng is of the view that some vehicles will be diverted to Daguangnan Expressway from 2021 when the expansion construction work will be conducted in full-scale. Those vehicles previously diverted to Daguangnan Expressway will return to the Beijing-Hong Kong-Macau Expressway in July 2023 after completion of the expansion construction work.

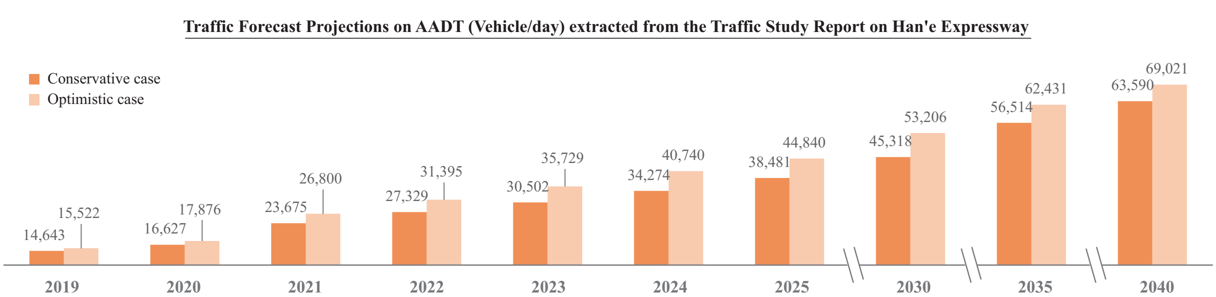
5.3 Traffic and revenue forecast projection in relation to Hancai Expressway

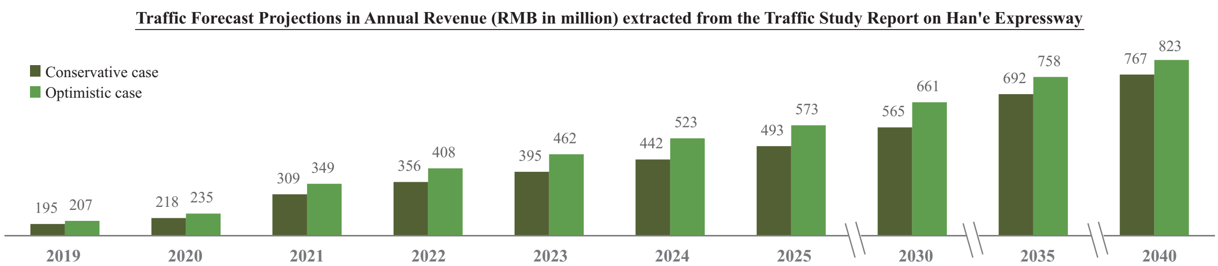




Note: According to the Traffic Study Report on Hancai Expressway, it is expected that the Hanyi Expressway (漢宜高速) will undergo expansion construction work from 2020 to 2025. Jie Cheng is of the view that some vehicles will be diverted to Hancai Expressway from 2021 when the expansion construction work will be conducted in full-scale. Those vehicles previously diverted to Hancai Expressway will return to the Hanyi Expressway in 2026 after completion of the expansion construction work.

5.4 Traffic and revenue forecast projection in relation to Han'e Expressway





Note: According to the Traffic Study Report on Han'e Expressway, it is expected that the Wuhuang Expressway (武黃高速) will undergo expansion construction work from 2020 to 2025. Jie Cheng is of the view that some vehicles will be diverted to Han'e Expressway from 2021 when the expansion construction work will be conducted in full-scale. Those vehicles previously diverted to Han'e Expressway will return to the Wuhuang Expressway in 2026 after completion of the expansion construction work.

5.5 Reports from the Financial Advisers and the Reporting Accountant

The Financial Advisers had issued a report confirming they were satisfied that the Profit Forecast had been made by the Directors after due and careful enquiry. Please refer to Appendix I to the SPA Announcement for the said report of the Financial Advisers.

PricewaterhouseCoopers, the Reporting Accountant, had reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows upon which the valuation prepared by Savills was based. Please refer to Appendix II to the SPA Announcement for the said report from PricewaterhouseCoopers for the purpose of Rule 14.62 of the Listing Rules.

6. SIGNIFICANT FINANCIAL EFFECTS OF THE ACQUISITION

Significant financial effects of the Acquisition on the Enlarged Group

The following table sets forth the significant financial effects of the Acquisition on the Enlarged Group identified in the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular ("**Pro Forma Financial Information**"), assuming that completion of the Acquisition had taken place on 30 June 2019, as compared to the financial position of the Group as at 30 June 2019:

	As at 30 June 2019	Pro forma adjustment	Upon completion of the Acquisition (pro forma Enlarged Group)	Change
	RMB'000	*RMB'000*	*RMB'000*	*%*
Net assets	12,792,476	601,931	13,394,407	4.7%
Total assets	22,236,548	13,594,395	35,830,943	61.1%
Total liabilities	9,444,072	12,992,464	22,436,536	137.6%

Assets and liabilities

Based on the Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group as at 30 June 2019 would increase by approximately RMB13.6 billion to approximately RMB35.8 billion and the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 30 June 2019 would increase by approximately RMB13.0 billion to approximately RMB22.4 billion after the Acquisition, assuming that completion of the Acquisition had taken place on 30 June 2019. As disclosed in the section headed "4. WORKING CAPITAL" of Appendix I to this circular, the Directors are of the opinion that, after taking into account the completion of the Acquisition and the financial resources available to the Enlarged Group, the Enlarged Group has sufficient working capital for at least the next 12 months from the date of this circular. The aforesaid financial resources include, without limitation, (i) banking facilities of approximately RMB2,128,000,000.00 available to the Group; (ii) the Group's plan to issue medium term notes up to a maximum principal amount of RMB2,000,000,000.00 in the PRC pursuant to the registration notice issued by the National Association of Financial Market Institutional Investors*（中國銀行間市場交易商協會）to the Company; and (iii) the Group's internal resources, including cash flows expected to generate from the Group's operations. On the basis of the financial resources available to the Enlarged Group as referred to above, the Company does not expect that it would need to conduct any additional fundraising in the next 12 months from the date of this circular in order to sustain the Enlarged Group's existing operation.

The net assets, the total assets and the total liabilities of the Enlarged Group which are referred to in this subsection were extracted from the Pro Forma Financial Information, which was based on, among other things, a Total Consideration of approximately RMB5,846,050,000.00 and the assumption that the completion of the Acquisition had occurred on 30 June 2019. The Total Consideration comprises the Equities Consideration which is a fixed amount, and the Loan

Consideration which, as disclosed in section 2(d) above, depends on the actual date on which the Loan Consideration is paid. Since the completion of the Acquisition would occur on a date later than 30 June 2019, the Total Consideration would be higher than the assumed amount of the Total Consideration (RMB5,846,050,000.00) for the purposes of the Pro Formal Financial Information. As the actual amount of the Total Consideration will be different from the assumed amount used in the Pro Forma Financial Information, the abovementioned figures as at the date of completion of the Acquisition may also be different from the corresponding amounts presented in the Pro Forma Financial Information.

Earnings

Assuming the occurrence of the completion of the Acquisition, the Target Group Members will become the subsidiaries of the Company. Based on the statements of comprehensive income of the Target Group as set out in Appendix III to this circular, it is expected that the earnings of the Enlarged Group will decrease as a result of the Acquisition. Nonetheless, after considering the factors set out in section 9 (“Reasons for and benefits of the Acquisition”) of the Board Letter, and that the toll revenue generated from the Target Expressways is expected to increase in the coming years as projected in the Traffic Study Reports, the Directors expect that the Acquisition could produce a positive impact on the earnings of the Group in the near future.

7. RISK FACTORS

The Directors noted that there are certain risks involved in the Acquisition or the management and operation of the Target Group, including but not limited to:

Traffic volume may be affected by competing roads and bridges and other modes of transportation and factors beyond the Target Group’s control and traffic forecasts are based on assumptions which may prove to be incorrect

Revenue from each Target Expressway is principally dependent on the number and classes of motor vehicles using such road and the applicable toll regime. Traffic volume is directly and indirectly affected by a number of factors, including the availability, quality, proximity and toll rate differentials of alternative road(s) or bridges, the existence of other means of transportation, including rail, aviation and waterway, fuel prices, taxation and environmental regulations. There can be no assurance that such other roads or modes of transportation will not significantly improve their services and reduce their charges, that competing expressways, toll roads or bridges will not be built nor that alternative routes which charge lower or zero tolls will not be devised, which in each case would have an adverse effect on the revenue, results of operations and financial condition of the Target Group. Shareholders and potential investors should note that the forecasts on revenue and traffic volume contained in the Traffic Study Reports were made on the assumptions specified in the section headed “6. MAJOR ASSUMPTIONS” of the summaries of the Traffic Study Reports set out in Appendices VI to VIII to this circular, including but not limited to the assumption that completion of new expressways adjacent to the Target Expressways will result in either positive or negative impact on the traffic using the Target Expressways and the assumptions set out in section 6.1.5 of each of Appendix VI (in relation to Daguangnan Expressway) and Appendix VIII (in relation to Han’e Expressway) to this circular with respect to the construction of the SF Ezhou airport as referred to in each of the said Appendix VI and Appendix VIII and the relevant estimated traffic flow. Should these assumptions prove to be incorrect, the financial performance of the Target Group may be adversely affected. Similarly, the market value of the Target Equities as appraised by Savills was made on the assumptions as disclosed in section 5.1 above, including but not limited to the assumption that "The future financial performance of the Project Companies will be in line with the traffic and maintenance cost projections provided by Jie Cheng with the effort of the management of the Company at the required rate of return". Should this assumption and/or other assumptions of the valuation of the Target Equities prove to be incorrect, the appraised value of the Target Equities may be adversely affected.

The toll regime significantly impacts the Target Group's revenues and is regulated by governmental authorities

The toll rates for each Target Expressway are subject to regulation by the relevant governmental authorities in the PRC. Toll rates require approval from the relevant governmental authorities. There can be no assurance that the relevant government authorities will, if a request for increase in toll rates is made, approve such request in a timely manner or at all or that relevant governmental authorities will not at any time request a toll rate reduction.

Changes to the provincial government's transportation-related policies may impact the revenues and earnings of the Target Group

The Target Group's operations are sensitive to changes in the PRC government's policies relating to all aspects of the transportation sector, for example, provincial and municipal transportation networks, traffic regulations, toll regime and the planning, development, construction and management of expressways in the PRC. There is no assurance that changes in such policies would not have a material adverse effect on the financial condition and results of operations of the Target Group. Shareholders and potential investors should note that the forecasts on revenue and traffic volume contained in the Traffic Study Reports were made on the assumptions specified in the section headed "6. MAJOR ASSUMPTIONS" of the summaries of the Traffic Study Reports set out in Appendices VI to VIII to this circular, including but not limited to the assumptions that (i) completion of new expressways adjacent to the Target Expressways will result in either positive or negative impact on the traffic using the Target Expressways and (ii) the toll policies referred to therein would continue throughout the concession periods of the Target Expressways. Should these assumptions prove to be incorrect, the financial performance of the Target Group may be adversely affected. Similarly, the market value of the Target Equities as appraised by Savills was made on the assumptions as disclosed in section 5.1 above, including but not limited to the assumption that "The toll rate and charging mechanism will remain unchanged over the remaining concession period for the Target Expressways as forecasted by Jie Cheng". Should this assumption and/or other assumptions of the valuation of the Target Equities prove to be incorrect, the appraised value of the Target Equities may be adversely affected.

The expressway operations of the Target Group may be subject to operational risks

The expressway operations of the Target Group may be materially adversely affected or interrupted by unforeseeable events and various factors, such as major traffic accidents, other unforeseen circumstances and road closure or restricted access beyond the control of the Target Group.

Slowdown in the GDP may adversely affected the financial performance of the Target Group

All of the Target Expressways are located in Hubei Province. The business and performance of the Target Expressways is closely linked to the economic conditions of Hubei Province and affected by the macro-economic environment and policy stability in the PRC. Any downturn or slowdown in economic activities than as forecasted, or slow GDP growth in Hubei Province and/or the PRC overall could lead to lower utilisation of the Target Expressways. In those circumstances the financial performance of the Target Group may be adversely affected.

Third party information and forward looking statements

This circular contains certain information which has been derived from various governmental and other publicly available documents or other sources and such information has not been independently verified by the Company, the Directors or its advisors. Any estimates, projections, targets, forecasts, timelines and other forward-looking statements made or proposed by the Company or the Directors in this circular are based on its or their current expectations and assumptions. These forward-looking statements are subject to uncertainties and are not guarantees of future performance or development. Should these uncertainties materialized or should the underlying assumptions prove to be incorrect, the financial performance of the Target Group may be adversely affected. Accordingly, Shareholders and potential investors should not place undue reliance on these statements.

8. INFORMATION ON THE PARTIES

8.1 The Group and the Purchaser

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

The Purchaser is a wholly-owned subsidiary of the Company whose scope of business is commercial services.

8.2 The Vendor

The Vendor is a company established in the PRC whose scope of business includes, among other things, retail, provisions of consultancy services in respect of trade and investment, import and export of goods and management of assets. The Vendor is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings. Guangzhou Yue Xiu Holdings is the controlling shareholder of the Company holding approximately 44.20% of the issued share capital of the Company as at the LPD and therefore is a connected person of the Company. Accordingly, the Vendor is also a connected person of the Company by virtue of it being an associate of Guangzhou Yue Xiu Holdings.

9. REASONS FOR AND BENEFITS OF THE ACQUISITION

All the Target Expressways are situated at the heart of the PRC. The Board considers that the Acquisition is in line with the Group's manifest strategy to expand into Central China.

Presently, Hancai Expressway and Han'e Expressway are two of the seven expressways radiating out of Wuhan, the capital city of Hubei Province, and connecting Wuhan to the outlying districts, development zones and industrial parks in the Greater Wuhan circle. Together with Hanxiao Expressway, the Group will hold concession rights over three out of seven such expressways. Wuhan is one of the major traffic hubs of the PRC and is renowned as the "Thoroughfare to Nine Provinces" (九省通衢). In recent years, Hubei Province and Wuhan have shown substantial growth in both economy and traffic. In 2018, Hubei Province's freight traffic volume was amongst the top 10 of all provinces in the PRC. Given the promulgated 13th Five-Year Plan of Wuhan and the PRC government's "Rise of Central China" (中部崛起) policy, it is expected that the future growth of Hubei and Wuhan would be further enhanced and continue to be strong and attractive.

Daguangnan Expressway connects Hubei and Jiangxi Provinces vertically, and forms the southern part of the Daguang Expressway (running from Daqing in the north and ends at Guangzhou in the south, being one of the 11 national trunk lines running from north to south in the PRC expressway network) in Hubei Province. It has a toll mileage of approximately 107.1 km and will be the longest toll expressway compared to other expressways in the Group's current portfolio, surpassing Suiyuenan Expressway. Combined with Suiyuenan Expressway, the Group will hold concession rights to two out of six south-to-north running national trunk lines that pass through Hubei Province, the heart of the PRC. These two expressways are well positioned to the east (Daguangnan Expressway) and west (Suiyuenan Expressway) of Wuhan with the Beijing-Hong Kong-Macau Expressway running parallel in between. Suiyuenan Expressway, which is a duplicate trunk line of Beijing-Hong Kong-Macau Expressway, has demonstrated satisfactory growth in traffic and revenue following the Group's acquisition in 2015. It is expected that Daguangnan Expressway would enjoy promising prospects in terms of mid to long-term growth in traffic volume and revenue.

The Board also expects that the Acquisition will enhance the income and asset base of the Group. On completion of the Acquisition, the toll mileage of controlled expressways will significantly increase from 337.1 km to 534.9 km, representing an increment of approximately 58.7%. The concession rights of both Daguangnan Expressway and Han'e Expressway will expire in 2042 (which are two years longer than the last to expire in the rest of the Group's portfolio) while that of Hancai Expressway will expire in 2038. After completion of the Acquisition, the weighted average remaining concession period of the controlled expressways held and operated by the Group will enjoy a favourable extension from approximately 17.2 years to approximately 19.1 years. In addition, it is expected that the Target Expressways will contribute to the Group's cash inflows upon completion of the Acquisition given their established track record.

Despite the Target Group having been operating at a net loss since toll collection started, based on the traffic forecast projections in the Traffic Study Reports and the Target Expressways' strategic geographical locations within or near one of the key traffic hubs and growth areas of the PRC, the Board believes that the Target Expressways are approaching the end of their incubation phases and are going to become one of the key drivers to fuel the Group's income and cash flow growth in the near mid to long term.

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

10. OTHER TRANSACTIONS CONTEMPLATED UNDER THE ACQUISITION

10.1 Possible continuing connected transaction constituted by the Target Shareholder's Loan

Under the terms of the SPA, it is possible that the Equities Completion and the Loan Completion will not occur on the same date. If the Equities Completion occurs earlier than the Loan Completion, the Target Shareholder's Loan, being a loan owed by YXHB (which would become a subsidiary of the Company as a result of the Equities Completion) to the Vendor, a connected person of the Company, will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules during the period from the Equities Completion up to the occurrence of the Loan Completion.

10.2 Possible continuing connected transaction constituted by the Bridging Loan Facility

On 12 September 2019, the Vendor and YXHB entered into a new loan agreement ("**New Shareholder's Loan Agreement**") on the following principal terms:

Principal amount	:	A maximum of RMB850,000,000.00
Interest rate	:	6.5% per annum
Repayment date	:	Loan Completion Date or a date falling within one year from the first drawdown date, whichever is earlier
Early repayment	:	YXHB may repay all or any of the outstanding amount at any time before the repayment date set out above by giving three working days' advance notice to the Vendor
Prepayment penalty	:	Nil
Security/Guarantee	:	Nil

The New Shareholder's Loan Agreement was entered into by the Vendor after consultation with the Purchaser. The Bridging Loan Facility was provided principally for ASN to refinance at a lower interest rate a debt owing to the Asset Management Creditor, an independent third party, which ASN might elect to repay in late September 2019. As at the LPD, YXHB had borrowed an aggregate of RMB850,000,000.00 under the Bridging Loan Facility which had been utilized for repayment of the ASN's debts (including interests) owed to the Asset Management Creditor and as the general working capital of YXHB. After taking into account the interest of approximately RMB3,179,000.00 accrued on the Borrowed Bridging Loan up to and including the LPD, ASN owed approximately RMB853,179,000.00 to the Vendor under the New Shareholder's Loan Agreement as at the LPD. It is expected that the Purchaser will provide a shareholder's loan equal to the amount of the Borrowed Bridging Loan (plus the accrued interest) to YXHB not later than the Loan Completion so that the Borrowed Bridging Loan can be repaid on or about the Loan Completion Date. As disclosed in the SPA Announcement, the said debt previously owing to the Asset Management Creditor bore interest at a rate higher than 6.5% per annum, being the interest rate chargeable under the New Shareholder's Loan Agreement, it is beneficial for the Group to refinance the said debts previously owing to the Asset Management Creditor by the Bridging Loan Facility.

If the Equities Completion occurs earlier than the discharge of YXHB from its obligations under the New Shareholder's Loan Agreement, the New Shareholder's Loan Agreement, being a transaction between YXHB (which would become a subsidiary of the Company as a result of the Equities Completion) and the Vendor, a connected person of the Company, will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules during the period from the Equities Completion up to the discharge of YXHB from its obligations under the New Shareholder's Loan Agreement.

10.3 Possible continuing connected transaction constituted by the Guarantee Fee Arrangement

(a) In consideration of Guangzhou Yue Xiu Holdings providing a back-to-back guarantee ("**YX Back-to-Back Guarantee**") in favour of a former ultimate shareholder of ASN who provided a guarantee in favour of the Asset Management Creditor, ASN agreed to pay Guangzhou Yue Xiu Holdings a daily guarantee fee calculated at 0.2% of the principal amount of the debt owed by ASN to the Asset Management Creditor from time to time divided by 365 days ("**Guarantee Fee Arrangement**").

(b) On the basis of the amount under the YX Back-to-Back Guarantee being RMB700,000,000.00 as at the LPD, the daily guarantee fee payable by ASN is approximately RMB3,800.00.

(c) As Guangzhou Yue Xiu Holdings is a connected person of the Company, the Guarantee Fee Arrangement, being an arrangement in consideration of the financial assistance (namely the YX Back-to-Back Guarantee) received by ASN (which would become a subsidiary of the Company as a result of the Equities Completion) from a connected person, will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules upon the Equities Completion.

Each of the transactions contemplated under the Acquisition as disclosed in sections 10.1 to 10.3 of the Board Letter is a financial assistance received by a subsidiary of the Company (assuming occurrence of the completion of the Equities Acquisition) from a connected person of the Company. As such financial assistance is conducted on normal commercial terms or better and is not secured by the assets of the Group, it is fully exempt pursuant to Rule 14A.90 of the Listing Rules.

11. IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

11.1 Major and connected transaction

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

Further, as the Vendor is a connected person of the Company as disclosed in section 8.2 above, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest percentage ratio (other than the profits ratio) in respect of the Acquisition is 5% or above, the Acquisition constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

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

11.2 Shareholders required to abstain from voting at the SGM

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

11.3 Advice of the Independent Board Committee

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

12. SGM

A notice convening the SGM to be held at Plaza I-IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, on Tuesday, 5 November 2019 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

The register of members of the Company will be closed from Friday, 1 November 2019 to Tuesday, 5 November 2019, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the SGM, all transfer forms accompanied by the relevant share certificates must be lodged for registration with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 31 October 2019.

A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong

Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

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

13. RECOMMENDATION

In addition to the information contained in the sections immediately preceding this section headed "13. RECOMMENDATION", your attention is drawn to the Independent Board Committee Letter set out on pages 32 to 33 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the SPA.

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

14. ADDITIONAL INFORMATION

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

By order of the Board
Yuexiu Transport Infrastructure Limited
LI Feng
Chairman

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

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

17 October 2019

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF INTERESTS IN COMPANIES OPERATING THREE EXPRESSWAYS IN HUBEI PROVINCE, THE PRC

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

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

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

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

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

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

The following is the text of a letter, prepared for the purpose of inclusion in this circular, received from the IFA.

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

17 October 2019

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF INTERESTS IN COMPANIES OPERATING THREE EXPRESSWAYS IN HUBEI PROVINCE, THE PRC

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the entering into of the SPA between the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor (a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings and a connected person of the Company) and the transactions contemplated thereunder. Details of the SPA and the transactions contemplated thereunder are contained in the circular to the Shareholders dated 17 October 2019 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As the Vendor is a connected person of the Company, the entering into of the SPA and the transactions contemplated thereunder therefore constitute connected transactions of the Company. As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules for the Acquisition exceed 25% but is below 100%, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Vendor and its associates will abstain from voting at the SGM in respect of the proposed resolution(s) to approve the SPA and the transactions contemplated thereunder. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no other Shareholder or any of its associates has a material interest in the SPA and the transactions contemplated thereunder, therefore no other Shareholder would be required to abstain from voting on the relevant resolution(s) to be proposed at the SGM.

The Company has established the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fung Ka Pun, Mr. Lau Hon Chuen Ambrose and Mr. Cheung Doi Shu, to advise the Independent Shareholders on the terms of the SPA and the transactions contemplated thereunder, and to recommend to the Independent Shareholders how to vote at the SGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated with the Company, the Vendor, their respective substantial shareholders or associates, and accordingly, are considered eligible to give independent advice on the Acquisition. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any other fees or benefits from the Company, the Vendor, their substantial shareholders or associates.

During the past two years, we acted as the independent financial adviser and issued opinion letters regarding (i) the Company's continuing connected transactions relating to bank deposits as contained in the Company's circular dated 14 May 2018; and connected transactions relating to foreign exchange forward contracts as announced on 20 June 2019; (ii) Yue Xiu Property Company Limited's continuing connected transactions relating to tenancy agreements entered into on 10 July 2018 and 31 May 2019; foreign exchange transactions on 21 August 2019; and bank deposits as contained in its circular dated 27 September 2019; and (iii) Yuexiu Real Estate Investment Trust's discloseable and connected party transactions relating to the acquisition of 67% of a commercial property in Wuhan (武漢), and certain continuing connected transactions; and the waiver in respect of ordinary banking and financial services, as contained in its circulars dated 15 November 2017 and 10 May 2019, respectively. The past engagements were limited to providing independent advisory services to the independent board committee of the Company, Yuexiu Property Company Limited, Yuexiu REIT Asset Management Limited and their respective independent shareholders/unitholders pursuant to the Listing Rules and Code on Real Estate Investment Trusts. Under the past engagements, Somerley received normal professional fees from the Company, Yuexiu Property Company Limited and Yuexiu REIT Asset Management Limited. Notwithstanding the past engagements, as at the Latest Practicable Date, there were no relationships or interests between Somerley on one hand and the Company, the Vendor, and their respective substantial shareholders and/or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the Acquisition.

In formulating our opinion and recommendation, we have reviewed, among other things, the SPA, undertaking from PRC banks regarding the Acquisition Loan (as defined hereinafter), the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"), the annual report of the Company for year ended 31 December 2018 (the "**2018 Annual Report**") and the information set out in the Circular. We have also discussed with the management of the Group regarding the business, financial and the commercial implications of the Acquisition on the Group.

In addition, we have relied on the information and facts supplied, and the opinions and intention expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete and will remain true, accurate and complete up to the time of the SGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to the Acquisition, we have taken into account the following principal factors:

1. Background of and rationale for the Acquisition

1.1 The Group

The Company is incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 01052). The Group is principally engaged in investment in and development, operation and management of expressways and bridges (the "**Existing Toll Roads and Bridges**") mainly in Guangdong Province and other high-growth provinces in the PRC.

Set out below is the summary of the financial information of the Group for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2018 and 2019 as extracted from the 2018 Annual Report and the 2019 Interim Report:

	For the year ended 31 December		**For the six months ended 30 June**	
	2017	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Approximately)	*(Approximately)*	*(Approximately)*	*(Approximately)*
			(unaudited)	*(unaudited)*
Total revenue	2,702,844	2,847,073	1,371,008	1,380,910
Net profit attributable to the Shareholders	947,942	1,054,135	462,423	635,070

	As at 31 December		As at 30 June
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
	(Approximately)	*(Approximately)*	*(Approximately)*
			(unaudited)
Total equity excluding non-controlling interests	9,544,848	10,071,871	10,360,175

For the years ended 31 December 2017 and 2018, the Group recorded a revenue of approximately RMB2,702.8 million and RMB2,847.1 million, respectively, representing a year-on-year increase of approximately 5.3%. This was mainly attributable to the toll revenue increment in Weixu Expressway and Suiyuenan Expressway. The net profit attributable to the Shareholders for the corresponding period were approximately RMB947.9 million and RMB1,054.1 million, representing a year-on-year increase of approximately 11.2%, which was mainly attributed to the higher toll revenue generated from Weixu Expressway and Suiyuenan Expressway and there was one-off impairment loss (after tax impact and non-controlling interest) in intangible operating rights of RMB48.3 million in 2017. In addition, the share of the results of GWSR Expressway increased by RMB22.4 million due to the diversion of certain trucks to GWSR Expressway in response to the traffic control implemented for transformation and construction in the Foshan First Ring Road (佛山一環) since 1 August 2017.

For the six months ended 30 June 2018 and 2019, the Group recorded a revenue of approximately RMB1,371.0 million and RMB1,380.9 million, respectively, representing an increase of approximately 0.7%. The net profit attributable to the Shareholders for the corresponding period were approximately RMB462.4 million and RMB635.1 million, respectively, representing a period-on-period increase of approximately 37.3%, which was principally due to (i) the drop in net finance cost; (ii) the 3-year tax relief was granted to GNSR Expressway; and (iii) no one-off withholding tax provision was made for the direct reinvestment by the Company with its PRC subsidiary's distributed profit during the period as compared to the corresponding period last year.

The total equity of the Group (excluding non-controlling interests) increased from approximately RMB9,544.8 million in 2017 to RMB10,071.9 million in 2018 and further increased to approximately RMB10,360.2 million in the first half of 2019.

1.2 The Existing Toll Roads and Bridges

The Existing Toll Roads and Bridges are all located in the PRC, namely, (i) GNSR Expressway; (ii) Cangyu Expressway; (iii) Jinxiong Expressway (formerly known as Jinbao Expressway); (iv) Han-Xiao Expressway; (v) Changzhu Expressway; (vi) Weixu Expressway; (vii) Suiyuenan Expressway; (viii) GWSR Expressway; (ix) Humen Bridge; (x) Northern Ring Road; (xi) Shantou Bay Bridge; and (xii) Qinglian Expressway. Details of the Existing Toll Roads and Bridges are set out below:

Existing Toll Roads and Bridges	**Location**	**Attributable interests**	**Remaining operating term**	**Average daily toll revenue in 2018**	**Net profit[(2)] /share of results in 2018**	**Toll mileage**	**Width**	**No. of toll station(s)**
		(%)	*(years)*	*(RMB'000)*	*(RMB'000)*	*(km)*	*(lanes)*	
Subsidiaries								
GNSR Expressway	Guangzhou City, Guangdong	60.00	13	3,180	383,525	42.5	6	5
Cangyu Expressway	Wuzhou City, Guangxi	100.00	11	214	34,119	23.3	4	1
Jinxiong Expressway [(3)]	Tianjian City, Tianjian	60.00	11	262	15,416	23.9	4	3
Han-Xiao Expressway	Wuhan City, Hubei	100.00	17	466	40,427	38.5	4	2
Changzhu Expressway	Changsha City, Hunan	100.00	21	680	76,988	46.5	4	5
Weixu Expressway	Xuchang City, Henan	100.00	16	1,171	211,156	64.3	6	2
Suiyuenan Expressway	Wuhan City, Hubei	70.00	21	1,828	207,862	98.1	4	4
Associates and joint venture								
GWSR Expressway	Guangzhou City, Guangdong	35.00	11	1,653	87,023	42.1	6	4
Humen Bridge	Dongguan City, Guangdong	27.78[(1)]	10	4,583	195,986	15.8	6	4
Northern Ring Road	Guangzhou City, Guangdong	24.30	4	2,109	74,250	22.0	6	8
Shantou Bay Bridge	Shantou City, Guangdong	30.00	9	583	33,830	6.5	6	3
Qinglian Expressway	Qingyuan City, Guangdong	23.63	15	2,084	20,387	215.2	4	16

Notes:

(1) The profit sharing ratio was 18.446% from 2010 onwards

(2) After elimination of inter-company loan interests

(3) Formerly known as Jinbao Expressway

As at 31 December 2018, the Group had seven controlled expressways (namely GNSR Expressway, Cangyu Expressway, Jinxiong Expressway, Han-Xiao Expressway, Changzhu Expressway, Weixu Expressway and Suiyuenan Expressway). Among the seven controlled expressways, GNSR Expressway accounted for about 40% of the net profits from these seven toll expressways combined but its remaining concession period is approximately 13 years only. The simple average of the remaining concession period of the seven toll expressways is approximately 15.7 years. The Group also owned 20-40% equity interests in five expressways and bridges contributing an aggregate profit of approximately RMB411.5 million for the year ended 31 December 2018. The remaining concession period of four of the five non-controlled expressways and bridges (namely GWSR Expressway, Humen Bridge, Northern Ring Road and Shantou Bay Bridge) which altogether accounted for approximately 95% of the Group's total share of results of associates and a joint venture in 2018, will end in 4-11 years.

1.3 The Vendor

The Vendor is a company established in the PRC whose scope of business includes, among other things, retail, provisions of consultancy services in respect of trade and investment, import and export of goods and management of assets. The Vendor is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings. Guangzhou Yue Xiu Holdings is the controlling shareholder of the Company holding approximately 44.20% of the issued share capital of the Company as at the Latest Practicable Date and therefore is a connected person of the Company. Accordingly, the Vendor is also a connected person of the Company by virtue of it being an associate of Guangzhou Yue Xiu Holdings.

1.4 The Acquisition

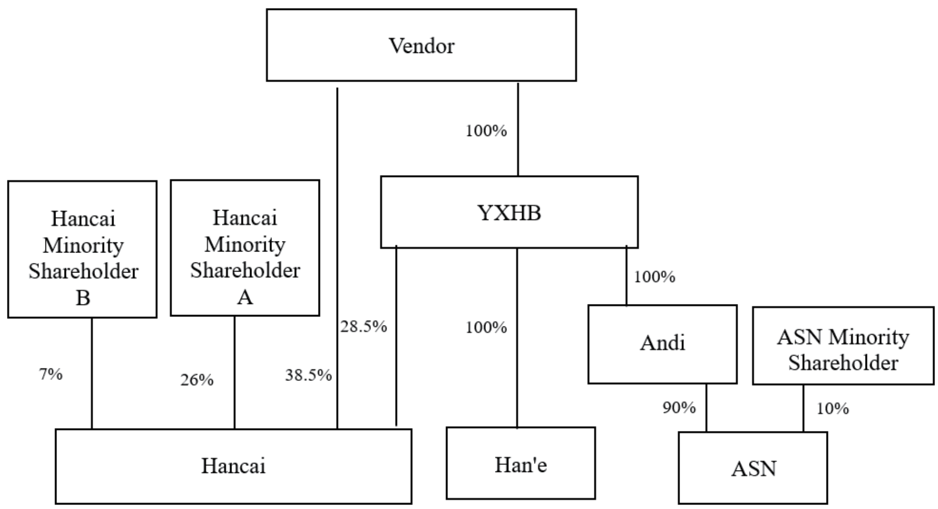
The Acquisition consists of two parts: the Equities Acquisition and the Loan Acquisition. The Equities Acquisition refers to the acquisition of the Target Equities (being (i) 100% of the equity interest in YXHB and (ii) 38.5% of the equity interest in Hancai), which represents the controlling interests of the Target Group. The Loan Acquisition refers to the acquisition of the Target Shareholder's Loan, which represents the entire amount of the outstanding shareholder's loan (except for the New Shareholder's Loan as discussed in sub-section 5.6 below) in the principal amount of RMB4,654,503,531.78 owed by YXHB to the Vendor as at the date of the SPA together with the interest accrued thereon.

For details of the principal terms of the Acquisition (including the consideration for the Acquisition), please refer to "5. Principal terms of the Acquisition" of this letter below.

1.5 The Target Group

As at the Latest Practicable Date, the Target Group comprised of (i) YXHB; (ii) Andi; (iii) ASN; (iv) Hancai; and (v) Han'e. Each of the Target Group Members is established in the PRC, where YXHB and Andi are investment holding companies and ASN, Hancai and Han'e are project companies that own the concession rights of and operate Daguangnan Expressway, Hancai Expressway and Han'e Expressway, respectively.

The shareholding structure of the Target Group as at the Latest Practicable Date is set out below:



Set out below is the summary of the financial information of the Target Group for the year ended 31 December 2017 and 2018 and for the six months ended 30 June 2018 and 2019, respectively, as extracted from the accountant's report on the Target Group in Appendix III to the Circular:

	For the year ended 31 December		**For the six months ended 30 June**	
	2017	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Approximately)	*(Approximately)*	*(Approximately)* *(unaudited)*	*(Approximately)*
Toll revenue	782,444	847,241	424,718	373,396
Net loss attributable to the owners of the Target Group	(216,498)	(74,254)	(58,289)	(104,944)

	As at 31 December		**As at 30 June**
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
	(Approximately)	*(Approximately)*	*(Approximately)*
Net liabilities (excluding non-controlling interests)	(1,759,250)	(1,833,504)	(1,938,448)

For the years ended 31 December 2017 and 2018, the Target Group recorded a toll revenue of approximately RMB782.4 million and RMB847.2 million, respectively, representing a year-on-year increase of approximately 8.3%. This was mainly attributable to the increase in toll revenue from Hancai Expressway and Han'e Expressway. The net loss attributable to the owners of the Target Group for the corresponding period were approximately RMB216.5 million and RMB74.3 million, representing a reduction of loss of approximately 65.7%, which was primarily due to increase in revenue from the Target Expressways and decrease in finance cost.

For the six months ended 30 June 2018 and 2019, the Target Group recorded a toll revenue of approximately RMB424.7 million and RMB373.4 million, respectively, representing a decrease of approximately 12.1% which was primarily attributable to the decrease in average toll per vehicle from RMB21.9 per vehicle for the six months ended 30 June 2018 to RMB18.8 per vehicle for the six months ended 30 June 2019 mainly due to the following reasons: (i) after the completion of the maintenance work of the Wuhan Junshan Changjiang Bridge (武漢軍山長江大橋) of Beijing-Hong Kong-Macau Expressway, trucks had re-diverted back to Beijing-Hong Kong-Macau Expressway and the traffic volume of trucks using the Target Expressways reduced as a result; (ii) the tunnels in the Jiangxi section of the Daguang Expressway were closed for maintenance and the traffic volume of trucks using Daguangnan Expressway and Han'e Expressway reduced as a result; and (iii) the growth rate of traffic volume of passenger vehicles outpaced the growth rate of traffic volume of trucks for the Target Expressways and trucks generally generated higher toll per vehicle. The net loss attributable to the owners of the Target Group for the corresponding period were approximately RMB58.3 million to RMB104.9 million, representing an increase in loss of approximately 80.0%, which was principally due to the decrease in revenue as a result of (i), (ii) and (iii) above and the reduction of the Target Group's deferred tax assets in respect of the utilisation of tax losses.

The net liabilities of the Target Group (excluding non-controlling interests) increased from approximately RMB1,759.3 million in 2017 to RMB1,833.5 million in 2018 and further increased to approximately RMB1,938.4 million in the first half of 2019. As stated in the accountant's report on the Target Group in Appendix III to the Circular, given the Target Group had net current liabilities of RMB2,077.0 million as at 30 June 2019, the existing intermediate holding company (i.e. the Vendor) has agreed to provide financial support to the Target Group so as to enable the Target Group to meet its liabilities as and when they fall due and carry on its normal operations up to the completion of the Acquisition.

Upon the Equities Completion, the Purchaser will replace the Vendor as the holding company of the Target Group. Accordingly, all the Target Group Members will become the indirect subsidiaries of the Company and their financial results will be consolidated in the financial statements of the Group.

1.6 The Target Expressways

Set out below is a map which illustrates the location of the Target Expressways and the nearby expressways:

Daguangnan Expressway

Daguangnan Expressway is an important component of Daguang Expressway (大廣高速), which is a part of the national "71118" expressway network of the PRC. Daguangnan Expressway starts at Huahu interchange (花湖樞紐互通) in Huahu Town (花湖鎮), E'zhou (鄂州), where it intersects with Huyu Expressway (滬渝高速). It then passes through, among others, Xialu (下陸), Fushui (富水), Longgang (龍港) and ends in Tongshan County (通山縣). A section of Daguangnan Expressway is part of Wuhan Metropolitan Area Expressway (武漢城市圈環綫高速).

In addition, Daguangnan Expressway being a part of Daguang Expressway, is one of the three major national expressways (the other two being Erguang Expressway (二廣高速) and Beijing-Hong Kong-Macau Expressway (京港澳高速) closest to Wuhan that run through Hubei Province connecting the northern and southern part of the PRC. Despite the superb geographical of Beijing-Hong Kong-Macau Expressway (closest to Wuhan as compared to the other two said expressways), it is reported that Daguangnan Expressway may be the better option for drivers as the traffic flow of Beijing-Hong Kong-Macau Expressway is nearly saturated. According to the Traffic Study Reports, it is expected that the northern Hubei section of Beijing-Hong Kong-Macau Expressway will undergo expansion construction work from December 2019 to June 2023, Jie Cheng is of the view that some vehicles will be diverted to Daguangnan Expressway from 2021 when the expansion construction work will be conducted in full-scale and those vehicles previously diverted to Daguangnan Expressway will return to the Beijing-Hong Kong-Macau Expressway in July 2023 after completion of the expansion construction work. In addition, Daguangnan Expressway situates on the east of Wuhan and is the nearest major national north and south bound route to Shunfeng E'zhou Airport (順豐鄂州機場). The management of the Group is confident that the opening of Shunfeng E'zhou Airport in the second half of 2021 would pose a positive effect to the traffic volume of Daguangnan Expressway as well as Han'e Expressway.

Shunfeng E'zhou Airport, is positioned to become a national logistics hub and air cargo freight transshipment airport. After its completion, it will become the fourth cargo airport in the world and the first cargo airport in Asia. In addition, it is reported that the airport is within two-hour flight proximity covering cities with a combined 90% of the GDP of the PRC. It is believed that it will encourage the development of supply chain services ranging from transportation services to industry focused logistic centres in E'zhou, Huangshi (黃石) and the neighbouring areas which will drive the demand for road transport and in turn increase the usage of toll expressways.

Hancai Expressway

Hancai Expressway starts at Miliangshan (米糧山), which is located at Wuhan Middle Ring Road (武漢中環線) and ends at Yongan section (永安段) of Hanyi Expressway (漢宜高速) in Caidian District (蔡甸區). It is one of seven fast urban exit roads under Wuhan's planning and is an important western expressway exit corridor connecting Middle Ring Route (中環綫) and Outer Ring Route (外環綫) of Wuhan, and extends to Huyu Expressway. Hancai Expressway has four interchanges.

Furthermore, Hancai Expressway passes by Caidian Economic Development Zone (蔡甸經濟開發區), Dongfeng Renault Auto City (東風雷諾汽車城) and Sino-French Ecological Demonstration City (中法武漢生態示範城). The economic activities of the surrounding industrial parks are expected to support the increase in traffic volume for Hancai Expressway. Moreover, according the Traffic Study Report on Hancai Expressway, it is expected that Hanyi Expressway will undergo expansion construction work from 2020 to 2025. Jie Cheng is of the view that some vehicles will be diverted to Hancai Expressway from 2021 when the expansion construction work will be conducted in full-scale and those vehicles previously diverted to Hancai Expressway will return to Hanyi Expressway in 2026 after completion of the expansion construction work.

Han'e Expressway

Han'e Expressway starts in Xinqiao Village (新橋村) of Zuoling Town (左嶺鎮) in Wuhan. It connects with Hezuo Expressway (和左高速), which leads to Heping (和平) in Wuhan and Zuoling (左嶺), and then turns to the east where it passes through, among others, the Economic and Technological Development Zone of Gedian (葛店) in E'zhou, Huarong Town (華容鎮) in Huarong District (華容區) in E'zhou, Zelin Town (澤林鎮), Huahu Town and ends at Huahu interchange, which is the southern route of E'Dong Changjiang Bridge (鄂東長江大橋) of Daguang Expressway. It then connects with Huyu Expressway and Daguang Expressway.

Han'e Expressway is an important component of the expressway network of Hubei Province and is one of the seven fast urban exit roads under Wuhan's planning and is also the port highway of the Yangtze River ports in the east of Wuhan. Furthermore, it has the function of connecting Wuhan with three cities located in the east of Hubei, namely E'zhou, Huanggang (黃岡) and Huangshi.

We noted that south of Han'e Expressway is Wuhuang Expressway (武黃高速), which has a similar route as Han'e Expressway and is charging at the same toll rate. However, we are advised by the management of the Group that though certain sections of both expressways may have similar route, the exit of Han'e Expressway and Wuhuang Expressway towards Wuhan connects to the northern and southern section of the outer ring of Wuhan, respectively. From south-east of Hubei Province, Wuhuang Expressway serves as a passage to the west of Wuhan and Han'e Expressway serves as a passage to the north of Wuhan. In addition, the road condition and level of service (as defined in China Highway Engineering Technical Standard (公路工程技術標準)) of Han'e Expressway is better than Wuhuang Expressway which the management of the Group believes Han'e Expressway provides a better driving experience that will attract more drivers traveling to Huangshi direction (the section where the route of Han'e Expressway and Wuhuang Expressway are similar) to pick Han'e Expressway over Wuhuang Expressway. In addition, according to the Traffic Study Report on Han'e Expressway, it is expected that Wuhuang Expressway will undergo expansion construction work from 2020 to 2025. Jie Cheng is of the view that some vehicles will be diverted to Han'e Expressway from 2021 when the expansion construction work will be conducted in full-scale and those vehicles previously will return to the Wuhuang Expressway in 2026 after completion of the expansion construction work. Furthermore, Han'e Expressway is one of the nearest expressways connecting to Shunfeng E'zhou Airport which the management of the Group is of the view that Han'e Expressway will be benefited from the additional traffic expected to be generated by the airport.

Details of the Target Expressways are summarized below:

Target Expressway	**Remaining operating term** *(years)*	**Toll mileage** *(approximately)*	**Number of lanes**	**Number of toll collection stations**	**2018 traffic volume** *(Number of vehicles)*	**2018 toll revenue** *(RMB in million)*
Daguangnan Expressway	23	107.1 km	Dual two lanes	Seven	8,810	349
Hancai Expressway	19	35.98 km	Dual two lanes, except that the section from Miliangshan to the Outer Ring Route (外環綫) is a dual three lanes	Two	18,698	293
Han'e Expressway	23	54.75 km	Dual two lanes	Five	11,724	204

1.7 The Target Shareholder's Loan

The Target Shareholder's Loan represents the entire amount of the outstanding shareholder's loan (except for the Bridging Loan Facility under the New Shareholder's Loan Agreement as discussed in sub-section 5.6 below) in the principal amount of RMB4,654,503,531.78 owed by YXHB to the Vendor as at the date of the SPA together with the interest accrued thereon at the interest rate of 6.5% per annum calculated from 20 March 2019 under the unsecured 5-year loan facilities granted by the Vendor to YXHB. For details of the principal terms of the Target Shareholder's Loan (including the Loan Consideration), please refer to the "5. Principal terms of the Acquisition" of this letter below.

Pursuant to the SPA, it is possible that the Equities Completion and the Loan Completion will not occur on the same date. If the Equities Completion occurs earlier than the Loan Completion, the Target Shareholder's Loan, being a loan owed by YXHB (which would become a subsidiary of the Company upon the Equities Completion) to the Vendor will continue until the Loan Completion. Upon the Loan Completion, the sum of the Target Shareholder's Loan and the interest accrued thereon will be borne by the Group and will be reflected on the financial statements of the Group.

1.8 Rationale of the Acquisition

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

As discussed in the sub-section 1.2 of this letter, the simple average of the remaining concession period of the seven toll expressways controlled by the Group is approximately 15.7 years, of which the concession right of the most profitable GNSR Expressway will expire in 13 years and four out of five non-controlled expressways and bridges (namely GWSR Expressway, Humen Bridge, Northern Ring Road, Shantou Bay Bridge) that the Group holds 20-40% equity interests will end in 4-11 years. The remaining concession period for the Target Expressways range from 19-23 years, which, upon the Equities Completion, will extend the average concession period of the Group's existing portfolio. The Acquisition, in our view, will provide an opportunity for the Group to extend the overall concession period of its toll roads and bridges portfolio and increase the total toll mileage of the controlled expressways of the Group by approximately 58.7%, from 337.1 km to 534.9 km.

In recent years, as stated in the 2018 Annual Report, the Group has actively seized the development opportunities brought by the national strategy of "Rise of Central China" (中部崛起), and implemented aggressive expansion into Central China provinces with large populations of labors, such as Hubei, Hunan and Henan, with acquisition of a number of quality highway projects such as Weixu Expressway in 2012 and Suiyuenan Expressway in 2015. Diversification of investment regions disperses business risks and allows the Group to seize more development opportunities. This strategy has gradually paid off. As the projects are getting mature, the Central China projects are growing steadily and have become the important profit centers for the Group.

In addition, the Target Expressways are also located in Hubei Province. Presently, Hancai Expressway and Han'e Expressway are two of the seven expressways radiating out of Wuhan, the capital city of Hubei Province, and connecting Wuhan to the outlying districts, development zones and industrial parks in the Greater Wuhan circle. Daguangnan Expressway connects Hubei and Jiangxi Provinces vertically, and forms the southern part of the Daguang Expressway (running from Daqing in the north and ends at Guangzhou in the south, being one of the 11 national trunk lines running north to south in the PRC expressway network) in Hubei Province. Upon completion of the Acquisition, the Group will operate and manage three out of seven fast urban exit roads of Wuhan and two out of six south-to-north running national trunk lines that pass through Hubei Province which enable the Group to take full advantage of the interconnections of the roads it operates. We concur with the Directors that the Acquisition would not only aligns with the Group's recent development strategy but also enable the Group to further establish its foothold in Central China which has become its important source of profit in recent years.

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

2. Market outlook of toll road industry

2.1 Macro overview of Hubei Province

Benefited from its geographical location, Hubei Province is one of the important distribution and transportation centres in Central China. It is also being regarded as the economic locomotive of Central China. According to the National Bureau of Statistics of China (國家統計局), Hubei Province recorded a real gross domestic product growth of approximately 7.8% in 2018 which is above the national average of approximately 6.6% in 2018, reaching a record high of approximately RMB3.94 trillion.

Hubei Province has benefited from strong policy support from the Central Government. According to the Promoting the Rise of the Central Region (2016-2025)*《促進中部地區崛起(2016-2025年)》, Hubei Province, as one of the provinces in Central China, is expected to further improve its comprehensive strength and sharpen its competitive edge by upgrading and enhancing its industrial structure. The Market Development Plan for the Midstream Area of Yangtze River (2017 - 2020)*《長江中游區域市場發展規劃(2017-2020年)》stated that Hubei Province as one of the three provinces where priority is given to develop three major types of projects which includes logistics system construction project. Hubei Province is the cradle of the PRC's modern industry. As set out in the China Manufacturing 2025 Hubei Action Outline*《中國製造2025湖北行動綱要》, the industry development of Hubei Province has been an essential part of the PRC's national strategy to transforming the PRC from a big manufacturer to a strong manufacturer.

2.2 Market overview of the cities along the Target Expressways

As per our discussion with Jie Cheng, we are advised that the future economic condition of Wuhan and major cities along the Target Expressways has significant influence to the future growth of the traffic volume of the Target Expressways. According to Hubei Province Bureau of Statistics of China* (湖北省統計局), the gross domestic product ("**GDP**") of Wuhan, Huanggang, Huangshi, Xianning 咸寧, E'zhou and Xiantao 仙桃, the six major cities along the Target Expressways, recorded a compound annual growth rate ("**CAGR**") of approximately 9.0%, 8.3%, 6.0%, 8.1%, 8.4% and 8.4%, respectively, for the period from 2012 to 2017. Among the six major cities, five of which recorded a higher growth rate than the national average of 7.3% CAGR of the same period. From our understanding with Jie Cheng, the robust economic growth of the major cities along the Target Expressways in recent years drove the demand for road transport and in turn increased the usage of toll expressways. Furthermore, according to Hubei Province Bureau of Statistics of China, the cargo turnover rate of Huanggang, E'zhou, Xianning and Xiantao have witnessed a double-digit CAGR of approximately 33.9%, 16.3%, 14.2% and 20.6%, respectively, for the period between 2013 and 2016.

The local governments of the six major cities along the Target Expressways have strived to further develop local industries and enhance local infrastructure with Wuhan, Huangshi and Huanggang accounting for the largest GDP contribution in the south-east of Hubei Province. Wuhan, being the provincial capital of Hubei Province, will continue to be the economic locomotive of the Hubei Province and drive the economy of the surrounding satellite cities. Huangshi is an important raw materials manufacturing base in Central China and is one of the cities along Yangtze River which is approved to open to foreign businesses by the State Council of the PRC (中國國務院). Huanggang is the home for businesses and industries that focus in food and beverage, pharmaceutics, textile, construction materials and mechatronics.

Taking into consideration (i) the strong economic development of Hubei Province and the major cities along the Target Expressways in the past few years; and (ii) favorable national policies in support of the future growth and development of Hubei Province and the major cities along the Target Expressways, we concur with the Directors that it would be beneficial to the Group to increase its investment further in Hubei Province by acquiring the controlling interests of the Target Expressways.

3. The Traffic Study Reports

3.1 Qualification and experience of the traffic consultant

Pursuant to Rule 13.80 of the Listing Rules, in order to assess the expertise and independence of Jie Cheng, we have (i) reviewed the terms of the engagement (having particular regard to the scope of work); (ii) conducted an interview with Jie Cheng including as to its expertise and any current or prior relationships with the Group, the Vendor, and core connected persons of either the Group or the Vendor; and (iii) reviewed and discussed with Jie Cheng in relation to its past experience on traffic consulting projects (including traffic volume and toll revenue projection). Based on our work performed as mentioned above, we understand that (a) Jie Cheng has more than ten years of experience as traffic consultant and is led by Mr. Albert Cheung Chung Hoi, the Managing Director of Jie Cheng, who is a Fellow of the Hong Kong Institution of Engineers, Hong Kong Institution of Highways and Transportation and Institution of Highways and Transportation, UK, a Member of the Institution of Civil Engineers, UK and has over 44 years of experience in conducting investigation, feasibility study, design, construction supervision and technical audit of multi-disciplinary infra-structures projects in the PRC and Hong Kong. In addition, Mr. Cheung has specialized in conducting due diligence study for toll highways since 1990 and has been the Project Director for a traffic consultant company assisting infrastructure company initial public offerings ("**IPOs**") listing in Hong Kong and had participated in at least seven IPOs in Hong Kong and the PRC; (b) Jie Cheng team has independently and jointly completed over 100 traffic consulting projects in the past and its traffic volume and toll revenue projection experience in Hubei Province includes: Wuhan to Jingmen Expressway (2012, acted for a private investor), Wuhan to Xiaogan Expressway (2009, acted for a Hong Kong listed company), Huangshi to Huangmei Expressway (2007, acted for a China listed company), Jingzhou to Dongyuemiao Expressway (2010, acted for a China state-owned enterprise), Suiyuenan Expressway (2014, acted for the Company) and Jingmen to Yichang Expressway (2019, acted for a Hong Kong listed company); and (c) Jie Cheng is a third party independent of the Company and the Vendor and their respective core connected persons. In addition, we have reviewed their terms of engagement (including their scope of work) which we are of the view that their scope of work is appropriate. As such, we are not aware of any matters that would cause to have doubts on the expertise and independence of Jie Cheng.

3.2 Projection methodology

We have reviewed and discussed with Jie Cheng on the Traffic Study Reports in relation to the bases, assumptions and methodologies for the projection of the traffic volume, toll revenue as well as operation and maintenance costs of the Target Expressways. In respect of the preparation of the Traffic Study Reports, we noted that Jie Cheng has, among other things, (i) collected (a) GDP and planning data of Hubei Province and cities near the Target Expressways; (b) historical traffic data of the Target Expressways and adjacent cities; and (c) historical toll revenue and operational data of the Target Expressways; (ii) reviewed relevant national or local government policies, including the Hubei Provincial Highway Network Planning information and documents approving the existing toll rates of Hubei Province; (iii) analysed the data in (i) and (ii) above; (iv) conducted route reconnaissance on the Target Expressways and the major expressways nearby; and (v) built traffic and revenue forecast models under optimistic and conservative scenarios to estimate the traffic volume and toll revenue of the Target Expressways and carried out an operation and maintenance costs forecast of the Target Expressways.

To estimate the future volume of the Target Expressways, Jie Cheng took into consideration of the followings, including but not limited to, the GDP of the regions where the Target Expressways are running through, the connection between the transport and the local economies, the toll free policy for goods vehicle carrying agricultural products and small passenger cars during major holidays, road capacity of the Target Expressways and nearby expressways, toll rates for passenger and good vehicles, changes in expressway network (i.e. expansion and maintenance of road works and commencement of operation of new expressways) and other relevant information. To estimate the future operation and maintenance costs, Jie Cheng has considered, among other things, historical operation and maintenance costs of the Target Expressways, local unit costs for maintenance works, current maintenance quality of the Target Expressways and data from its in-house database collected in the past 10 years of its expressway audit work.

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

(i) in respect of Hancai Expressway, there is an increase in AADT growth in 2021 of 19.9% and 17.7% under the optimistic and conservative scenario, respectively, and a decrease in AADT growth in 2026 of 3.5% and 2.8% under the optimistic and conservative scenario, respectively. It is expected that Hanyi Expressway will undergo expansion construction work from 2020 to 2025. Jie Cheng is of the view that some vehicles will be diverted to Hancai Expressway from 2021 when the expansion construction work will be conducted in full-scale and those vehicles previously diverted to Hancai Expressway will return to Hanyi Expressway in 2026 after completion of the expansion construction work;

(ii) in respect of Han'e Expressway, there is an increase in AADT growth in 2021 of 49.9% and 42.4% under the optimistic and conservative scenario, respectively, and a decrease in AADT growth in 2026 of 7.0% and 7.4% under the optimistic and conservative scenario, respectively. It is expected that Wuhuang Expressway will undergo expansion construction work from 2020 to 2025. Jie Cheng is of the view that some vehicles will be diverted to Han'e Expressway from 2021 when the expansion construction work will be conducted in full-scale and those vehicles previously diverted to Han'e Expressway will return to Wuhuang Expressway in 2026 after completion of the expansion construction work; and

(iii) in respect of Daguangnan Expressway, there will be robust AADT growth for the next three years of 22.5%, 24.1% and 15.9% respectively under the optimistic scenario and 20.1%, 17.2% and 15.3% under the conservative scenario. According to Jie Cheng's analysis, the preparatory work for the opening of Shunfeng E'zhou Airport will bring in a substantial amount of airport works related traffic for Daguangnan Expressway before September 2021 and the gradual build up of air cargo and passenger as well as the industrial development such as logistics park, biomedical park, international e-commerce park, ecological agriculture farm, the electronic data center and other development adjacent to the airport will be completed over a period of time which will generate additional traffic to Daguangnan Expressway after September 2021. It is expected that the northern Hubei section of the Beijing-Hong Kong-Macau Expressway will undergo expansion construction work from December 2019 to June 2023. Jie Cheng is of the view that some vehicles will be diverted to Daguangnan Expressway from 2021 when the expansion construction work will be conducted in full-scale. The aforementioned factors collectively contributed to double digit growth for 2020-2022.

In addition, we have discussed with Jie Cheng on the key growth drivers for the forecast traffic volume which are brought by the maintenance and expansion road works of the expressways adjacent to the Target Expressways and the opening of the Shunfeng E'zhou Airport. For Daguangnan Expressway, the key growth drivers are the expected reflux of traffic after the completion of the maintenance road works of Jiangxi Wuji section of Daguang Expressway (大廣高速江西武吉段), the expansion road works of northern Hubei section of Beijing-Hong Kong-Macau Expressway and the opening of Shunfeng E'zhou Airport. For Han'e Expressway, the related key drivers are the expected diversion of traffic from the expansion road works of Wuhuang Expressway and the opening of Shunfeng E'zhou Airport. For Hancai Expressway, the related key driver is the expected diversion of traffic from the expansion road works of Hanyi Expressway. In summary, Shunfeng E'zhou Airport, which is expected to commence operation in the second half of 2021, and diversion of traffic from the expressways adjacent to the Target Expressways due to expansion road works play important roles in driving the growth of the Target Expressways as a whole.

For Shunfeng E'zhou Airport, we have reviewed (i) two news articles cited by the E'zhou government which reported that it will become the fourth cargo airport in the world and the first cargo airport in Asia after its completion and is expected to create 200,000 jobs and generate GDP of RMB200 billion (which is about two times of E'zhou's GDP recorded in 2018); and (ii) the notice in relation to the approval of the feasibility report of the Shunfeng E'zhou Airport《國家發展改革委關於新建湖北鄂州民用機場工程可行性研究報告的批覆》發改基礎 [2019] 53號 published by the National Development and Reform Commission in January 2019, stating that the airport, with a total investment cost of approximately RMB32 billion, is designed to accommodate cargo throughput capacity of 2.45 million tonnes and 1 million travellers by 2025 and cargo throughput capacity of 3.3 million tonnes and 1.5 million travellers by 2030. For the expansion road works of the nearby expressways, we (i) have reviewed the bid and tender notice in relation to the surveying and designing of the expansion road works of the northern Hubei section of Beijing-Hong Kong-Macau Expressway published by the Department of Transportation of Hubei Province 湖北省交通運輸廳 in August 2018 which hinted that the expansion road works is expected to commence in December 2019 and end in June 2023; and (ii) are advised by Jie Cheng that other maintenance and expansion road works of the expressways which are non-public information have been verified with the Department of Transportation of Hubei Province.

Moreover, we have reviewed a summary of the adjustments made to the forecast traffic volume of the Target Expressways as a result of, amongst others, the abovementioned expected traffic diversion and the opening of Shunfeng E'zhou Airport as well as the revenue projection and noted that the existing toll rates of the Target Expressways have been used in the projection without adjustment. We have reviewed the traffic study reports commissioned by other Hong Kong listed issuers and noted that the methodology, basis and assumptions adopted by Jie Cheng in the Traffic Study Reports are in line with the market practice.

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

In view of the above and on the basis that nothing has come to our attention that will cause us to doubt the reasonableness of the Traffic Study Reports including the bases, assumptions and methodologies applied in the Traffic Study Reports, we therefore consider that the bases, assumptions and methodologies adopted in the Traffic Study Reports are in line with the market practice.

4. The Valuation Report

Savills Valuation and Professional Services Limited, a professional independent valuer has been engaged by the Company to assess the market value of the Target Equities (details of which are set out in Appendix V to the Circular). According to the Valuation Report, the market value of the Target Equities as at 30 June 2019 appraised by Savills was RMB1,107 million.

4.1 Qualification and experience of the Valuer

In compliance with the requirements of Rule 13.80 of the Listing Rules, in respect of our assessment of the expertise and independence of Savills, we have (i) reviewed their terms of engagement (including their scope of work); (ii) reviewed and enquired the qualification and experience of Savills; (iii) conducted an interview with Savills including as to its expertise and any current or prior relationships with the Group, the Vendor, and core connected persons of either the Group or the Vendor; and (iv) reviewed and discussed with Savills in relation to its past experience on toll road valuation. Based on our work performed as mentioned above, we understand that Savills is an established appraisal firm with extensive experience in undertaking appraisals and had conducted various toll road valuation projects in the past. In addition, we understand from our enquiry with Savills that it is a third party independent of the Company and the Vendor and their respective core connected persons. Furthermore, we have reviewed their terms of the engagement (including their scope of work) which we are of the view that their scope of work is appropriate. Thus, we consider that Savills is qualified and possesses sufficient relevant experience in conducting the valuation of the Target Equities.

4.2 Valuation methodologies

We understand that Savills has considered three generally accepted valuation approaches, namely the income approach, market approach and cost approach, as the valuation methodologies in valuing the market value of the Target Equities.

From our discussion with Savills, we understand that income approach is commonly used for valuation subjects with supportable operating profit and cash flow forecast such as infrastructure assets. The income approach provides an indication of value by converting future cash flow to a single current value. Given (i) the close relationship between cash flow and value of the Target Expressways and (ii) the availability of a cash flow forecast confirmed by the Company's management and the Company's financial advisers and primarily substantiated by the Traffic Study Reports, Savills considers the income approach to be the primary approach to estimate the market value of the Project Companies. We also understand from Savills that the asset approach is adopted for YXHB and Andi as both are investment holding companies which do not generate any operating earnings but to ascertain their value from the value of their investment holding. On this basis, nothing has come to our attention that will cause us to doubt the reasonableness of using the income approach for the Target Expressways and the asset approach for the two investment holding companies.

We are advised by Savills that market approach is normally not adopted as the primary approach in the valuation of expressways due to limited appropriate comparable valuation multiples as each of the expressways has its own traffic characteristics, concession terms, asset conditions and cost structure. However, given the Target Equities and the associated shareholder's loan were acquired by the Vendor from an independent third party (the "**Previous Owner**") for about RMB5,484 million (RMB3,000 million of which was pre-paid by the Vendor in September 2017), which was completed in March 2019, Savills has conducted an analysis on the change in market value from then to the valuation date of the Target Equities in the Valuation Report, i.e. 30 June 2019, as a cross check to its valuation. As stated in the Valuation Report, based on the appraised value of the Target Equities at RMB1,107 million from the combination of asset approach and income approach and the Target Shareholder's Loan of about RMB4,655 million (being the principal) and the accrued interest of approximately RMB85 million as of 30 June 2019, the total value of the Target Equities and Target Shareholder's Loan (including accrued interest) amount to about RMB5,847 million as of 30 June 2019. Based on the information from the Company, as both the Vendor and the Previous Owner are state-owned enterprises, the consideration of previous transaction was based on a valuation completed by a PRC qualified valuer as of 30 June 2018, and remained at the same level upon its completion in March 2019. Therefore, the value in the previous transaction is determined in substance one-year prior to valuation date of the Target Equities under the Acquisition. We have discussed with the Company and Savills on the possible causes for the difference between the two appraised values of the Target Equities as at 30 June 2018 and 30 June 2019 and noted that it can be attributable to, among other things, the increasing appraised value of a subject valuation asset over time when it is approaching closer to profitable stage from a previously loss making position by using the income approach.

Having discussed these methods with Savills and reviewed with them the reasons for adopting the valuation methodologies and the bases and assumptions used for valuing the Target Equities, we are of the opinion that, the chosen valuation methodologies in establishing the appraised value of the Target Equities as at 30 June 2019, which has been cross-checked with the previous transaction, are in line with the market practice for valuation of similar businesses.

4.3 Valuation bases and assumptions

We have reviewed and discussed with Savills in respect of the valuation assumptions applied in the valuation. Details of the valuation assumptions are set out in the Valuation Report as set out in Appendix V to the Circular. We discussed with Savills regarding the discounted future cash flow ("**DCF**") calculation method of the income adopted in the Valuation Report and noted that the valuation is mainly derived from the discounted future free cash flow to equity ("**FCFE**") instead of discounted future free cash flow to firm ("**FCFF**") to be generated by the Target Expressways as the pre-requisite of a constant gearing ratio under FCFF is not applicable to the Target Expressways given that the debt repayment schedule will alter the capital structure over time. In terms of the discount rate, it is the cost of equity determined through the Capital Asset Pricing Model (the "**CAPM**") with (i) Hong Kong listed toll road company median beta (as they operate in the same industry and country as the Company) and (ii) Hong Kong based risk-free rate and market risk premium (as Hong Kong listed toll road companies (including the Company itself) rely on Hong Kong equity and debt market as a major source of finance). In addition, we have reviewed and discussed with Savills the list of comparable companies as disclosed in the Valuation Report set out in Appendix V to the Circular used to determine the beta and debt-to-equity ratio, being the key components for the CAPM to estimate an appropriate discount rate of the Target Equities. From our discussion, we learnt that Savills identified and selected companies which have over 50% revenue contribution from its toll expressways and are listed in Hong Kong from a search on the Bloomberg terminal. There are 10 companies that fit the above criteria. However, we are advised by Savills that they have excluded Chengdu Expressway Co., Ltd. (stock code: 1785) and Qilu Expressway Company Limited (stock code: 1576) from the list of comparable companies as the two companies are listed on the Stock Exchange in January 2019 and July 2018, respectively, which Savills considered their trading history too short for the estimation of beta. We are advised by Savills that the exclusion of comparable companies with relatively short trading history in discount rate analysis is typical business valuation practice, which is, in our view, acceptable. We also discussed with Savills regarding the asset approach for valuation of YXHB and Andi and understand that the book value of the long-term equity investments of YXHB and Andi are adjusted to the market value as they are investment holding companies and their market value of long-term equity investments are equal to the market value of their assets.

We have further discussed with Savills about the specific assumptions and general assumptions adopted in the Valuation Report and noted that (i) the specific assumptions rely on the Traffic Study Reports prepared by Jie Cheng, the loan repayment and refinancing schedule and the details of the transactions provided and confirmed by the management of the Group; and (ii) the general assumptions are common assumptions adopted in business valuation including but not limited to no material change in the existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation. We are not aware of any material facts which may lead us to doubt the principal bases or assumptions adopted for the valuation.

In assessing the fairness and reasonableness of the market value of the Target Equities, save for those mentioned above, we have also discussed with Savills in further details on its analysis to cross check the market value in relation to the previous transaction entered into between the Vendor and the Previous Owner (the "**Previous Transaction**"), in particular the validity of the point regarding "value of a company will increase over time when it is approaching closer to profitable stage from a previously loss making position when evaluated using the income approach", or in other words, how time value of money affect a company's value over time given a fixed set of cash flow with initial loss making years eventually reaching profitable stage. Savills has shown us a calculation by applying the same discount rate, financial projections from 30 June 2019 onwards and the actual financial performance from 1 July 2018 to 30 June 2019 to arrive at the corresponding value under income approach as if these are all known as at 30 June 2018. The calculated figure of the Target Equities as at 30 June 2018 has fortified not only Savills' explanation in their cross check with market approach as mentioned above but also the appraised value of the Target Equities as at 30 June 2019.

We are advised by Savills that such calculated figure does not represent a valuation of the Target Equities as at 30 June 2018 as it has incorporated hindsight with information available as of 30 June 2019, which might not be available as at 30 June 2018 and has not adopted the appropriate basis and assumptions (including the discount rate) under the circumstances as of 30 June 2018 that would be different from those as of 30 June 2019.

Based on the above, we consider that the Equities Consideration, which is based on the appraised value of the Target Equities as at 30 June 2019, is fair and reasonable.

5. Principal terms of the Acquisition

5.1 Total Consideration

Set out below is the detail breakdown of the Total Consideration:

	Assets	Consideration	Basis of Consideration	Payment date
1. Equities Acquisition	(i) 100% of the equity interest in YXHB; and	RMB633,000,000.00	Principally based on the market value as at 30 June 2019 appraised by Savills	
	(ii) 38.5% of the equity interest in Hancai	RMB474,000,000.00	Principally based on the market value as at 30 June 2019 appraised by Savills	
	A:	RMB1,107,000,000.00 (the Equities Consideration)		Within five working days after the Effective Date
2. Loan Acquisition	The Target Shareholder's Loan (including the interest accrued thereon)	Principal amount of the Target Shareholder's Loan: RMB4,654,503,531.78 Interest to be paid by the Group *(Note)*: RMB 237,060,878.51	The principal amount of the Target Shareholder's Loan together with the interest accrued thereon calculated from 20 March 2019 until this part of the Total Consideration is paid	
	B:	RMB4,891,564,410.29 *(Note)* (the Loan Consideration)		Following the Equities Completion, within 90 days after the Effective Date as the Purchaser may elect
Total Consideration (C = A + B)		**RMB5,998,564,410.29 *(Note)***		

Note: The final amount of the Loan Consideration depends on the actual date on which the Loan Consideration is paid. Under the SPA, the Vender and the Purchaser agreed to use their best endeavours to procure the occurrence of both the Equities Completion and the Loan Completion on or before 31 December 2019. On the basis that the Loan Completion occurs on 31 December 2019, the Loan Consideration shall be RMB4,891,564,410.29 and the Total Consideration shall be RMB5,998,564,410.29.

The Equities Consideration of RMB1,107 million is equivalent to the market value of the Target Equities as at 30 June 2019 appraised by Savills. The Loan Consideration is equivalent to the Target Shareholder's Loan (which includes the interest accrued thereon from 20 March 2019 until the Loan Consideration has been settled). On the basis that (i) the Equities Consideration is equivalent to the market value of the Target Equities as at 30 June 2019 appraised by Savills; and (ii) the Loan Consideration is equivalent to the Target Shareholder's Loan (including accrued interest) on dollar for dollar basis, we consider that the Total Consideration for obtaining the Target Equities and the Target Shareholder's Loan is fair and reasonable.

5.2 Equities Conditions

The SPA shall come into effective upon the approval of the Acquisition and the transactions contemplated thereunder by the Independent Shareholders at the SGM. Other conditions precedent of the SPA are normal items for transactions similar to this type.

5.3 Back-to-back Guarantee

As advised by the management of the Group, a former ultimate shareholder of ASN has provided a guarantee in favour of an asset management company ("**Asset Management Creditor**"), an independent third party, for the performance of ASN under a debt investment agreement (the "**Debt Investment Agreement**") entered into between the Asset Management Creditor and ASN. Pursuant to the Debt Investment Agreement, the liability on the part of ASN is up to RMB1.5 billion. Since completion of the acquisition of the Target Equities by Guangzhou Yue Xiu Holdings in March 2019, Guangzhou Yue Xiu Holdings has been providing a back-to-back guarantee (the "**YX Back-to-Back Guarantee**") in favour of the Previous Owner in the same regard and ASN agreed to pay Guangzhou Yue Xiu Holdings a daily guarantee fee calculated at 0.2% per annum of the outstanding principal amount of the debt owed by ASN to the Asset Management Creditor from time to time divided by 365 days (the "**Guarantee Fee Arrangement**"). We are further advised by the management of the Group that the YX Back-to-Back Guarantee shall remain in place at the request of the Previous Owner even following completion of the Acquisition until the debt owed by ASN to the Asset Management Creditor is fully repaid. Following the repayment of the first tranche of the RMB1.5 billion debt (being RMB0.8 billion) as set out in sub-paragraph 5.6 below, the repayment obligation of ASN to the Asset Management Creditor in respect of the last tranche of the RMB1.5 billion debt, which was originally due on 22 September 2024, shall become due on 25 March 2022 and, upon repayment of the debt by ASN on 25 March 2022, the Guarantee Fee Arrangement will end accordingly.

As at the Latest Practicable Date, as advised by the management of the Group, the outstanding amount under the YX Back-to-Back Guarantee is RMB0.7 billion and, on this basis, the daily guarantee fee payable by ASN is approximately RMB3,800.00, which is in line with the outstanding amount of debt owed by ASN to the Asset Management Creditor after repayment of the first tranche of debt as mentioned in sub-paragraph 5.6 below.

In respect of the guarantee fee rate, as stated in an article quoted on the State Council of the PRC in December 2018, the overall guarantee fee rate in Hubei Province was 1.2%. In addition, based on the information provided by the management of the Group, it is noted that the guarantee fee rate quoted from two independent third parties on similar arrangements ranging from 0.5% to 1.1%. On this basis, the guarantee fee rate of 0.2% under the Guarantee Fee Arrangement, in our view, is acceptable.

5.4 Loan Transfer Agreement

Concurrent with the entry into of the SPA, the Vendor, the Purchaser and YXHB entered into the Loan Transfer Agreement to implement the transfer of the Target Shareholder's Loan contemplated in the SPA.

5.5 Completion and Continuance of the Target Shareholder's Loan until the Loan Completion

Equities Completion will take place on the date on which the relevant legal documents in relation to registration changes are submitted to company registration authorities and such date shall be within three working days after the Effective Date, subject to the fulfillment (or waiver, where applicable) of the Equities Conditions (details of which are set out in the section headed under "Equities Conditions and effectiveness" of the Board Letter).

After the occurrence of the Equities Completion, the Vendor and the Purchaser must proceed to complete the transfer of the Target Shareholder's Loan within 90 days after the Effective Date. The Loan Completion shall take place on the date which the Loan Consideration is paid to the Vendor.

As advised by the management of the Group, it is expected that the Loan Completion will take place on or before 31 December 2019 and soon after the Equities Completion and, meanwhile, the terms of the Target Shareholder's Loan will remain the same. We have further been advised that the interest rate offered by Guangzhou Yue Xiu Holdings to its group members by way of shareholder's loan is the same at 6.5% per annum. We have reviewed the announcement issued by Yuexiu Property Company Limited dated 28 May 2019 regarding the option to acquire the majority interest in two new metro property projects and noted that shareholders' loan provided by Guangzhou Yue Xiu Holdings also carries an interest rate of 6.5% per annum. On this basis, having considered the Target Shareholder's Loan will be refinanced by the Company as discussed in section 6 below and the Target Shareholder's Loan serves to ensure smooth operations and financial stability even after the ownership of the Target Group has been transferred to the Group, the continuance of the Target Shareholder's Loan upon the Equities Completion but before the Loan Completion is, in our view, acceptable.

5.6 New Shareholder's Loan Agreement

On 12 September 2019, the Vendor and YXHB entered into the New Shareholder's Loan Agreement pursuant to which the Vendor has agreed to grant YXHB the Bridging Loan Facility, an unsecured loan facility of a maximum amount of RMB0.85 billion, for (i) financing the repayment of the first tranche of the RMB1.5 billion debt (being RMB0.8 billion) and the accrued interest of approximately RMB0.02 billion under the Debt Investment Agreement entered into between the Asset Management Creditor and ASN; and (ii) providing extra working capital of approximately RMB0.03 billion to YXHB. The Borrowed Bridging Loan together with the accrued interest (calculated at the interest rate of 6.5% per annum) is repayable at a date no later than the Loan Completion Date or a date falling on the first anniversary of the first drawdown date of the Borrowed Bridging Loan, whichever is earlier. As advised by the management of the Group, it is expected that the outstanding Borrowed Bridging Loan will be financed by the Group's internal resources upon the Loan Completion Date.

To the best knowledge of the management of the Group, YXHB has drawn down the entire amount of the Bridging Loan Facility (being RMB0.85 billion) and repaid the first tranche of the RMB1.5 billion debt (being RMB0.8 billion) and the accrued interest of approximately RMB0.02 billion.

We have discussed with the management of the Group and have been advised that based on the Debt Investment Agreement, ASN's option to repay the first tranche of the RMB1.5 billion (being RMB0.8 billion) fell on 22 September 2019 (the next window for repayment of such amount will be on 22 September 2024 if it was not repaid on 22 September 2019) and has been in the process of obtaining refinancing from a PRC bank. ASN has obtained a letter of intent from a PRC bank in July 2019 for a one-year term loan of not less than RMB1.5 billion, however, to the best knowledge of the management of the Group, such loan would not be available to ASN on or before 22 September 2019. Thus, the entering into of the New Shareholder's Loan Agreement was ASN's best available option to lower its finance cost of 6.98% per annum charged by the Asset Management Creditor to 6.5% per annum offered by the Vendor. In view of the above, the Directors consider and we concur that the entering into of the New Shareholder's Loan Agreement, which is to lower the finance cost of ASN, is reasonable. In addition, having reviewed the announcement issued by Yuexiu Property Company Limited dated 28 May 2019 regarding the option to acquire majority interest in two new metro property projects and noted that shareholders' loan provided by Guangzhou Yue Xiu Holdings also carries an interest rate of 6.5% per annum, we concur with the view of the management of the Group that 6.5% per annum offered by the Vendor under the New Shareholder's Loan Agreement to be acceptable. Furthermore, the entering into of the New Shareholder's Loan Agreement is in line with the provision of financial support to the Target Group as agreed by the current shareholder of YXHB for the purpose of enabling the Target Group to meet its debt obligations as and when they fall due and carry on its normal operations up to the completion of the Acquisition, which has been discussed in sub-section 5.5 above. On this basis, we are of the view that the entering into of the New Shareholder's Loan Agreement is acceptable.

Having considered that (i) the interest rate of the shareholder's loan under the New Shareholder's Loan Agreement is no different from the rate of the shareholder's loan offered by Guangzhou Yue Xiu Holdings to its group member (the rate which we have noted from the announcement issued by Yuexiu Property Company Limited dated 28 May 2019 as mentioned in the sub-section 5.5 of this letter); (ii) the rate of 6.5% per annum offered by the Vendor is lower than the rate of 6.98% per annum charged by the Asset Management Creditor for the RMB0.8 billion debt; and (iii) the entering into of the New Shareholder's Loan Agreement is to lower the finance cost of ASN and provide financial support to YXHB by its current shareholder, we consider that the terms under the New Shareholder's Loan Agreement is acceptable.

6. Financing of the Total Consideration

As stated in the Board Letter, the Total Consideration is payable in cash. As advised by the management of the Group, the Company intends to finance approximately 60% of the Total Consideration by bank loan for acquisition and the balance by internal resources.

We have discussed with the management on the financing of the Total Consideration and have been advised that the Company has obtained commitment letters from two PRC banks in respect of project acquisition loan (the "**Acquisition Loan**") for the Acquisition. We have been provided with and reviewed the commitment letters from the two PRC banks regarding the Acquisition Loan. Based on the commitment letters, the PRC banks agreed, subject to certain conditions, to provide the Acquisition Loan in an amount of not more than RMB3.6 billion for seven years at the bank's most favourable interest rate. As advised by the management of the Group, it is expected that the interest rate is estimated to be not more than 4.9%. The final terms and conditions of the Acquisition Loan will be finalized prior to the Loan Completion.

We have also been provided with and reviewed the working capital projection of the Enlarged Group from 1 September 2019 to 31 December 2020. It is noted that the working capital projection has, amongst others, (i) assumed that the Acquisition will be completed at the end of December 2019; (ii) built in a drawdown of (a) the Acquisition Loan; and (b) the available banking facilities of a total of approximately RMB2,156 million (RMB128 million of which was drawdown by the Group in late September of 2019); and (iii) assumed that RMB1.0 billion will be raised by way of issuance of medium-term note by the Company pursuant to the registration notice issued by the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to the Company for issuance of medium term notes for a maximum amount of RMB2.0 billion, and, as shown in the projection, the Enlarged Group is expected to have sufficient working capital from 1 September 2019 to 31 December 2020. We have also reviewed the working capital statement as set out in Appendix I to the Circular which aligns the working capital projection.

We have discussed with the management of the Group regarding other financing alternatives to settle the Total consideration such as equity financing (i.e. by rights issue or open offer). As advised by the management of the Group, the Company did not consider a rights issue or open offer as an appropriate option since it may result in significant dilution in earnings per share immediately after completion of the Acquisition given the substantial amount needed to be raised and may not be in the best interest of independent Shareholders. We have been advised that after considering different possible financial alternatives (including equity financing), the Company is of the view that the current existing financing structure is the most appropriate method and is in the best interest of the Company and the Shareholders as a whole.

7. Financial effects of the Acquisition

Independent Shareholders should note that the following discussion of the financial effects of the Acquisition is based on the illustrative scenario provided for the pro forma financial information of the Enlarged Group (the "**Proforma Financial Information**") in Appendix IV to the Circular.

The discussion of the financial effects of the Acquisition may or may not be accurate or necessarily reflect the true picture of the financial position or operating results of the Enlarged Group following completion of the Acquisition.

7.1 Net assets

According to the 2019 Interim Report, the net assets (including non-controlling interests) of the Group as at 30 June 2019 was approximately RMB12.8 billion. Upon the Acquisition Completion, as stated in the "Unaudited pro forma financial information of the Enlarged Group" in Appendix IV to the Circular, the net assets of the Enlarged Group as at 30 June 2019 will increase to approximately RMB13.4 billion.

7.2 Earnings

According to the 2019 Interim Report, the Group recorded a consolidated profit attributable to the Shareholders for the six months ended 30 June 2019 was approximately RMB 635.07 million. According to the accountant's report on the Target Group (as set out in Appendix III to the Circular), the net loss of attributable to the Target Group for the six months ended 30 June 2019 was approximately RMB104.94 million. Upon the completion of the Acquisition, it is expected that the net profit attributable to the shareholders of the Enlarged Group will be pressured in the short term. However, based on the historical financial performance, traffic volume and toll revenue projections of the Target Expressways set out in the Traffic Study Reports, we concur with the management of the Group that operational and financial performance of the Target Expressways will continue to improve.

7.3 Gearing

According to the 2019 Interim Report, the Group's gearing ratio (calculated based on net debt divided by total capital) as at 30 June 2019 was approximately 26.6%. Upon the completion of the Acquisition, according to the "Unaudited pro forma financial information of the Enlarged Group" as set out in Appendix IV to the Circular, the gearing ratio of the Enlarged Group as at 30 June 2019 will increased to approximately 56.1%.

We noted that the gearing ratio of the Enlarged Group will be higher than the current gearing ratio. However, as mentioned above that based on the historical financial performance and positive traffic flow and toll revenue projections of the Target Expressways set out in the Traffic Study Reports, we concur with the management of the Group that the operational and financial figures of the Target Group will continue to improve and the gearing ratio of the Enlarged Group will be gradually lowered.

We note that the Target Group has been loss-making and in a net deficit position in each of the past three and a half years and have discussed with the management of the Group in this regard. It is noted that due to the nature of expressway project life cycle and the debt and equity splits in the capital structure, it is not uncommon for infrastructure assets to incur losses with deficit position given the significant capital expenditure incurred in the early stage of the project life cycle. However, the financial performance and position of the expressway company usually will have gradual improvements as the project becoming mature. Despite the Enlarged Group would be in a net current liability position after the Acquisition as illustrated in the Proforma Financial Information, Shareholders should note that the Proforma Financial Information was prepared for the purpose of illustrating the effects of the Acquisition as if the Acquisition had taken place on 30 June 2019 which is based on the unaudited consolidated balance sheet of the Group and the audited combined balance of the Target Group both as at 30 June 2019. The Proforma Financial Information, however, has not taken into the account the revenue and profit generated from the Group or the Enlarged Group up to the completion of the Acquisition or 12 months thereafter (as the case may be) and the refinancing plan of the Enlarged Group following the completion of the Acquisition. As advised by the management of the Group, the Group plans to leverage its expertise to improve the financing structure of the Target Group as well as the Enlarged Group after the completion of the Acquisition. We have been provided with and reviewed the working capital projection of the Enlarged Group for the period from 1 September 2019 to 31 December 2020 and it is expected that the Enlarged Group will have sufficient working capital in the next 12 months from the date of the Circular having taken into account, amongst others, the cash inflow from the operations of the Group, Enlarged Group, the existing bank facilities available to the Group for term ranging from 3 — 13 years and the issuance of medium term notes by the Company. We have also reviewed the existing bank facilities available to the Group and nothing has come to our attention that will cause us to doubt the reasonableness of the working capital statement as set out in Appendix I to the Circular.

8. Risk factors

Shareholders are advised to refer to the risks involved in the management and operations of the Target Group as set out in the section headed under "Risk Factors" in the Board Letter, in particular, the following:

(i) The slowdown in GDP may adversely affect the financial performance of the Target Group

All of the Target Expressways are located in Hubei Province. The business and performance of the Target Expressways is closely linked to the economic conditions of Hubei Province and affected by the macro-economic environment and policy stability in the PRC. Any downturn or slowdown in economic activities than as forecasted, or slow GDP growth in Hubei Province and/or the PRC overall could lead to lower utilization of the Target Expressways. In those circumstances the financial performance of the Target Group may be adversely affected.

(ii) Traffic volume may be affected by competing roads and bridges and other modes of transportation and factors beyond the Target Group's control

Revenue from each Target Expressway is principally dependent on the number and classes of motor vehicles using such road and the applicable toll regime. Traffic volume is directly and indirectly affected by a number of factors, including the availability, quality, proximity and toll rate differentials of alternative road(s) or bridge(s), the existence of other means of transportation, including rail, aviation and waterway, fuel prices, taxation and environmental regulations. There can be no assurance that such other roads or modes of transportation will not significantly improve their services and reduce their charges, that competing expressways, toll roads or bridges will not be built nor that alternative routes which avoid the tolls or charge lower or zero tolls will not be devised, which in each case would have an adverse effect on the revenue, results of operations and financial condition of the Target Group.

DISCUSSION AND ANALYSIS

(i) The Acquisition will help enhance sustainability of the Group's business operation

The Group is principally engaged in investment in and development, operation and management of expressways and bridges in the PRC. Its portfolio comprises of controlling interests in seven toll expressways and 20-40% equity interests in five expressways and bridges with the simple average of the remaining concession period of approximately 15.7 years and 9.8 years, respectively. The remaining concession period for Target Expressways ranges from 19-23 years, which, upon the Equities Completion, will extend the average concession period of the Group's existing portfolio. The Acquisition, in our view, will provide an opportunity for the Group to extend the overall concession period of its toll roads and bridges portfolio and increase the total toll mileage of the controlled expressways of the Group by approximately 58.7%, from 337.1 km to 534.9 km.

(ii) The Acquisition will give rise to possible synergies

The Target Expressways are located in Hubei Province. The Group has actively seized the development opportunities brought by the national strategy of "Rise of Central China" as evidenced by the acquisition of Weixu Expressway in 2012 and Suiyuenan Expressway in 2015 which are the Group's proven successes of seizing development opportunities in Central China. Riding on the strong economic growth of Hubei Province and the major cities along the Target Expressways which is further supported by favourable national policies, the said expressways are growing steadily and have become important profit centers for the Group.

Presently, Hancai Expressway and Han'e Expressway are two of the seven expressways radiating out of Wuhan, the capital city of Hubei Province, and connecting Wuhan to the outlying districts, development zones and industrial parks in the Greater Wuhan circle. Daguangnan Expressway connects Hubei and Jiangxi Provinces vertically, and forms the southern part of the Daguang Expressway (running from Daqing in the north and ends at Guangzhou in the south, being one of the 11 national trunk lines running north to south in the PRC expressway network) in Hubei Province. Upon completion of the Acquisition, the Group will operate and manage three out of seven fast urban exit roads of Wuhan and two out of six south-to-north running national trunk lines that pass through Hubei Province which enable the Group to take full advantage of the interconnections of the roads it operates.

(iii) The basis of the Total Consideration is considered reasonable

The Total Consideration comprises of the Equities Acquisition and the Loan Acquisition, which will be financed by the Acquisition Loan to be carried out by the Group and the Group's internal resources. The consideration for the Equities Acquisition is based on the market value appraised by an independent valuer and the consideration for the Loan Acquisition is equivalent to the Target Shareholder's Loan (including the accrued interest) on dollar for dollar basis. We have discussed with the independent traffic consultant and the independent valuer the methodologies, bases and assumptions adopted in the projection or valuation, which we consider are in line with market practice for similar projections or valuations. In addition, we have discussed with the Company and the independent valuer on the acquisition of the Target Equities and the associated shareholder's loan by the Vendor which completed in March 2019 and the consideration for which provides, in our opinion, a useful cross-check to the market value of the Target Equities as at 30 June 2019. We have reviewed and discussed with the independent valuer on its analysis of the possible causes of the difference between the two appraised values of the Target Equities as at 30 June 2018 and 30 June 2019 and consider that the Equities Consideration, which is based on the appraised value of the Target Equities as at 30 June 2019, is fair and reasonable.

The Loan Consideration includes the principal of the Target Shareholder's Loan and the accrued interest which is calculated at the interest rate of 6.5% per annum. As advised by the management of the Group, the interest rate offered by Guangzhou Yue Xiu Holdings to its group members by way of shareholder's loan is the same at 6.5% per annum which is also equivalent to the funding cost of Guangzhou Yue Xiu Holdings.

(iv) The Effect of the Acquisition on the profitability and gearing of the Group

Based on Appendix IV to the Circular, the Enlarged Group's pro forma net assets as at 30 June 2019 will be slightly increased by approximately 4.7% to approximately RMB13.4 billion upon completion of the Acquisition. The Enlarged Group's pro forma bank borrowings and gearing ratio as at 30 June 2019 would both be increased mainly due to the utilisation of the Acquisition Loan to finance the Acquisition. The Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of the Circular. The Enlarged Group's earnings will be pressured upon the completion of the Acquisition. However, given that the historical financial performance and positive traffic flow and toll revenue projections of the Target Expressways set out in the Traffic Study Reports, it is believed that the operational and financial figures of the Target Group will continue to improve.

(v) Continuing connected transactions which form part and parcel of the Acquisition

The continuation of the Target Shareholder's Loan and the provision of the Bridging Loan Facility until the Loan Completion and the YX Back-to-Back Guarantee are considered part and parcel of the Acquisition. The purpose of these transactions is to ensure smooth operations and financial stability of the Target Group before the Loan Completion (which is likely to take place after the Equities Completion) or before the repayment obligations of the member of the Target Group fall due, as the case may be. We are given the understanding that the arrangements under these transactions and their pricing basis are the most appropriate method having considered the options available to the Group and the prevailing market conditions. The interest rate of 6.5% under the Target Shareholder's Loan and the Bridging Loan Facility is the same as those offered by Guangzhou Yue Xiu Holdings to its other members by way of shareholder's loan and the guarantee fee rate under the YX Back-to-Back Guarantee is more competitive than those as quoted from independent third parties. On these bases, the continuation of these transactions after the Equities Completion but before the Loan Completion or after the Loan Completion (as the case may be) and the terms thereunder are, in our view, acceptable.

(vi) Risk factors

We consider there are certain risk factors attendant on the Target Expressways as summarized in the Board Letter. In view of the strong growth and cash flow of the Target Group as evidenced by the projection of the traffic volumes of the Target Expressways under the Traffic Study Reports and the valuation of the Target Equities as appraised by the independent valuer, we consider that these risks are balanced by the potential benefits.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the SPA and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Acquisition and the transactions contemplated thereunder.

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

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for more than 19 years.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the financial year ended 31 December 2016, the financial year ended 31 December 2017, the financial year ended 31 December 2018 and the six months ended 30 June 2019 respectively was set out in the annual reports and the interim report of the Company for these periods respectively and are available on the website of the Stock Exchange set out below:

Financial period ended	Website
31 December 2016	http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0306/LTN20170306131.pdf
31 December 2017	http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0326/LTN20180326113.pdf
31 December 2018	https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0423/ltn201904231182.pdf
30 June 2019	https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0828/ltn20190828909.pdf

2. INDEBTEDNESS

Borrowings and lease liabilities

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the total borrowings and lease liabilities of the Enlarged Group was RMB18,991 million, comprising of secured borrowings from banks and financial institutions of RMB10,206 million, unsecured but guaranteed borrowings from banks and financial institutions of RMB1,500 million, unsecured borrowings from banks and financial institutions of RMB447 million, unsecured corporate bonds of RMB1,987 million, unsecured loan from a joint venture of RMB95 million, unsecured loan from non-controlling interests of RMB88 million, unsecured loan from an intermediate holding company of RMB4,654 million and unsecured lease liabilities of RMB14 million. Borrowings of RMB10,206 million were secured by the toll collection rights of the Enlarged Group. Borrowings of RMB1,500 million were guaranteed by an intermediate holding company.

Contingent liabilities

As at the close of business on 31 August 2019, the Enlarged Group did not have any material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 August 2019, the Enlarged Group did not have any other debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans or other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances or acceptances credits or hire purchase commitments, or outstanding mortgages and charges, or contingent liabilities or guarantees.

3. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

The Group

For the financial year ended 31 December 2018, the Group recorded an audited revenue from toll roads operation of RMB2,847.1 million, representing an increase of approximately 5.3% compared to RMB2,702.8 million for the financial year ended 31 December 2017. The audited operating profit from toll roads operation was RMB1,828.5 million for the year ended 31 December 2018, representing an increase of approximately 10.9% compared to RMB1,649.2 million for the year ended 31 December 2017. The unaudited revenue from toll roads operation was RMB1,380.9 million for the six months ended 30 June 2019, representing an increase of approximately 0.7% compared to RMB1,371.0 million for the corresponding period in 2018. The unaudited operating profit from toll roads operation was RMB904.5 million for the six months ended 30 June 2019, representing a decrease of approximately 1.2% compared to RMB915.3 million for the corresponding period in 2018.

Looking forward, the Company expects that the Central Government of the PRC will continue to promote high quality development in domestic economy, driven by a focus on the reform of supply side together with stable macro-policies and flexible micro-policies.

Highways play an important role in the modern transportation system which contributes to economic development. With the solid growth of China's economy, consumer expenditure is rising steadily, tourism and logistics sectors are prospering. All these have provided strong support for the growth of highway industry, the policies regarding toll road industry have remained stable in 2019 as at the LPD. The removal of highway toll stations on provincial boundaries and speeding up of promotion and application of ETC (Electronic Toll Collection) will improve the efficiency of the expressway network. This could lower the operating costs of the industry and facilitate the sustainable development of the sector in the mid and long term.

In furtherance of the Group's strategy of "Presence in the Guangdong-Hong Kong-Macau Greater Bay Area and to advance in Central China", the Group entered into the SPA to acquire the Target Expressways which are all located in Hubei Province and targeted to complete the Acquisition before the end of 2019. Please refer to section 9 of the Board Letter and the subsection headed "The Enlarged Group" below for the benefits of the acquisition of the Target Expressways through the Acquisition that are expected to be brought to the Group.

The Enlarged Group

Upon the Equities Completion, the Target Group Members will become the subsidiaries of the Company, and their financial results will be consolidated in the financial statements of the Group.

Looking forward to the remainder of financial year ending 31 December 2019, after the Equities Completion, the Enlarged Group will continue with the existing principal business of the Group in investment in, operation and management of expressways and bridges in Guangdong Province and other high-growth provinces in the PRC. The Acquisition can increase both the toll mileage and the overall duration of the Group's toll collection rights as disclosed in detail in section 9 of the Board Letter.

The Acquisition will also enhance the income and asset base of the Group, create new business opportunities for the Group and will broaden its revenue base.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the completion of the Acquisition and the financial resources available to the Enlarged Group (including but not limited to internally generated funds, cash and cash equivalents), the Enlarged Group has sufficient working capital for its present requirement, that is for at least the next 12 months from the date of this circular.

5. NO MATERIAL ADVERSE CHANGE

The Directors confirm that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

This appendix summarises the management discussion and analysis of the Target Group for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (the "**Reporting Period**"). The following financial information is principally based on the accountant's report of the Target Group as set out in Appendix III to this circular.

The Target Group owns and operates Daguangnan Expressway, Hancai Expressway and Han'e Expressway. Please refer to the section 3 and section 4 of the Board Letter respectively for more information on the Target Group and the Target Expressways.

Operating Results

Segmental information and income from operations

During the Reporting Period, the Target Group had only one reportable business segment and its revenue consisted solely of revenue generated from the three toll highway projects, namely Daguangnan Expressway, Hancai Expressway and Han'e Expressway, in the PRC during the Reporting Period. The Concession Rights of Daguangnan Expressway, Hancai Expressway and Han'e Expressway will expire in April 2042, August 2038 and June 2042, respectively.

During the Reporting Period, the Target Group's income from operations comprised (i) toll revenue; and (ii) other toll operating income on Daguangnan Expressway, Hancai Expressway and Han'e Expressway.

Toll revenue

The following table sets out a breakdown of the Target Group's traffic volume and toll revenue by each of the toll highway projects for the periods as indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Traffic volume	Toll revenue	Traffic volume	Toll revenue	Traffic volume	Toll revenue	Traffic volume	Toll revenue	Traffic volume	Toll revenue
	Number of vehicles '000	*RMB'000*	*Number of vehicles '000*	*RMB'000*	*Number of vehicles '000*	*RMB'000*	*Number of vehicles '000*	*RMB'000 (unaudited)*	*Number of vehicles '000*	*RMB'000*
Daguangnan Expressway	6,233	328,006	7,945	356,061	8,810	349,096	4,459	181,090	4,753	163,199
Hancai Expressway	10,276	189,460	14,906	235,618	18,698	293,187	9,324	146,255	8,879	122,731
Han'e Expressway	8,677	163,939	10,692	190,765	11,724	204,958	5,630	97,373	6,215	87,466
Total	25,186	681,405	33,543	782,444	39,232	847,241	19,413	424,718	19,847	373,396

The Target Group's toll revenue:

(a) increased by 14.8% from RMB681.4 million for the year ended 31 December 2016 to RMB782.4 million for the year ended 31 December 2017; and

(b) increased by 8.3% from RMB782.4 million for the year ended 31 December 2017 to RMB847.2 million for the year ended 31 December 2018.

The increases in the Target Group's toll revenue in each of the year referred to above were all primarily attributable to the increase in traffic volume from 25.2 million vehicles for the year ended 31 December 2016 to 33.5 million vehicles for the year ended 31 December 2017 and further to 39.2 million vehicles for the year ended 31 December 2018 mainly due to the improvement of expressway networks and the development of the local economy.

The decrease in the Target Group's toll revenue by 12.1% from RMB424.7 million for the six months ended 30 June 2018 to RMB373.4 million for the six months ended 30 June 2019 was primarily attributable to the decrease in average toll per vehicle from RMB21.9 per vehicle for the six months ended 30 June 2018 to RMB18.8 per vehicle for the six months ended 30 June 2019 mainly due to the following reasons: (i) after completion of the maintenance work of the Wuhan Junshan Changjiang Bridge of the Beijing-Hong Kong-Macau Expressway, trucks had re-diverted back to the Beijing-Hong Kong-Macau Expressway and the traffic volume of trucks using the Target Expressways reduced as a result; (ii) the tunnels in the Jiangxi section of the Daguang Expressway were closed for maintenance and the traffic volume of trucks using Daguangnan Expressway and Han'e Expressway reduced as a result; and (iii) the growth rate of traffic volume of passenger vehicles outpaced the growth rate of traffic volume of trucks for the Target Expressway and trucks generally generated higher toll per vehicle.

Other toll operating income

The Target Group's other toll operating income primarily represented income from accommodation and catering, advertising and other income from leasing of related assets, such as premises in service areas and gas stations.

The Target Group maintained relatively stable other toll operating income which stood at RMB21.0 million, RMB21.1 million and RMB21.5 million for the years ended 31 December 2016, 2017 and 2018, respectively.

The Target Group's other toll operating income increased from RMB10.3 million for the six months ended 30 June 2018 to RMB14.1 million for the six months ended 30 June 2019, which was primarily attributable to the fact that new terms of contracts for service areas and gas stations became effective in 2019.

Cost of services

During the Reporting Period, the Target Group's cost of services primarily consisted of (i) amortisation of intangible operating rights; (ii) expressway maintenance expenses; (iii) direct staff costs incurred to the staff mainly responsible for toll collection, and repair and maintenance, etc.; and (iv) business tax, value-added tax and other levies.

The following table sets out a breakdown of the Target Group's cost of services by each of the toll highway project for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Daguangnan Expressway	203,087	210,704	181,439	86,525	87,849
Hancai Expressway	75,557	78,547	102,287	46,483	46,707
Han'e Expressway	93,481	98,168	115,365	52,194	50,139
Total	372,125	387,419	399,091	185,202	184,695

The Target Group's cost of services:

(a) increased by 4.1% from RMB372.1 million for the year ended 31 December 2016 to RMB387.4 million for the year ended 31 December 2017; and

(b) increased by 3.0% from RMB387.4 million for the year ended 31 December 2017 to RMB399.1 million for the year ended 31 December 2018.

The increases in the Target Group's cost of services in each of the years referred to above were primarily in line with the increases in the Target Group's toll revenue in each of the years referred to above with a smaller scale, reflecting economies of scale and improvement in profitability as the expressways grew more mature.

The Target Group's cost of services remained relatively stable at RMB185.2 million and RMB184.7 million for the six months ended 30 June 2018 and 2019, respectively.

Other income, gains and losses - net

During the Reporting Period, the Target Group's other income, gains and losses — net primarily consisted of (i) gain/(loss) on disposal of property, plant and equipment; (ii) compensation for expressway damages; and (iii) government subsidies.

The Target Group's other income, gains and losses — net:

(a) increased by 5.8 times from RMB0.7 million for the year ended 31 December 2016 to RMB4.6 million for the year ended 31 December 2017 mainly due to the receipt of government subsidies of RMB3.4 million for the year ended 31 December 2017 in relation to financial rewards (財政扶持獎勵) from the PRC local government in Wuhan City which was calculated in proportion to the PRC tax payments by the Target Group;

(b) remained relatively stable at RMB4.6 million and RMB4.6 million for the years ended 31 December 2017 and 2018, respectively; and

(c) decreased by 71.0% from RMB0.9 million for the six months ended 30 June 2018 to RMB0.3 million for the six months ended 30 June 2019 mainly due to (i) the receipt of government subsidies of RMB0.3 million for the six months ended 30 June 2018 in relation to financial rewards (財政扶持獎勵) from the PRC local government in Wuhan City which was calculated in proportion to the PRC tax payments by the Target Group; and (ii) the increase in other losses and expenses from RMB14,000 for the six months ended 30 June 2018 to RMB0.4 million for the six months ended 30 June 2019 mainly due to the upgrade of public toilet in the service areas of expressways.

General and administrative expenses

During the Reporting Period, the Target Group's general and administrative expenses primarily consisted of (i) staff costs for management and administrative staff; (ii) property management fees; (iii) travel and accommodation expenses; (iv) utilities expenses; (v) legal and professional fees; (vi) office expenses; and (vii) other miscellaneous expenses.

The Target Group's general and administrative expenses:

(a) remained relatively stable at RMB41.4 million and RMB40.0 million for the year ended 31 December 2016 and 2017, respectively;

(b) decreased by 13.3% from RMB40.0 million for the year ended 31 December 2017 to RMB34.7 million for the year ended 31 December 2018 mainly due to the cost saving measures implemented by the Target Group to reduce staff costs, travel and accommodation expenses, and entertainment expenses; and

(c) decreased by 14.1% from RMB16.4 million for the six months ended 30 June 2018 to RMB14.1 million for the six months ended 30 June 2019 mainly due to the cost saving measures implemented by the Target Group to reduce staff costs.

Finance income

During the Reporting Period, the Target Group's finance income represented the Target Group's bank interest income.

The Target Group's finance income:

(a) decreased by 53.2% from RMB5.5 million for the year ended 31 December 2016 to RMB2.6 million for the year ended 31 December 2017;

(b) decreased by 44.3% from RMB2.6 million for the year ended 31 December 2017 to RMB1.4 million for the year ended 31 December 2018; and

(c) decreased by 28.2% from RMB0.9 million for the six months ended 30 June 2018 to RMB0.6 million for the six months ended 30 June 2019.

The decreases in the Target Group's finance income in each of the years/periods referred to above were primarily due to lower average bank balances.

Finance costs

During the Reporting Period, the Target Group's finance costs primarily consisted of (i) interest expenses from borrowings from banks and financial institutions; (ii) interest expenses from loans from a fellow subsidiary; (iii) interest expenses from loans from an intermediate holding company; (iv) interest expenses from the amount due from a non-controlling interest; and (v) other financing charges.

The Target Group's finance costs:

(a) decreased by 4.7% from RMB623.9 million for the year ended 31 December 2016 to RMB594.7 million for the year ended 31 December 2017 mainly due to the decrease in the Target Group's interest expenses from borrowings from banks and financial institutions from RMB588.5 million for the year ended 31 December 2016 to RMB539.6 million for the year ended 31 December 2017 mainly because of the decrease in the Target Group's average borrowings from banks and financial institutions, partially offset by the increase in the Target Group's interest expenses from loans from a fellow subsidiary from RMB34.5 million for the year ended 31 December 2016 to RMB54.2 million for the year ended 31 December 2017 mainly because of the increase in the Target Group's average loan from a fellow subsidiary;

(b) decreased by 15.6% from RMB594.7 million for the year ended 31 December 2017 to RMB502.0 million for the year ended 31 December 2018 mainly due to the decrease in the Target Group's interest expenses from borrowings from banks and financial institutions from RMB539.6 million for the year ended 31 December 2017 to RMB446.0 million for the year ended 31 December 2018 mainly because of the decrease in the Target Group's average borrowings from banks and financial institutions and effective interest rate; and

(c) remained relatively stable at approximately RMB284.8 million and RMB287.0 million for the six months ended 30 June 2018 and 2019, respectively.

Income tax credit/(expense)

During the Reporting Period, the Target Group's income tax expense represented the corporate income tax provided on the assessable profits of the Target Group in accordance with the Enterprise Income Tax Law of the PRC.

For the year ended 31 December 2016, the Target Group recorded an income tax credit of RMB10.8 million mainly due to the increase in the Target Group's deferred tax assets mainly in respect of accelerated accounting amortisation of intangible operating rights.

For the year ended 31 December 2017, the Target Group recorded an income tax expense of RMB4.5 million mainly due to the reduction of the Target Group's deferred tax assets mainly in respect of the utilisation of tax losses.

For the year ended 31 December 2018 and the six months ended 30 June 2018, the Target Group recorded an income tax credit of RMB10.5 million and RMB5.1 million, respectively, mainly due to the increase in the Target Group's deferred tax assets and the decrease in the Target Group's deferred tax liabilities mainly in respect of accelerated accounting amortisation of intangible operating rights.

For the six months ended 30 June 2019, the Target Group recorded an income tax expense of RMB7.1 million mainly due to the reduction of the Target Group's deferred tax assets in respect of the utilisation of tax losses.

Loss for the year/period

The Target Group's loss for the year/period:

(a) decreased by 32.1% from RMB318.1 million for the year ended 31 December 2016 to RMB215.9 million for the year ended 31 December 2017;

(b) decreased by 76.5% from RMB215.9 million for the year ended 31 December 2017 to RMB50.6 million for the year ended 31 December 2018; and

(c) increased by 134.6% from RMB44.6 million for the six months ended 30 June 2018 to RMB104.5 million for the six months ended 30 June 2019.

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

Liquidity, Financial Resources and Capital Structure

The Target Group financed its operations and working capital requirements primarily through a combination of capital injection, borrowings and net advances from related companies and ultimate holding companies.

Cash and cash equivalents

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group had cash and cash equivalents amounting to RMB644.0 million, RMB157.9 million, RMB147.5 million and RMB74.3 million, respectively. All the cash and cash equivalents held by the Target Group were denominated in RMB.

Borrowings and credit facilities

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group had total outstanding borrowings of RMB12,781.5 million, RMB12,308.9 million, RMB12,080.0 million and RMB11,861.2 million, respectively, which were all denominated in RMB.

The following table sets out a breakdown of the Target Group's borrowings as at the dates indicated:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Long-term borrowings from banks and financial institutions	7,782,298	7,579,450	7,222,426	7,121,272
Short-term borrowings from banks and financial institutions	3,999,199	3,729,437	3,857,542	—
Loan from a fellow subsidiary	1,000,000	1,000,000	1,000,000	—
Loan from an intermediate holding company	—	—	—	4,739,880
Total	12,781,497	12,308,887	12,079,968	11,861,152

All borrowings from banks and financial institutions were interest bearing at rates ranging from 4.41% to 6.98% per annum as at 31 December 2016, 2017 and 2018 and 30 June 2019. The effective interest rates of borrowings from banks and financial institutions during the Reporting Period were 4.99%, 4.77%, 4.02% and 5.12%, respectively. The interest rates of loans from a fellow subsidiary and intermediate holding company during the Reporting Period were 5.20% per annum and 6.50% per annum, respectively. Please refer to note 19 to the accountant's report of the Target Group in Appendix III to this circular for the maturity analysis of borrowings.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group had total credit facilities of RMB9,167.0 million, RMB9,367.0 million, RMB9,367.0 million and RMB9,167.0 million, respectively, of which RMB660.5 million, RMB859.5 million, RMB859.5 million and RMB660.5 million were not utilised, which were committed, unrestricted and could be drawn down at any time.

Charge on Assets

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group had intangible operating rights of RMB10,857.6 million, RMB10,590.4 million, RMB10,324.9 million and RMB10,189.6 million, respectively, as securities for the Target Group's bank borrowings.

Gearing Ratio

Gearing ratio (net debts divided by total capital) of the Target Group was 115.7%, 118.1%, 119.1% and 120.7% as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Net debts are equal to the Target Group's total borrowings less the Target Group's cash and cash equivalents. Total capital is calculated as the sum of the Target Group's net debts and total equity.

Foreign Currency and Hedging

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

Contingent Liabilities

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group did not have any material contingent liabilities.

Employee and Remuneration Policies

As at 30 June 2019, the Target Group had approximately 526 employees based in the PRC. During the Reporting Period, the Target Group's staff costs mainly comprised wages and salaries, pension costs, staff welfare and other benefits and amounted to RMB62.7 million, RMB65.0 million, RMB62.1 million and RMB24.9 million, respectively.

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, there was no material acquisitions and disposals of subsidiaries, associates and joint ventures.

Significant Investments

During the Reporting Period, there was no significant investment held by the Target Group.

Future Plans for Material Investments or Capital Assets

As at 30 June 2019, the Target Group did not have any material capital commitments.

The following is the text of a report set out on pages III-1 to III-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YUEXIU TRANSPORT INFRASTRUCTURE LIMITED

Introduction

We report on the historical financial information of 越秀(湖北)高速公路有限公司 (Yuexiu (Hubei) Expressway Company Limited*) ("YXHB") and its subsidiaries and 湖北省漢蔡高速公路有限公司 (Hancai Expressway Company Limited of Hubei Province*) ("Hancai") (together, the "Target Group") set out on pages III-4 to III-51, which comprises the combined balance sheets as at 31 December 2016, 2017 and 2018 and 30 June 2019, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Yuexiu Transport Infrastructure Limited (the "Company") dated 17 October 2019 (the "Circular") in connection with the proposed acquisition of 100% equity interest in YXHB and 38.5% equity interest in Hancai by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the management accounts of YXHB and its subsidiaries and Hancai now comprising the Target Group for the Track Record Period. The directors of the respective companies now comprising the Target Group are responsible for the preparation of the management accounts of

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YXHB and its subsidiaries and Hancai in accordance with the relevant accounting principles generally accepted in their places of incorporation, and for such internal control as the directors determine is necessary to enable the preparation of respective companies' financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's 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 accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) 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 accountant's report, a true and fair view of the combined financial position of the Target Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
17 October 2019

* *For identification purpose only*

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December			For the six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Revenue	5	681,405	782,444	847,241	424,718	373,396
Other toll operating income	5	21,021	21,079	21,469	10,265	14,097
Income from operations		702,426	803,523	868,710	434,983	387,493
Cost of services	7	(372,125)	(387,419)	(399,091)	(185,202)	(184,695)
Construction income under service concession upgrade services	9	947	2,100	957	957	—
Construction cost under service concession upgrade services	9	(947)	(2,100)	(957)	(957)	—
Other income, gains and losses - net	6	682	4,636	4,610	901	261
General and administrative expenses	7	(41,446)	(39,997)	(34,688)	(16,414)	(14,096)
Operating profit		289,537	380,743	439,541	234,268	188,963
Finance income	10	5,478	2,562	1,426	861	618
Finance costs	10	(623,913)	(594,699)	(502,043)	(284,789)	(287,034)
Loss before income tax		(328,898)	(211,394)	(61,076)	(49,660)	(97,453)
Income tax credit/(expense)	11	10,778	(4,463)	10,452	5,106	(7,076)
Loss and total comprehensive loss for the year/period		(318,120)	(215,857)	(50,624)	(44,554)	(104,529)
Total comprehensive loss attributable to:						
Owners of the Target Group		(304,710)	(216,498)	(74,254)	(58,289)	(104,944)
Non-controlling interests		(13,410)	641	23,630	13,735	415
		(318,120)	(215,857)	(50,624)	(44,554)	(104,529)

COMBINED BALANCE SHEETS

	Note	As at 31 December 2016	2017	2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Intangible operating rights	12	10,857,635	10,590,404	10,324,880	10,189,562
Property, plant and equipment	13	7,494	5,025	3,640	3,126
Deferred income tax assets	14	150,967	146,504	156,956	152,580
		11,016,096	10,741,933	10,485,476	10,345,268
Current assets					
Trade receivables	15	33,728	45,887	44,763	69,264
Other receivables, deposits and prepayments	15	11,804	11,544	9,696	33,110
Amounts due from fellow subsidiaries	22	14,295	26,395	26,886	—
Amount due from an ultimate holding company	22	178,898	178,898	178,898	—
Bank balances and cash	16	643,961	157,876	147,490	74,284
		882,686	420,600	407,733	176,658
Total assets		11,898,782	11,162,533	10,893,209	10,521,926
EQUITY					
Equity attributable to the owners of the Target Group					
Combined paid-in capital	17	30,000	30,000	30,000	30,000
Reserves	18	(1,572,752)	(1,789,250)	(1,863,504)	(1,968,448)
		(1,542,752)	(1,759,250)	(1,833,504)	(1,938,448)
Non-controlling interests		(107,405)	(106,764)	(83,134)	(82,719)
Total equity		(1,650,157)	(1,866,014)	(1,916,638)	(2,021,167)

	Note	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 30 June 2019 RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings	19	8,539,336	8,239,261	6,070,911	10,040,415
Accrued charges	21	28,528	42,243	19,174	—
Contract liabilities	20	284,897	273,433	260,982	248,993
		8,852,761	8,554,937	6,351,067	10,289,408
Current liabilities					
Borrowings	19	4,242,161	4,069,626	6,009,057	1,820,737
Amounts due to fellow subsidiaries	22	19,895	4,359	4,227	—
Amount due to a non-controlling interest	22	23,694	24,542	25,390	—
Trade and other payables and accrued charges	21	390,717	355,369	400,466	413,309
Contract liabilities	20	19,711	19,714	19,640	19,639
		4,696,178	4,473,610	6,458,780	2,253,685
Total liabilities		13,548,939	13,028,547	12,809,847	12,543,093
Total equity and liabilities		11,898,782	11,162,533	10,893,209	10,521,926

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owners of the Target Group					
	Combined paid-in capital (Note 17)	**Capital reserve (Note 18)**	**Accumulated losses**	**Sub total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	30,000	610,873	(1,878,915)	(1,238,042)	(93,995)	(1,332,037)
Loss and total comprehensive loss for the year	—	—	(304,710)	(304,710)	(13,410)	(318,120)
Balance at 31 December 2016 and 1 January 2017	30,000	610,873	(2,183,625)	(1,542,752)	(107,405)	(1,650,157)
Loss and total comprehensive loss for the year	—	—	(216,498)	(216,498)	641	(215,857)
Balance at 31 December 2017 and 1 January 2018	30,000	610,873	(2,400,123)	(1,759,250)	(106,764)	(1,866,014)
Loss and total comprehensive loss for the year	—	—	(74,254)	(74,254)	23,630	(50,624)
Balance at 31 December 2018 and 1 January 2019	30,000	610,873	(2,474,377)	(1,833,504)	(83,134)	(1,916,638)
Loss and total comprehensive loss for the period	—	—	(104,944)	(104,944)	415	(104,529)
Balance at 30 June 2019	30,000	610,873	(2,579,321)	(1,938,448)	(82,719)	(2,021,167)
Balance at 31 December 2017 and 1 January 2018	30,000	610,873	(2,400,123)	(1,759,250)	(106,764)	(1,866,014)
Loss and total comprehensive loss for the period (unaudited)	—	—	(58,289)	(58,289)	13,735	(44,554)
Balance at 30 June 2018 (unaudited)	30,000	610,873	(2,458,412)	(1,817,539)	(93,029)	(1,910,568)

COMBINED STATEMENTS OF CASH FLOWS

	Note	For the year ended 31 December			For the six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from operating activities						
Cash generated from operations	23(a)	465,563	580,535	719,407	308,469	281,272
China enterprise income tax paid		—	—	—	—	(2,700)
Net cash generated from operating activities		465,563	580,535	719,407	308,469	278,572
Cash flows from investing activities						
Payments for construction costs under service concession upgrade services		(947)	(2,100)	(957)	(957)	—
Purchase of property, plant and equipment		(695)	(621)	(148)	(148)	(54)
Interest received		5,478	2,562	1,426	861	618
Net cash generated from/(used in) investing activities		3,836	(159)	321	(244)	564
Cash flows from financing activities	23(b)					
Proceeds from borrowings		1,000	—	—	—	—
Repayment of borrowings		(176,000)	(614,125)	(300,925)	(115,038)	(125,000)
Repayment of amount due to a non-controlling interest		—	—	—	—	(15,000)
Interest paid		(483,265)	(452,336)	(429,189)	(214,867)	(212,342)
Net cash used in financing activities		(658,265)	(1,066,461)	(730,114)	(329,905)	(352,342)

	Note	For the year ended 31 December			For the six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Net decrease in cash and cash equivalents		(188,866)	(486,085)	(10,386)	(21,680)	(73,206)
Cash and cash equivalents at beginning of the year/period		832,827	643,961	157,876	157,876	147,490
Cash and cash equivalents at end of the year/period		643,961	157,876	147,490	136,196	74,284
Analysis of cash and cash equivalents						
Bank balances and cash		643,961	157,876	147,490	136,196	74,284

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information and basis of presentation

(a) General information

越秀(湖北)高速公路有限公司 (Yuexiu (Hubei) Expressway Company Limited) ("YXHB") and 湖北省漢蔡高速公路有限公司 (Hancai Expressway Company Limited of Hubei Province) ("Hancai") were incorporated under the Company Law of the People's Republic of China (the "PRC"). The addresses of their registered offices are 湖北省鄂州市葛山大道99號 (No. 99 Geshan Avenue, Ezhou, Hubei Province) and 湖北省武漢市漢陽區永豐街漢蔡高速公路1號 (No. 1 Hancai Expressway, Yongfeng Street, Hanyang District, Wuhan, Hubei Province), respectively. As of the date of this report, the ultimate holding company of YXHB and Hancai is 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) ("GZYX").

YXHB is an investment holding company. Hancai is principally engaged in investment in and development, operation and management of Hubei Hancai Expressway in Hubei Province in the PRC. YXHB and its subsidiaries and Hancai comprising the target group (together the "Target Group") are principally engaged in the investment in and development, operation and management of three expressways in Hubei Province in the PRC (the "Expressways Business").

Prior to 20 March 2019, YXHB was a direct wholly owned subsidiary of廣東省廣晟資產經營有限公司 (Guangdong Rising Assets Management Co., Ltd.) ("GRAM") and Hancai was an indirect, 67% owned subsidiary of GRAM. GRAM indirectly held Hancai through its subsidiaries, including YXHB and 廣東省廣晟建設投資集團有限公司(Guangdong Rising Investment Group) ("GRI"), which held 28.5% and 38.5% interest in Hancai respectively. On 20 March 2019, the 100% interest in YXHB held by GRAM and the 38.5% interest in Hancai held by GRI were transferred to廣州越秀企業集團有限公司(Guangzhou Yue Xiu Enterprises (Holding) Limited) ("YXE") (the "Transfer").

After the Transfer, YXE directly holds 100% and 38.5% interest in YXHB and Hancai respectively, and indirectly holds 28.5% interest in Hancai through YXHB.

(b) Basis of presentation

Immediately prior to and after the Transfer, the Expressways Business was carried out by YXHB and its subsidiaries and Hancai. The Transfer does not result in any changes in business substance, holding structure and management of the Expressways Business. Accordingly, combined financial information of the Target Group is presented using the carrying values of the Expressways Business for all periods presented.

Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

During the Track Record Period, the Target Group comprises of the following companies:

Company name	Country and date of incorporation	Principal activities	Registered Capital	Attributable equity interest of the Target Group	Statutory auditors
越秀(湖北)高速公路有限公司 (Yuexiu (Hubei) Expressway Company Limited)	PRC, limited liability company 29 November 2013	Investment holding	RMB30,000,000	100%	2018 中審眾環會計師事務所(特殊普通合夥人)廣東分所 2017 中審眾環會計師事務所(特殊普通合夥人)廣東分所 2016 廣州中職信會計師事務所有 限公司
湖北越秀漢鄂高速公路有限公司 (Hubei Yue Xiu Han'e Expressway Company Limited)	PRC, limited liability company 14 March 2008	Development and management of Han'e Expressway in Hubei Province	RMB135,000,000	100%	2018 中審眾環會計師事務所(特 殊普通合夥人)廣東分所 2017 中審眾環會計師事務所(特 殊普通合夥人)廣東分所 2016 廣州中職信會計師事務所有 限公司
湖北省漢蔡高速公路有限公司 (Hancai Expressway Company Limited of Hubei Province)	PRC, limited liability company 20 January 2005	Development and management of Hancai Expressway in Hubei Province	RMB150,000,000	67%	2018 中審眾環會計師事務所(特 殊普通合夥人)廣東分所 2017 中審眾環會計師事務所(特 殊普通合夥人)廣東分所 2016 廣州中職信會計師事務所有 限公司
武漢安帝科技產業發展有限公司 (Wuhan Andi Technology Industry Development Company Limited)	PRC, limited liability company 9 October 2002	Investment holding	RMB260,000,000	100%	2018 湖北盛德聯合會計師事務所 2017 湖北盛德聯合會計師事務所 2016 廣州中職信會計師事務所有 限公司
湖北阿深南高速公路發展有限公司 (Hubei A'shennan Expressway Development Company Limited)	PRC, limited liability company 9 January 2017	Development and management of Daguangnan Expressway in Hubei Province	RMB200,000,000	90%	2018 湖北盛德聯合會計師事務所 2017 湖北盛德聯合會計師事務所 2016 廣州中職信會計師事務所有 限公司

For the purpose of this accountant's report, the Historical Financial Information for the Track Record Period has been presented on the Target Group as a whole.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies applied in the preparation of this Historical Financial Information. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

(a) Basis of preparation

The Historical Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Historical Financial Information has been prepared on a historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

New standards adopted

HKFRS 9 "Financial instruments" and HKFRS 15 "Revenue from Contracts with Customers" are effective for the annual period beginning on or after 1 January 2018. HKFRS 16 "Leases" is effective for the annual period beginning on or after 1 January 2019. The Target Group has applied HKFRS 9, HKFRS 15 and HKFRS 16 consistently throughout the Track Record Period.

Going concern

As at 30 June 2019, the Target Group had net current liabilities of RMB2,077,027,000. YXE, the existing intermediate holding company, has agreed to provide financial support to the Target Group so as to enable the Target Group to meet its liabilities as and when they fall due and carry on its business without a significant curtailment of operations up to the completion of the proposed acquisition of the Target Group (the "Transaction") by 廣州越達投資有限責任公司 (Guangzhou Yueda Investment Company Limited), a wholly-owned subsidiary of Yuexiu Transport Infrastructure Limited (the "Company"). Upon the completion of the Transaction, the Company will provide financial support to the Target Group up to the next twelve months from the date of this Circular so as to meet its liabilities as and when they fall due and carry on its business without a significant curtailment of operations.

The directors of the Company are confident that the Company and its subsidiaries (the "Group") will have sufficient working capital to provide financial support to the Target Group after considering the new secured term loans, the Group's internal resources and the net cash inflows to be generated from operating activities.

Under these circumstances, the directors of the Company believe that the Target Group will continue as a going concern. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

New standards and amendments

New standards and amendments	**Effective for accounting periods beginning on or after**	
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendment)	Definition of a business	1 January 2020
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

The directors of the Target Group anticipate that the adoption of these standards and amendments would not result in any significant impact on the results and financial position of the Target Group. The Target Group will adopt these new standards and amendments when they become effective.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Target Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the combined statements of comprehensive income, combined balance sheets and combined statements of changes in equity respectively.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of the Target Group that make strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the Historical Financial Information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Historical Financial Information is presented in RMB, which is the Target Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year/period end exchange rates are recognised in the profit or loss.

(e) Intangible operating rights

The Target Group has been granted by the relevant local government authorities the rights to operate the toll highways for operating period of 30 years. According to the approval documents of the relevant government and the relevant regulations, the Target Group is responsible for the construction of the toll highways and the acquisition of the related facilities and equipment. It is also responsible for the operation and management, maintenance and overhaul of the toll highways during the approved operating period. The toll fees collected during the operating period are attributable to the Target Group. The relevant toll highway assets are required to be returned to the local government authorities upon the expiry of the operating rights without any compensation to the Target Group.

The Target Group applies the intangible asset model to account for the toll highway infrastructures where they are paid by the users of the toll highways. The concession grantors (the respective local governments) have not provided any contractual guarantees for the recovery of the amounts of construction costs incurred. The intangible assets correspond to the rights granted by the respective concession grantors to the Target Group to charge users of the toll road services and are recorded in the combined balance sheets as "Intangible operating rights".

Amortisation of intangible operating rights is calculated to write off their costs on a unit-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the asset. The Target Group reviews regularly the projected total traffic volume throughout the life of the asset, and if it is considered appropriate, independent professional traffic studies will be obtained. Prospective adjustment will be made should there be a material change.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance costs are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(g)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

(g) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Financial assets

The Target Group classifies its financial assets as amortised cost.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Target Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss together with foreign exchange gains and losses.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

(j) Impairment of financial assets

The Target Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1(b) for further details.

(k) Cash and cash equivalents

For the purpose of presentation in the combined statements of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial instruments and short-term bank deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Combined paid-in capital

Combined paid-in capital is classified as equity.

(m) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade and other payables are classified as current liabilities unless payment is not due within 12 months after the reporting period.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all the facility will be drawn down. In this case, the fee is deferred until the drawn-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs that are directly attributable to the acquisition or construction of highways are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

All other borrowing costs are charged to the profit or loss in the period in which they are incurred.

Foreign exchange differences arising from financing are included as a component of finance cost.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(o) Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting date in the countries where the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amount will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred taxes balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(p) Provisions

Provisions are recognised when: the Target Group 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. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

(q) Retirement benefit costs

A defined contribution plan is a pension plan under which the Target Group pays fixed contributions into a separate entity. The Target Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Target Group's contributions to the defined contribution retirement schemes are expensed as incurred. The assets of the schemes are held separately from those of the Target Group in an independently administered fund.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services in the ordinary course of the Target Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the standalone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the service may be transferred over time or at a point in time.

Control of the service is transferred over time if the Target Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Target Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Target Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Target Group to the customer; or
- the Target Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

(i) Toll revenue from road operations is recognised at a point in time when the related services are provided.

(ii) Income from service areas and petrol stations is recognised over time in the profit or loss on a straight-line basis over the term of the agreements.

(iii) Construction income generated from construction and upgrade services rendered by the Target Group is recognised over time as the Target Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Thus, the Target Group satisfies a performance obligation over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Target Group adjusts the amount of consideration for the effect of a financing component if it is significant.

(s) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(t) Contract liabilities

Upon entering into a contract with a customer, the Target Group obtains rights to receive consideration from the customer and assumes performance obligations to provide services to the customer. Contract liabilities are recognised when the fees are received in advance from contractors relating to operation of service areas and petrol stations along the toll highway. Revenue is recognised when the Target Group transfers the services to the customers and therefore satisfies its performance obligation.

(u) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

3 Financial risk management

The Target Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The Target Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

3.1 Financial risk factors

(a) Market risk

(i) Cash flow and fair value interest rate risk

The Target Group's main interest rate risk arises from bank balances and borrowings. Borrowings issued at variable rates expose the Target Group to cash flow interest rate risk which is partially offset by bank balances held at variable rates. The Target Group policy is to minimise the interest rate risk by closely monitor the ratio between borrowings at variable rates and borrowings at fixed rates.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, if interest rates had been 50 basis points higher/lower with all other variables held constant, post-tax loss for the years and period would have been increased/decreased by approximately RMB37,055,000, RMB36,727,000, RMB39,593,000, and RMB14,265,000 respectively.

(b) Credit risk

The carrying amounts of cash and cash equivalents, trade receivables, other receivables, amounts due from fellow subsidiaries and amount due from an ultimate holding company represent the Target Group's maximum exposure to credit risk in relation to its financial assets. The credit risk for bank deposits and bank balances is minimal as such balances are placed with state-owned banks or listed banks, and management considers these balances are subject to low credit risk. The Target Group carries out regular reviews and follow-up actions on any overdue amounts to minimise exposures to credit risk. The Target Group has no significant concentration of credit risk arising from its customers.

The Target Group applies simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivable with an insignificant expected loss rate applied. Hence the expected credit loss is minimal. Trade receivables of the Target Group continue to be recognised at amortised cost.

Impairment on other receivables, amounts due from fellow subsidiaries and amount due from an ultimate holding company are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk have occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

The Target Group does not hold any collateral as security. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables as stated in the combined balance sheets.

(c) Liquidity risk

Due to the capital intensive nature of the Target Group's business, the Target Group ensures that it maintains sufficient cash and credit lines as well as financial support from parent companies to meet its liquidity requirements.

The table below analyses the Target Group's financial liabilities based on the remaining period at the balance sheet dates to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows (including respective interest payments).

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 - 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016							
Borrowings	—	4,635,299	714,097	4,448,805	5,353,456	15,151,657	12,781,497
Amounts due to fellow subsidiaries	19,895	—	—	—	—	19,895	19,895
Amount due to a non-controlling interest	23,694	—	—	—	—	23,694	23,694
Trade and other payables and accrued charges	—	360,641	—	44,494	—	405,135	375,059
	43,589	4,995,940	714,097	4,493,299	5,353,456	15,600,381	13,200,145
As at 31 December 2017							
Borrowings	—	4,848,614	2,555,757	2,897,344	4,353,300	14,655,015	12,308,887
Amounts due to fellow subsidiaries	4,359	—	—	—	—	4,359	4,359
Amount due to a non-controlling interest	24,542	—	—	—	—	24,542	24,542
Trade and other payables and accrued charges	—	321,975	41,591	19,787	—	383,353	364,218
	28,901	5,170,589	2,597,348	2,917,131	4,353,300	15,067,269	12,702,006

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 - 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018							
Borrowings	—	6,406,993	1,184,924	2,622,730	3,462,637	13,677,284	12,079,968
Amounts due to fellow subsidiaries	4,227	—	—	—	—	4,227	4,227
Amount due to a non-controlling interest	25,390	—	—	—	—	25,390	25,390
Trade and other payables and accrued charges	—	367,788	27,559	—	—	395,347	386,962
	29,617	6,774,781	1,212,483	2,622,730	3,462,637	14,102,248	12,496,547
As at 30 June 2019							
Borrowings	—	2,298,812	1,000,205	8,165,498	3,051,271	14,515,786	11,861,152
Trade and other payables and accrued charges	—	393,527	—	—	—	393,527	393,527
	—	2,692,339	1,000,205	8,165,498	3,051,271	14,909,313	12,254,679

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the combined balance sheets) less cash and cash equivalents. Total capital is calculated as equity, as shown in the combined balance sheets, plus net debt.

The gearing ratio is calculated as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	12,781,497	12,308,887	12,079,968	11,861,152
Less: cash and cash equivalents	(643,961)	(157,876)	(147,490)	(74,284)
Net debt	12,137,536	12,151,011	11,932,478	11,786,868
Total equity	(1,650,157)	(1,866,014)	(1,916,638)	(2,021,167)
Total capital	10,487,379	10,284,997	10,015,840	9,765,701
Gearing ratio	116%	118%	119%	121%

3.3 Fair value estimation

The fair values of non-current borrowings and non-current accrued charges approximate to the present value of future cash flows discounted at the applicable interest rates.

The fair values of the other financial assets and liabilities approximate their carrying values due to their short-term maturities.

4 Critical accounting estimates and judgements

The preparation of Historical Financial Information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Target Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of intangible operating rights

The Target Group tests whether intangible operating rights have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash generating units have been determined based on value-in-use and fair value less costs of disposal calculations. The calculation requires the Target Group to estimate the future cash flows expected to arise from the cash-generating units to which the intangible operating rights belong and the use of suitable discount rates in order to calculate the present value. When the carrying amount of the cash generating unit exceeds its value-in-use, the Target Group also assesses its fair value less costs of disposal to determine the cash generating unit's recoverable amount, which is the higher of its fair value less costs of disposal and value-in-use.

(b) Amortisation of intangible operating rights

Amortisation of intangible operating rights is calculated to write off their costs on a unit-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

The Target Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change. During the Track Record Period, the projected total traffic volumes throughout the life of each of the assets were revised after obtaining new independent professional traffic studies. The revision of the projected total traffic volumes has been effective from 1 January 2018 and has the effect of reducing the amortisation of intangible operating rights for the year ended 31 December 2018 and the six months ended 30 June 2019 by RMB6,650,000 and RMB2,481,000 respectively.

At present, the range of annual traffic growth rates that have been projected for individual toll highways is around 0.8% to 7.2% (excluding the growth rates in the year of performing significant repair and maintenance).

(c) Current income tax and deferred income tax

The Target Group is subject to income tax in the PRC. Significant judgement is required in determining the amount of the provision for and the timing of payment of the related income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The management exercises judgement in determining the future taxable profit based on the projected future traffic volume and specific circumstance of the toll highways and bridges operated by the individual entity with tax losses. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax in the periods in which such estimate is changed.

5 Revenue and segment information

The Target Group is engaged in the operation and management of expressways in the PRC. Revenue recognised is as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Toll revenue	681,405	782,444	847,241	424,718	373,396
Other toll operating income	21,021	21,079	21,469	10,265	14,097
	702,426	803,523	868,710	434,983	387,493

Toll revenue relating to toll roads operation is recognised at a point in time. Other toll operating income, representing income from service areas and petrol stations, is recognised over time.

The chief operating decision-maker has been identified as the directors of the Target Group. The directors review the Target Group's internal reporting in order to assess performance of the Target Group's operating segment — Expressways operation and management in the PRC. Expressways segment represents the sole operating segment of the Target Group.

The financial information provided to the chief operating decision-maker is measured in a manner consistent with that of the Historical Financial Information.

All major operating entities are domiciled in the PRC. All revenue of the Target Group from external customers are generated in the PRC. Besides, most of the assets of the Target Group are located in the PRC. Thus no geographic information is presented.

6 Other income, gains and losses — net

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Gain/(loss) on disposal of property, plant and equipment, net	309	(151)	—	—	—
Compensation for expressway damages	1,110	2,287	1,117	577	629
Government subsidies	—	3,370	2,841	338	—
Others	(737)	(870)	652	(14)	(368)
	682	4,636	4,610	901	261

7 Expenses by nature

Expenses included in cost of services and general and administrative expenses are analysed as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Employee benefit expense (note 8)	62,684	65,037	62,139	30,072	24,927
Taxes and surcharges	10,193	7,994	6,126	3,038	2,481
Amortisation of intangible operating rights (note 12)	252,672	269,331	266,481	133,241	135,318
Depreciation of property, plant and equipment (note 13)	3,755	2,939	1,533	881	568
Maintenance expenses	34,765	32,233	45,110	15,001	15,653
Auditor's remuneration for statutory audit	403	535	217	56	24
Legal and professional fee	770	329	367	173	134

8 Employee benefit expense

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs (including directors' emoluments)					
- Wages and salaries	40,628	41,263	44,018	20,994	16,864
- Pension costs (defined contribution plan)	14,986	16,882	11,680	5,582	5,457
- Staff welfare and other benefits	7,070	6,892	6,441	3,496	2,606
Total employee benefit expense	62,684	65,037	62,139	30,072	24,927

Notes:

(a) The Target Group is required to participate in defined contribution retirement plans organised by the Provincial or Municipal People's Governments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group for the Track Record Period include five directors whose emoluments are reflected in the analysis shown in note 25. For the years ended 31 December 2016, 2017 and 2018, the six months ended 30 June 2018 and 2019, aggregate emoluments paid to or receivable by the five highest paid individuals in respect of their services to the Target Group amounted to RMB2,550,628, RMB3,201,748, RMB3,650,193, RMB1,266,520 and RMB847,760 respectively.

The emoluments fell within the following bands:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
				(unaudited)	
Emolument bands					
Nil – HKD1,000,000	5	5	5	5	5

9 Construction income/(cost) under service concession upgrade services

The construction income/(cost) associated with the construction and upgrade services provided under the service concession recognised for the Track Record Period are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Construction income under service concession upgrade services	947	2,100	957	957	—
Construction cost under service concession upgrade services	(947)	(2,100)	(957)	(957)	—
	—	—	—	—	—

10 Finance income/(costs)

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Interest income from banks and financial institutions	5,478	2,562	1,426	861	618
Interest expenses:					
- Borrowings from banks and financial institutions (Note)	588,515	539,593	445,961	256,339	181,321
- Loan from a fellow subsidiary	34,500	54,173	55,185	28,000	20,077
- Loan from an intermediate holding company	—	—	—	—	85,376
- Amount due from a non-controlling interest	851	848	848	418	216
Other financing charges	47	85	49	32	44
Finance costs	623,913	594,699	502,043	284,789	287,034

Note:

As at 31 December 2016, 2017 and 2018, included in the balance represents interest expense from borrowing of RMB3,064,050,000, RMB2,660,000,000 and RMB2,660,000,000 respectively, from a non-banking financial institution in the PRC, which is a fellow subsidiary of the Target Group (note 26(c)).

11 Income tax credit/(expense)

During the Track Record Period, PRC enterprises income tax was provided on the assessable profits of the Target Group in accordance with the Corporate Income Tax Law of China. The applicable principal income tax rate for the Track Record Period was 25%.

The amount of income tax credited/(charged) to profit or loss represents:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current income tax					
PRC enterprises income tax	—	—	—	—	(2,700)
Deferred income tax (note 14)	10,778	(4,463)	10,452	5,106	(4,376)
	10,778	(4,463)	10,452	5,106	(7,076)

The tax on the Target Group's loss before income tax differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Loss before income tax	(328,898)	(211,394)	(61,076)	(49,660)	(97,453)
Calculated at a tax rate of 25%	(82,225)	(52,849)	(15,269)	(12,415)	(24,363)
Expenses not deductible for tax purposes	16,293	26,362	7,940	6,075	13,145
Recognition of previously unrecognised tax losses	—	—	(19,623)	(14,750)	—
Tax losses not recognised (Note)	55,154	30,950	16,500	15,984	18,294
Income tax (credit)/expense	(10,778)	4,463	(10,452)	(5,106)	7,076

Note:

Deferred income tax assets are recognised for deductible temporary differences and tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Target Group did not recognise deferred income tax assets of approximately RMB183,044,000, RMB213,993,000, RMB229,101,000, RMB205,749,000 and RMB220,904,000 respectively in respect of unused losses amounting to approximately RMB732,176,000, RMB855,972,000, RMB916,404,000, RMB822,996,000 and RMB883,616,000 for the years ended 31 December 2016, 2017, 2018, the six months ended 30 June 2018 and 2019. Unused tax losses will expire in 2020 to 2024.

12 Intangible operating rights

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Opening net book amount	11,109,360	10,857,635	10,590,404	10,590,404	10,324,880
Additions	947	2,100	957	957	—
Amortisation (Note 7)	(252,672)	(269,331)	(266,481)	(133,241)	(135,318)
Closing net book amount	10,857,635	10,590,404	10,324,880	10,458,120	10,189,562
Cost	11,984,803	11,986,903	11,987,860	11,987,860	11,987,860
Accumulated amortisation and impairment loss	(1,127,168)	(1,396,499)	(1,662,980)	(1,529,740)	(1,798,298)
Net book amount	10,857,635	10,590,404	10,324,880	10,458,120	10,189,562

As at 31 December 2016, 2017 and 2018 and 30 June 2019, intangible operating rights with net book amounts of RMB10,857,635,000, RMB10,590,404,000, RMB10,324,880,000 and RMB10,189,562,000 respectively were pledged to secure the Target Group's borrowings from banks and financial institutions.

13 Property, plant and equipment

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016				
Opening net book amount	1,035	5,188	4,565	10,788
Additions	238	246	211	695
Disposal	—	(107)	(127)	(234)
Depreciation (Note 7)	(374)	(2,085)	(1,296)	(3,755)
Closing net book amount	899	3,242	3,353	7,494
At 31 December 2016				
Cost	2,162	12,802	17,689	32,653
Accumulated depreciation	(1,263)	(9,560)	(14,336)	(25,159)
Net book amount	899	3,242	3,353	7,494
Year ended 31 December 2017				
Opening net book amount	899	3,242	3,353	7,494
Additions	366	255	—	621
Disposal	—	—	(151)	(151)
Depreciation (Note 7)	(350)	(1,811)	(778)	(2,939)
Closing net book amount	915	1,686	2,424	5,025
At 31 December 2017				
Cost	2,528	13,057	16,836	32,421
Accumulated depreciation	(1,613)	(11,371)	(14,412)	(27,396)
Net book amount	915	1,686	2,424	5,025

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018				
Opening net book amount	915	1,686	2,424	5,025
Additions	19	129	—	148
Depreciation (Note 7)	(262)	(628)	(643)	(1,533)
Closing net book amount	672	1,187	1,781	3,640
At 31 December 2018				
Cost	2,547	13,186	16,836	32,569
Accumulated depreciation	(1,875)	(11,999)	(15,055)	(28,929)
Net book amount	672	1,187	1,781	3,640
Six months ended 30 June 2018 (unaudited)				
Opening net book amount	915	1,686	2,424	5,025
Additions	19	129	—	148
Depreciation (Note 7)	(135)	(400)	(346)	(881)
Closing net book amount	799	1,415	2,078	4,292
At 30 June 2018				
Cost	2,547	13,186	16,836	32,569
Accumulated depreciation	(1,748)	(11,771)	(14,758)	(28,277)
Net book amount	799	1,415	2,078	4,292

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2019				
Opening net book amount	672	1,187	1,781	3,640
Additions	2	52	—	54
Depreciation (Note 7)	(122)	(189)	(257)	(568)
Closing net book amount	552	1,050	1,524	3,126
At 30 June 2019				
Cost	2,549	13,238	16,836	32,623
Accumulated depreciation	(1,997)	(12,188)	(15,312)	(29,497)
Net book amount	552	1,050	1,524	3,126

14 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable income tax rate.

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets:				
Deferred income tax assets to be recovered after 12 months	151,097	155,115	144,740	152,140
Deferred income tax assets to be recovered within 12 months	17,538	8,831	25,750	12,875
	168,635	163,946	170,490	165,015
Deferred tax liabilities:				
Deferred income tax liabilities to be recovered after 12 months	(16,988)	(16,744)	(12,970)	(11,894)
Deferred income tax liabilities to be recovered within 12 months	(680)	(698)	(564)	(541)
	(17,668)	(17,442)	(13,534)	(12,435)
Deferred tax assets (net)	150,967	146,504	156,956	152,580

The movement in deferred income tax assets and liabilities during the Track Record Period is as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Movements (net)					
At 1 January	140,189	150,967	146,504	146,504	156,956
Credited/(charged) to profit or loss	10,778	(4,463)	10,452	5,106	(4,376)
At 31 December/30 June	150,967	146,504	156,956	151,610	152,580

Deferred tax assets

	Accelerated accounting amortisation of intangible operating rights	**Tax losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Balance as at 1 January 2016	21,008	137,335	158,343
Credited to profit or loss	9,430	862	10,292
Balance as at 31 December 2016	30,438	138,197	168,635
Balance as at 1 January 2017	30,438	138,197	168,635
Credited/(charged) to profit or loss	12,473	(17,162)	(4,689)
Balance as at 31 December 2017	42,911	121,035	163,946
Balance as at 1 January 2018	42,911	121,035	163,946
Credited/(charged) to profit or loss	17,777	(11,233)	6,544
Balance as at 31 December 2018	60,688	109,802	170,490
Balance as at 1 January 2018	42,911	121,035	163,946
Credited/(charged) to profit or loss (unaudited)	8,888	(5,616)	3,272
Balance as at 30 June 2018 (unaudited)	51,799	115,419	167,218
Balance as at 1 January 2019	60,688	109,802	170,490
Credited/(charged) to profit or loss	11,021	(16,496)	(5,475)
Balance as at 30 June 2019	71,709	93,306	165,015

Deferred tax liabilities

	Accelerated tax amortisation of intangible operating rights
	RMB'000
Balance as at 1 January 2016	(18,154)
Credited to profit or loss	486
Balance as at 31 December 2016	(17,668)
Balance as at 1 January 2017	(17,668)
Credited to profit or loss	226
Balance as at 31 December 2017	(17,442)
Balance as at 1 January 2018	(17,442)
Credited to profit or loss	3,908
Balance as at 31 December 2018	(13,534)
Balance as at 1 January 2018	(17,442)
Credited to profit or loss (unaudited)	1,834
Balance as at 30 June 2018 (unaudited)	(15,608)
Balance as at 1 January 2019	(13,534)
Credited to profit or loss	1,099
Balance as at 30 June 2019	(12,435)

15 Trade and other receivables, deposits and prepayments

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables (Note)	33,728	45,887	44,763	69,264
Other receivables, deposits and prepayments	11,804	11,544	9,696	33,110
	45,532	57,431	54,459	102,374

Note:

The Target Group's revenue is generally settled in cash and it usually does not maintain any accounts balances owing. The trade receivables represented amounts due from local transport departments which collected the toll revenue for all operating entities due to the implementation of unified toll collection policy on expressways and highways. The settlement period is normally within a month.

As the Group applies simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivable with an insignificant expected loss rate applied, the expected credit loss is minimal. As at 31 December 2016, 2017 and 2018 and 30 June 2019, trade receivables were all aged within 30 days.

The carrying amounts of trade and other receivables, deposits and prepayments approximate their fair values and are denominated in RMB. The trade and other receivables are measured at amortised cost.

16 Bank balances and cash

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand (Note)	643,961	157,876	147,490	74,284
Maximum exposure to credit risk	643,961	157,876	147,490	74,284

Note:

All bank balances and cash in hand are denominated in RMB.

As at 31 December 2016, 2017 and 2018, included in the balance represented bank deposits of RMB590,889,000, RMB120,529,000 and RMB76,437,000 respectively, placed at a non-banking financial institution in the PRC, which is a fellow subsidiary of the Target Group (note 26(c)).

17 Combined paid-in capital

The combined capital represents the aggregate amounts of share capital of companies now comprising the Target Group after elimination of inter-company investments costs.

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period and at the end of the year/period	30,000	30,000	30,000	30,000

18 Capital reserve

Capital reserve represents the excess of the consideration received from shareholders over the paid-in capital of the Target Group.

19 Borrowings

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Long-term borrowings from banks and financial institutions	7,782,298	7,579,450	7,222,426	7,121,272
Short-term borrowings from financial institutions	3,999,199	3,729,437	3,857,542	—
Loan from a fellow subsidiary	1,000,000	1,000,000	1,000,000	—
Loan from an intermediate holding company	—	—	—	4,739,880
Total borrowings	12,781,497	12,308,887	12,079,968	11,861,152
Less: Amounts due within one year as shown under current liabilities	(4,242,161)	(4,069,626)	(6,009,057)	(1,820,737)
Total non-current borrowings	8,539,336	8,239,261	6,070,911	10,040,415

(a) The Target Group's borrowings were repayable as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	4,242,161	4,069,626	6,009,057	1,820,737
Between one and two years	300,075	2,168,350	907,500	437,500
Between two and five years	3,543,350	2,110,000	1,972,500	6,742,004
Later than five years	4,695,911	3,960,911	3,190,911	2,860,911
	12,781,497	12,308,887	12,079,968	11,861,152

(b) The borrowings from banks and financial institutions of RMB5,786,631,000, RMB5,603,886,000, RMB5,267,814,000 and RMB5,166,688,000 were secured by intangible operating rights of The Target Group with a net book value of RMB10,857,635,000, RMB10,590,404,000, RMB10,324,880,000 and RMB10,189,562,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019 respectively (Note 12).

(c) The borrowings from banks and financial institutions of RMB15,000,000,000 were guaranteed by ultimate holding company as at 31 December 2016, 2017 and 2018 and guaranteed by intermediate holding company as at 30 June 2019.

(d) All borrowings from banks and financial institutions were interest bearing at rates ranging from 4.41% to 6.98% per annum as at 31 December 2016, 2017 and 2018 and 30 June 2019 respectively. The effective interest rates of these borrowings from banks and financial institutions as at 31 December 2016, 2017 and 2018 and 30 June 2019 were 4.99%, 4.77%, 4.02%, and 5.12%, respectively.

(e) Loan from a fellow subsidiary was unsecured, interest bearing at 5.20% per annum as at 31 December 2016, 2017 and 2018 and repayable in 2019.

(f) Loan from an intermediate holding company was unsecured, interest bearing at 6.50% per annum as at 30 June 2019 and repayable in 2024. The balance includes guarantee fee of RMB830,000 payable to an intermediate holding company.

20 Contract liabilities

Contract liabilities of the Target Group primarily represents the fees received in advance from contractors relating to operation of service areas and petrol stations along the expressways.

	For the year ended 31 December			As at 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
At 1 January	314,379	304,608	293,147	293,147	280,622
Additions	11,250	9,618	8,944	478	2,107
Credited to other toll operating income (note 5)	(21,021)	(21,079)	(21,469)	(10,265)	(14,097)
At 31 December / 30 June	304,608	293,147	280,622	283,360	268,632
Less: non-current portion	(284,897)	(273,433)	(260,982)	(263,721)	(248,993)
Current portion	19,711	19,714	19,640	19,639	19,639

21 Trade and other payables and accrued charges

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	237,721	201,622	201,263	224,567
Other payables and accrued charges				
- Non-current portion *(Note)*	28,528	42,243	19,174	—
- Current portion	152,996	153,747	199,203	188,742
	419,245	397,612	419,640	413,309

Note:

Non-current portion of other payables and accrued charges mainly represent:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening balance	19,830	28,528	42,243	63,141
Charged to profit or loss	8,698	13,715	20,898	9,339
Closing Balance	28,528	42,243	63,141	72,480

Trade payables mainly represent construction costs payable to contractors. The ageing of trade payables by invoice date as at 31 December 2016, 2017, 2018 and 30 June 2019 were all over two years.

Trade and other payables and accrued charges are denominated in RMB and the carrying amounts approximated their fair values.

22 Amounts due from fellow subsidiaries, an ultimate holding company and amounts due to fellow subsidiaries, a non-controlling interest

The amounts due from fellow subsidiaries, an ultimate holding company and amounts due to fellow subsidiaries were unsecured, interest-free and repayable on demand.

The amount due to a non-controlling interest was unsecured, at a rate of People's Bank of China Benchmark Interest Rates plus 30% and repayable in 2019.

23 Note to the combined statements of cash flows

(a) Reconciliation of operating profit to cash generated from operations:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Operating profit	289,537	380,743	439,541	234,268	188,963
Adjustments for:					
Amortisation of intangible operating rights	252,672	269,331	266,481	133,241	135,318
Other toll operating income	(21,021)	(21,079)	(21,469)	(10,265)	(14,097)
Depreciation of property, plant and equipment	3,755	2,939	1,533	881	568
(Gain)/loss on disposal of property, plant and equipment, net	(309)	151	—	—	—

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Operating cash flows before working capital changes	524,634	632,085	686,086	358,125	310,752
Changes in working capital:					
- decrease/(increase) in trade and other receivables, deposits and prepayments	6,313	(11,899)	2,972	(27,468)	(47,915)
- increase in contract liabilities	11,250	9,618	8,944	478	2,107
- (decrease)/increase in trade and other payables and accrued charges	(73,570)	(21,633)	22,028	(21,981)	(6,331)
- decrease/(increase) in amounts due from fellow subsidiaries	769	(12,100)	(491)	(460)	26,886
- decrease in amounts due to fellow subsidiaries	(3,833)	(15,536)	(132)	(225)	(4,227)
Cash generated from operations	465,563	580,535	719,407	308,469	281,272

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings	Amount due to a non-controlling interest	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance as at 1 January 2016	12,816,700	22,843	12,839,543
Changes from financing activities cash flows			
Proceeds from borrowings	1,000	—	1,000
Repayment of borrowings	(176,000)	—	(176,000)
Interest paid	(483,265)	—	(483,265)
Total changes from financing activities cash flows	(658,265)	—	(658,265)
Non-cash changes			
Other non-cash movements (Note)	623,062	851	623,913
Balance as at 31 December 2016	12,781,497	23,694	12,805,191

	Borrowings	Amount due to a non-controlling interest	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance as at 1 January 2017	12,781,497	23,694	12,805,191
Changes from financing activities cash flows			
Repayment of borrowings	(614,125)	—	(614,125)
Interest paid	(452,336)	—	(452,336)
Total changes from financing activities cash flows	(1,066,461)	—	(1,066,461)
Non-cash changes			
Other non-cash movements (Note)	593,851	848	594,699
Balance as at 31 December 2017	12,308,887	24,542	12,333,429
Balance as at 1 January 2018	12,308,887	24,542	12,333,429
Changes from financing activities cash flows			
Repayment of borrowings	(300,925)	—	(300,925)
Interest paid	(429,189)	—	(429,189)
Total changes from financing activities cash flows	(730,114)	—	(730,114)
Non-cash changes			
Other non-cash movements (Note)	501,195	848	502,043
Balance as at 31 December 2018	12,079,968	25,390	12,105,358
Balance as at 1 January 2018	12,308,887	24,542	12,333,429
Changes from financing activities cash flows			
Repayment of borrowings	(115,038)	—	(115,038)
Interest paid	(214,867)	—	(214,867)
Total changes from financing activities cash flows	(329,905)	—	(329,905)

	Borrowings	Amount due to a non-controlling interest	Total
	RMB'000	*RMB'000*	*RMB'000*
Non-cash changes			
Other non-cash movements (Note)	284,371	418	284,789
Balance as at 30 June 2018	12,263,353	24,960	12,288,313
Balance as at 1 January 2019	12,079,968	25,390	12,105,358
Changes from financing activities cash flows			
Repayment of borrowings	(125,000)	—	(125,000)
Repayment of amount due to a non-controlling interest	—	(15,000)	(15,000)
Interest paid	(201,952)	(10,390)	(212,342)
Total changes from financing activities cash flows	(326,952)	(25,390)	(352,342)
Non-cash changes			
Other non-cash movements (Note)	108,136	—	108,136
Balance as at 30 June 2019	11,861,152	—	11,861,152

Note:

The amount mainly represents the interest expense incurred during the year/period.

24 Contingent liabilities

The Target Group has contingent liabilities in respect of a legal claim by 湖北銘發廣告傳媒有限公司 (Hubei Mingfa Media Co., Ltd) in relation to the construction of advertisement board of Hubei A'shennan Expressway Development Company Limited. The directors of the Target Group, having taken legal advice, is of the view that the Target Group has good rebuttal to the argument set forth in the arbitration documents. The directors of the Target Group considers the probability of loss is remote and will not have significant financial or operational impact to the Target Group. Therefore, no such provision needs to be made for this legal claim.

25 Directors' emoluments

For the years ended 31 December 2016, 2017 and 2018, the six months ended 30 June 2018 and 2019, aggregate emoluments paid to or receivable by directors in respect of their services to the Target Group amounted to RMB4,174,000, RMB4,303,000, RMB4,943,000, RMB2,041,000 and RMB1,006,000 respectively.

(a) Directors' retirement benefits

No retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Target Group or other services in connection with the management of the affairs of the Target Group undertaking.

(b) Directors' termination benefits

During the years/period, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(c) Consideration provided to third parties for making available directors' services

During the years/period, no consideration was provided to or receivable by third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the years/period, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Target Group's business to which the Target Group was a party and in which a director of the Target Group had a material interest, whether directly or indirectly, subsisted at the end of the years/period or at any time during the years/period.

26 Related party transactions

(a) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Prior to 20 March 2019, the ultimate holding company of the Target Group was GRAM. On 20 March 2019, the ultimate holding company of the Target Group was changed to GZYX.

The table set forth below summarises the names of related parties, with whom the Target Group had significant transactions before the Transfer and their relationship with the Target Group:

Significant related party	**Relationship with the Target Group**
廣東金晟豐股權投資基金管理合夥企業(有限合夥)(Guangdong Jinshengfeng Equity Investment Fund Management Partnership (Limited Partnership))	A fellow subsidiary
廣東中人集團建設有限公司 (Guangdong Zhongren Group Construction Co.,Ltd)	A fellow subsidiary
廣州市廣晟物業管理有限公司 (Guangzhou Guangsheng Property Management Co., Ltd.)	A fellow subsidiary
廣東省廣晟資產經營有限公司 (Guangdong Rising Assets Management Co., Ltd.)	An ultimate holding company
廣東省廣晟財務中心 (Guangdong Rising Finance Co., Ltd.)	A fellow subsidiary

The table set forth below summarises the names of related party, with whom the Target Group had significant transactions after the Transfer and its relationship with the Target Group:

Significant related party	**Relationship with the Target Group**
廣州越秀企業集團有限公司 (Guangzhou Yue Xiu Enterprises (Holding) Limited)	An intermediate holding company

(b) Transactions with related parties

	Note	For the year ended 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000	For the six months ended 30 June 2018 RMB'000 (unaudited)	2019 RMB'000
Interest income from a financial institution (fellow subsidiary)		3,853	1,597	343	—	—
Interest expense to a financial institution (fellow subsidiary)		(144,236)	(130,551)	(63,877)	(63,877)	—
Interest expense to a fellow subsidiary	10	(34,500)	(54,173)	(55,185)	(28,000)	(20,077)
Interest expense to a non-controlling interest	10	(851)	(848)	(848)	(418)	(216)
Interest expense to an intermediate holding company	10	—	—	—	—	(84,546)
Guarantee expense to an intermediate holding company		—	—	—	—	(830)

(c) Balances with related parties

		As at 31 December			As at 30 June
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from fellow subsidiaries		14,295	26,395	26,886	—
Amount due from an ultimate holding company		178,898	178,898	178,898	—
Bank balance deposited in a fellow subsidiary	16	590,889	120,529	76,437	—
Amounts due to fellow subsidiaries		19,895	4,359	4,227	—
Amount due to a non-controlling interest		23,694	24,542	25,390	—
Loan from a fellow subsidiary	19	1,000,000	1,000,000	1,000,000	—
Loan from an intermediate holding company	19	—	—	—	4,739,880
Short-term borrowing from a financial institution (fellow subsidiary)	19	3,999,199	3,729,437	3,857,542	—

(d) Key management compensation

The compensation paid or payable to key management for employee services is shown below:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Salaries and other benefits	4,174	4,303	4,943	2,041	1,006
Bonuses	—	—	—	—	—
	4,174	4,303	4,943	2,041	1,006

27 Subsequent events

Save as disclosed elsewhere in this report, there is no other material subsequent event undertaken by the Target Group after the reporting date except the following:

On 12 September 2019, 廣州越達投資有限責任公司 (Guangzhou Yueda Investment Company Limited), a wholly-owned subsidiary of the Company has conditionally agreed to acquire, and the shareholders of the Target Group have conditionally agreed to sell (i) 100% of the equity interest in YXHB; (ii) 38.5% of the equity interest in Hancai; and (iii) the entire amount of the outstanding shareholder's loan in the principal amount of RMB4,654,504,000 owed by YXHB to YXE as at 12 September 2019 together with the interest accrued thereon at the interest rate of 6.5% per annum calculated from 20 March 2019 ("Target Shareholder's Loan").

The total consideration for the acquisition ("Total Consideration") shall be the sum of (i) RMB633,000,000, being the consideration for 100% of the equity interest in YXHB; (ii) RMB474,000,000, being the consideration for 38.5% of the equity interest in Hancai; and (iii) an amount representing the sum of (A) the principal amount of the Target Shareholder's Loan (being RMB4,654,504,000); and (B) the interest on such principal amount to be calculated at 6.5% per annum from 20 March 2019 up to the date on which this part of the Total Consideration is paid ("Loan Consideration") as the consideration for the acquisition of the Target Shareholder's Loan.

Upon completion of the Transaction, all the members of the Target Group will become the indirect subsidiaries of the Company and their financial results will be consolidated in the financial statements of the Group.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Target Group in respect of any period subsequent to 30 June 2019.

Unaudited pro forma statement of the assets and liabilities of the Enlarged Group

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group which has been prepared based on the unaudited condensed consolidated balance sheet of the Group as set out in the published interim report for the six months ended 30 June 2019 after making pro forma adjustments as set out in notes below. This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effects of the Acquisition, as if the Acquisition had taken place on 30 June 2019. It has been prepared on the basis of the notes below and is consistent with the accounting policies adopted by the Group. It has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2019 or at any future date.

Unaudited pro forma statement of the assets and liabilities of the Enlarged Group

	Unadjusted statement of assets and liabilities of the Group as at 30 June 2019	Pro forma adjustments					Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3a)*	*(Note 3b)*	*(Note 3c)*	*(Note 4)*	
ASSETS							
Non-current assets							
Intangible operating rights	17,121,388	10,189,562		4,990,889			32,301,839
Goodwill	632,619						632,619
Property, plant and equipment	81,141	3,126					84,267
Investment properties	38,633						38,633
Right-of-use assets	16,099						16,099
Investment in a joint venture	427,588						427,588
Investments in associates	1,485,347						1,485,347
Deferred income tax assets	—	152,580					152,580
Other non-current receivables	34,777						34,777
Total non-current assets	19,837,592						35,173,749
Current assets							
Trade receivables	129,196	69,264					198,460
Other receivables, deposits and prepayments	71,069	33,110		4,739,050	(4,739,050)		104,179
Amount due from a joint venture	11,848						11,848
Short-term bank deposits, cash and cash equivalents	2,186,843	74,284	3,507,630	(5,426,050)			342,707
Total current assets	2,398,956						657,194
Total assets	22,236,548						35,830,943

	Unadjusted statement of assets and liabilities of the Group as at 30 June 2019	Pro forma adjustments					Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3a)*	*(Note 3b)*	*(Note 3c)*	*(Note 4)*	
LIABILITIES							
Non-current liabilities							
Borrowings	4,718,953	10,040,415	3,507,630		(4,654,504)		13,612,494
Corporate bonds	1,788,342						1,788,342
Contract liabilities	78,680	248,993					327,673
Deferred income tax liabilities	2,100,102			1,247,722			3,347,824
Derivative financial instruments	2,935						2,935
Lease liabilities	5,791						5,791
Total non-current liabilities	8,694,803						19,085,059
Current liabilities							
Borrowings	113,480	1,820,737			(84,546)		1,849,671
Corporate bonds	198,322						198,322
Amounts due to non-controlling interests of a subsidiary	1,611						1,611
Amounts due to holding companies	11						11
Trade and other payables and accrued charges	337,041	413,309		420,000		13,069	1,183,419
Contract liabilities	8,886	19,639					28,525
Lease liabilities	10,488						10,488
Current income tax liabilities	79,430						79,430
Total current liabilities	749,269						3,351,477
Total liabilities	9,444,072						22,436,536
Net Assets	12,792,476						13,394,407

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group:

1. The balances are extracted from the unaudited condensed consolidated balance sheet of the Group as at 30 June 2019 set out in the published interim report for the six months ended 30 June 2019.

2. The balances are extracted from the accountant's report of the Target Group as at 30 June 2019 as set out in Appendix III to this circular.

3. The adjustments represent the recognition of intangible assets and deferred income tax liabilities arising from the Acquisition. Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Equities were accounted for in the consolidated balance sheet of the Enlarged Group at fair value under the acquisition method in accordance with the Group's accounting policies and Hong Kong Financial Reporting Standard 3 ("**HKFRS 3**"), "Business Combination" issued by the Hong Kong Institute of Certified Public Accountants.

   Pursuant to the SPA, the Group through its wholly owned subsidiary has conditionally agreed to acquire (i) 100% of the equity interest in YXHB; (ii) 38.5% of the equity interest in Hancai; and (iii) all the rights, benefits and title of and in the entire shareholder's loan owed by YXHB to the Vendor from 20 March 2019 under the Previous Loan Facility, the principal amount of which being RMB4,654,504,000 together with the interest accrued thereon at the interest rate of 6.5% per annum. For the purpose of the Pro Forma Financial Information and for illustrative purpose only, the Group has carried out an illustrative purchase price allocation exercise in accordance with HKFRS 3. The identifiable assets and liabilities of the Target Equities are recorded in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group at their fair values estimated by the Directors with reference to the valuation performed by an independent professional qualified valuer which issued a valuation report dated 12 September 2019 ("**Valuation Report**") on the Target Equities for the purpose of purchase price allocation.

   The total consideration shall be the sum of:

   (i) RMB1,107,000,000, being the consideration for the Target Equities ("**Equities Consideration**"); and

   (ii) an amount representing the sum of (A) the principal amount of the Target Shareholder's Loan (being approximately RMB4,654,504,000); and (B) the interest on such principal amount to be calculated at 6.5% per annum from 20 March 2019 up to the date on which this part of the Total Consideration is paid ("**Loan Consideration**") as the consideration for the acquisition of the Target Shareholder's Loan. For the purpose of unaudited pro forma financial information, the interest on the Target Shareholder's Loan is assumed to be RMB84,546,000.

   Upon the completion of the Acquisition, the Group will have control over the Target Equities.

   (a) The adjustment represents payment of the cash consideration of RMB5,846,050,000 (comprising the Equities Consideration of RMB1,107,000,000 and the Loan Consideration of RMB4,739,050,000) as set out in the SPA. The payment of the consideration is financed by newly secured term loans in aggregate of up to RMB3,507,630,000 and the remaining balance to be satisfied by the Group's internal resources. Subsequent to 30 June 2019 and up to the LPD, the Group has drawdown bank borrowings amounting to RMB548,000,000. For the purpose of the Pro Forma

Financial Information, the directors of the Company has assumed that the Acquisition is financed by newly secured term loans amounting to RMB3,507,630,000, short-term bank deposits and cash and cash equivalents amounting to RMB1,918,420,000 and other payables amounting to RMB420,000,000.

(b) The adjustment represents the recognition of fair value adjustment to the Target Group's net identifiable assets, deferred income tax liabilities and the non-controlling interests arising from the Acquisition. The fair values and carrying amounts of the assets and liabilities of the Target Group as at 30 June 2019 and the financial effect of the Acquisition are analyzed as follows:

	Note	Target Group's carrying amount	Adjustments	Fair value
		RMB'000	*RMB'000*	*RMB'000*
Intangible operating rights	(i)	10,189,562	4,990,889	15,180,451
Property, plant and equipment		3,126	—	3,126
Deferred income tax assets		152,580	—	152,580
Current assets		176,658	—	176,658
Current liabilities		(2,253,685)	—	(2,253,685)
Long-term borrowings		(10,040,415)	—	(10,040,415)
Deferred income tax liabilities	(ii)	—	(1,247,722)	(1,247,722)
Contract liabilities		(248,993)	—	(248,993)
Total fair value of identifiable assets acquired and liabilities assumed of the Target Group		(2,021,167)	3,743,167	1,722,000
Non-controlling interest of subsidiaries of the Target Equities	(iii)	82,719	(697,719)	(615,000)
Total fair value of net assets less non-controlling interest acquired by the Group		(1,938,448)	3,045,448	1,107,000

The goodwill arising from the Acquisition is as follows:

	RMB'000
Total consideration	5,846,050
Fair value of net assets less non-controlling interest acquired by the Group	(1,107,000)
Fair value of a shareholder's loan together with the interest accrued	(4,739,050)
Goodwill	—

Notes:

(i) Fair value surplus of intangible operating rights represent a fair value surplus of concession rights acquired amounting to RMB4,990,889,000.

(ii) The adjustment on deferred income tax liabilities of RMB1,247,722,000 is determined based on the fair value surplus of intangible operating rights of RMB4,990,889,000.

(iii) The adjustment represents the non-controlling interests of subsidiaries of the Target Group amounting to RMB697,719,000.

(iv) Since the fair values and the carrying amounts of the identifiable net assets of the Target as at the Completion Date may be materially different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Group upon completion may be materially different from the estimated amounts as shown above.

(c) The adjustment represents the elimination of the shareholder's loan and the interest accrued acquired by the Group.

4. The adjustment represents the estimated transaction costs of approximately RMB13,100,000, which are mainly professional fees payable by the Group in connection with the Acquisition.

5. No adjustments have been made to reflect any results or transactions of the Group and the Target Group entered into subsequent to 30 June 2019 respectively.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Yuexiu Transport Infrastructure Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yuexiu Transport Infrastructure Limited (the "Company") and its subsidiaries (collectively the "Group"), and 越秀(湖北)高速公路有限公司 (Yuexiu (Hubei) Expressway Company Limited*) and its subsidiaries and 湖北省漢蔡高速公路有限公司 (Hancai Expressway Company Limited of Hubei Province*) (the "Target Group") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2019 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-6 of the Company's circular dated 17 October 2019, in connection with the proposed acquisition of the Target Group (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-6.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2019 as if the Transaction 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 Group's financial statements for the period ended 30 June 2019, on which a 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 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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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 behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA 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 Accountant's 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 accountant plans and performs 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 Unaudited 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 unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2019 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 event or 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 accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 17 October 2019

* *For identification purpose only*

The following is the text of the valuation report as at 30 June 2019 received from Savills Valuation and Professional Services Limited for the purpose of incorporation in this circular.

The Directors
Yuexiu Transport Infrastructure Limited
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17 October 2019

Dear Sirs,

VALUATION OF 100% EQUITY INTEREST IN 越秀(湖北)高速公路有限公司 (YUEXIU (HUBEI) EXPRESSWAY COMPANY LIMITED, OR YXHB) AND 38.5% EQUITY INTERESTS IN 湖北省漢蔡高速公路有限公司 (HANCAI EXPRESSWAY COMPANY LIMITED OF HUBEI PROVINCE)

In accordance with your instructions, we have undertaken a valuation on behalf of Yuexiu Transport Infrastructure Limited (the "Company") to determine the Market Value (as defined below) of (i) 100% equity interest in 越秀(湖北)高速公路有限公司(Yuexiu (Hubei) Expressway Company Limited, or "YXHB") and (ii) 38.5% equity interest in 湖北省漢蔡高速公路有限公司(Hancai Expressway Company Limited of Hubei Province, or "Hancai") (together the "Target Equities") as at 30 June 2019 (the "Valuation Date").

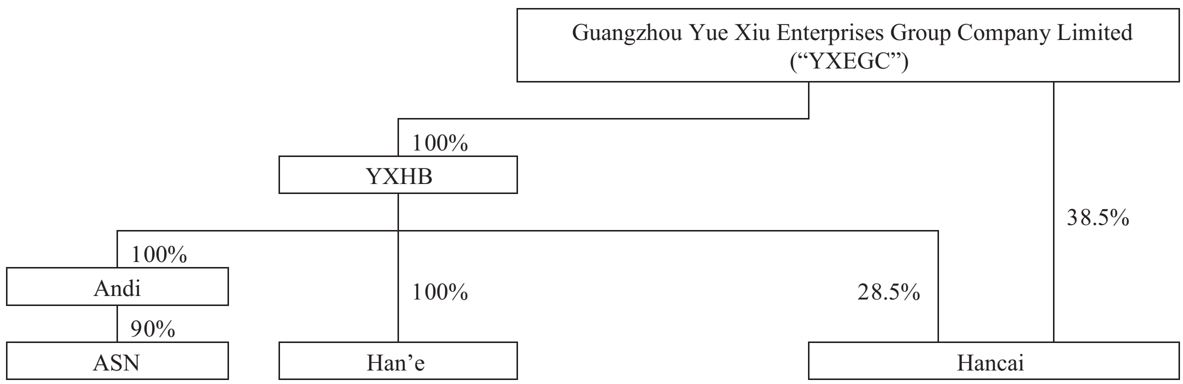
BRIEF DESCRIPTION OF YXHB, ASN, HAN'E AND HANCAI

YXHB

YXHB is an investment holding company, its primary assets are holdings of the 28.5% Equity Interests in Hancai, the 100% Equity Interests in 湖北越秀漢鄂高速公路有限公司 (Hubei Yue Xiu Han'e Expressway Company Limited, or "Han'e") and 100% Equity Interests in 武漢安帝科技產業發展有限公司 (Wuhan Andi Technology Industry Development Company Limited, or "Andi").

Andi

Andi is an investment holding company, its primary asset is the holding of 90% Equity Interests in 湖北阿深南高速公路發展有限公司 (Hubei A'shennan Expressway Development Company Limited, or "ASN") as in the diagram depicted below.



Below set out the description of the three toll road operation companies extracted from the traffic study reports in respect of the Daguangnan Expressway, the Hancai Expressway and the Han'e Expressway respectively ("Traffic Study Reports") issued by Jie Cheng Consultants Limited ("Jie Cheng"), the Company's traffic consultant.

ASN

ASN is a PRC company which is principally engaged in the investment, management, and operation of toll roads. It owns the concession right to operate the Daguangnan Expressway.

Daguang Expressway (大廣高速公路) is part of the national "71118" expressway network. Daguangnan Expressway is the southern section of Daguang Expressway (大廣高速) with a total length of approximately 107.1km and it is part of the expressway that runs from Daqing (大慶) to Guangzhou. It starts from Huahu interchange (花湖樞紐互通) in Huahu Town (花湖鎮) of E'zhou (鄂州), where it intersects with the Huyu Expressway (滬渝高速). It then passes through, among others, Xialu (下陸), Fushui (富水), Longgang (龍港) and ends at Tongshan County (通山縣). With reference to the Traffic Study Report on A'shennan, the average daily toll income of Daguangnan Expressway for 2016, 2017 and 2018 was RMB910,000, RMB1,010,000, and RMB990,000 respectively. The concession right of Daguangnan started in April 2012 and will expire in April 2042.

Han'e

Han'e is a PRC company which is principally engaged in the investment, management, and operation of toll roads. It owns the concession right to operate the Han'e Expressway.

Han'e Expressway is an important component of the expressway network of Hubei Province with a total length of approximately 54.75km. It starts from Zuoling (左嶺) of Wuhan, connects with the expressway from Heping (和平) to Zuoling and ends at the Huahu interchange. It then connects with the Huyu Expressway and the Daguang Expressway. With reference to the Traffic Study Report on Han'e, the average daily toll income of Han'e for 2016, 2017 and 2018 was RMB460,000, RMB540,000 and RMB580,000 respectively. The concession right of Han'e started in December 2012 and will expire in June 2042.

Hancai

Hancai is a PRC company which is principally engaged in the investment, management, and operation of toll roads. It owns the concession right to operate the Hancai Expressway.

Hancai Expressway is one of the seven fast urban exit roads under Wuhan's planning with a total length of approximately 35.98km. It starts from Miliangshan (米糧山), which is located at the Wuhan Middle Ring Road (武漢中環線). It is an important western expressway exit corridor connecting the Middle Ring Route (中環線) and the Outer Ring Route (外環線) of Wuhan, and extends to the Huyu Expressway. With reference to the Traffic Study Report on Hancai, the average daily toll income of Hancai Expressway for 2016, 2017 and 2018 was RMB530,000, RMB670,000 and RMB830,000 respectively. The concession right of Hancai started in August 2008 and will expire in August 2038.

Daguangnan Expressway, Han'e Expressway and Hancai Expressway are collectively referred to as the "Three Expressways" for the purpose of this report; while ASN, Han'e and Hancai are together referred to as the "Targets" and each a "Target". Further details of the Three Expressways can be found in the Traffic Study Reports separately issued by Jie Cheng which we have relied on in the course of our valuation of the Targets, Andi and YXHB.

PURPOSE OF VALUATION AND STANDARD OF VALUE

The purpose of this valuation is to express an independent opinion of the Market Value of (i) 100% equity interest in YXHB; and (ii) 38.5% equity interest in Hancai as at the Valuation Date stated above for the purpose of acquisition of the equity interest referred to in (i) and (ii) ("Acquisition") by the Company or its subsidiary.

Our valuation is prepared in accordance with the International Valuation Standards ("IVS") published by International Valuation Standards Council in 2017.

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

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

SOURCES OF INFORMATION

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

— Background information of the Targets' business operations and relevant corporate information;

— Audited financial statements and historical financial information of the Targets, Andi and YXHB;

— Registrations, legal documents, permits and licenses related to the Targets;

— Capital Expenditure forecast and depreciation and amortization forecasts of the Targets;

— Refinancing and loan repayment assumptions of the Targets;

— The economic outlook in general and the specific economic environment and elements affecting the Targets, Andi, YXHB, industry and market;

— Traffic Study Reports and cost projections reports ("Cost Projections Reports", together with the Traffic Study Reports, the "JC Reports") on the Three Expressways issued by Jie Cheng;

— Information on valuation of other toll road companies as disclosed in recent acquisitions by Hong Kong listed companies;

— Bloomberg Database; and

— Equity risk premium database published by Prof. Aswath Damodaran of New York University in January 2019.

SCOPE OF WORK PERFORMED

Our work included a site inspection of the Three Expressways, analysis of the Targets' background, historical and projected financial information, and other relevant information of the Targets, Andi and YXHB, as well as discussions with the management of Company and Jie Cheng regarding Targets' business operations and other material information. We have also discussed with Jie Cheng on the bases and assumptions underlying the traffic and maintenance cost projections of the Three Expressways. We understand that Jie Cheng prepared the Traffic Study Reports based on the following factors:

- The historical gross domestic product ("GDP"), planning data of Huangshi, Daye, Xianning, E'zhou, Huanggang, Wuhan, Hubei, Jiangxi, Henan and the planned GDP for the above provinces and cities;
- The historical traffic statistics data of Huangshi, Daye, Xianning, E'zhou, Huanggang, Wuhan, Hubei, Jiangxi, Henan;
- The historical passenger and goods traffic data for each cross section of the Three Expressways;
- The historical toll revenue on each of the Three Expressways;
- The historical exit and entrance traffic data from all toll stations for the Three Expressways;
- The historical OD traffic data for the Three Expressways obtained from the road network centre of Hubei;
- Documents approving the existing toll rates of Hubei Province;
- The documents concerning the toll charge by weight policy for goods vehicles for the Three Expressways;
- Hubei Provincial Highway Network Planning information; and
- Other relevant national Specifications.

We further understand that Jie Cheng prepared their Cost Projections Reports on the following basis:

- The cost projections are prepared based on the principles of coherence, balance and reasonableness;
- The cost projections assume the Targets will maintain current management structure and staff salary level;
- The cost projections have considered both historical expenditure level and future owner's maintenance strategy; and

- The cost projections have not considered possible impact from special circumstances such as extreme weather, flooding and statutory order.

We are of the view that Jie Cheng's basis of preparation of the JC Reports is reasonable and therefore have adopted the assumption that the traffic and maintenance cost projections provided by Jie Cheng are reliable, reasonable and legitimate and have relied to a considerable extent on the projections by Jie Cheng in arriving at our opinion of value.

VALUATION METHODOLOGY AND BASIS

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

Market approach

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

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

We are aware that YXEGC acquired the Target Equities and the associated shareholder's loan from an independent third party ("Original Seller") for RMB5,484 million in a transaction that was first negotiated in 2018 and completed in March 2019 ("Prior Transaction"). We will consider the reasonableness of our valuation of the Target Equities with reference to the transaction price of the Prior Transaction as a market approach cross check.

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

Cost approach or Asset approach

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

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

The asset approach is adopted for YXHB as an investment holding company. This is because the holding company itself does not generate any operating earnings. The value of an investment holding company comes from the value of its investment holding, namely 28.5% equity interest in Hancai, 100% equity interest in Han'e and 100% equity interest Andi. We would therefore estimate the Market Value of Hancai, Han'e and Andi using appropriate approach and adopt their values to the line item of long term investment on YXHB's statement of financial position.

The asset approach is adopted for Andi as an investment holding company. The value of an investment holding company comes from the value of its investment holding, namely 90% equity interest in ASN. We would therefore estimate the Market Value of ASN using appropriate approach and adopt its value to the line item of long term investment on Andi's statement of financial position.

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

Income approach

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

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

Given the close relationship between cash flow and value of a company, and the availability of a cash flow forecast confirmed by the Company's management and primarily substantiated by the JC Reports, we have adopted the income approach as the primary approach to estimate the Market Value of the Targets.

IMPLEMENTATION OF DCF METHOD FOR VALUATION OF THE TARGETS

Basis of cash flow

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

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

i. As the concession right of each of the Three Expressways is of limited period of operation up to concession expiry, the associated loans have to be repaid over time within the concession period. Therefore the underlying assumption of long term optimal capital structure in the adoption of WACC is not applicable; and

ii. The Targets have known debt repayment schedule and contemplated refinancing plan which are integral to the valuation of the Targets. We also note that the timing of debt repayment would have significant impact on the Market value of the Targets and only the use of FCFE can reflect such value.

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

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

Financial Projections

The forecast financial projections of the Targets are principally based on the following components:

Revenue

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

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

Revenue (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	361	358	419	534	612	640	671	743	811	870	921	969	1,017
Han'e	213	199	220	319	371	416	468	517	478	514	542	568	595
Hancai	295	270	292	348	375	401	429	458	437	465	493	523	553

Revenue (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	1,062	1,109	1,157	1,205	1,250	1,294	1,338	1,383	1,427	1,466	1,499	499
Han'e	620	642	662	684	704	719	733	747	760	772	782	393
Hancai	583	614	646	678	703	729	754	507	—	—	—	—

Please refer to Appendix I or Traffic Study Reports for the basis and details of the "Optimistic" and "Conservative" scenarios prepared by Jie Cheng.

Tax surcharges

The tax surcharges include construction tax and (local) education supplementary tax and are calculated based on the respective applicable tax rate on the value added tax from toll revenue for each of the Targets.

Tax surcharges (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(3)	(1)	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)
Han'e	(2)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Hancai	—	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)

Tax surcharges (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(4)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(5)	(2)
Han'e	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(1)
Hancai	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(2)	—	—	—	—

Cost of revenue

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

Labour cost is expected to increase by 1.5% per annum with consideration of inflation and increase by an additional 5% every 5 years to reflect necessary increase estimated by Jie Cheng due to increase in headcounts to handle increase in traffics.

Repair and maintenance expense is incurred for regular inspection, daily road service maintenance, bridge maintenance etc. It is assumed to increase by 1.5% per annum considering the inflation and increase by an additional 5% every 5 years to reflect necessary increase estimated by Jie Cheng due to increase of damages as a result of aging of facilities.

Cost of revenue (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(26)	(73)	(56)	(29)	(28)	(28)	(30)	(61)	(31)	(31)	(32)	(34)	(68)
Han'e	(31)	(46)	(34)	(18)	(17)	(18)	(19)	(37)	(19)	(20)	(20)	(21)	(41)
Hancai	(42)	(28)	(16)	(11)	(11)	(11)	(12)	(17)	(12)	(12)	(12)	(13)	(19)

Cost of revenue (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(35)	(36)	(36)	(38)	(77)	(39)	(40)	(41)	(43)	(87)	(44)	(69)
Han'e	(22)	(22)	(23)	(24)	(47)	(25)	(25)	(25)	(27)	(52)	(28)	(41)
Hancai	(14)	(14)	(14)	(15)	(22)	(15)	(16)	(23)	—	—	—	—

Management and other operating expenses

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

The wages and salaries of administration staff are expected to increase by 1.5% per annum with consideration of inflation and an additional 5% for every 5 years to reflect necessary increase estimated by Jie Cheng due to increase in headcounts to handle increase in traffics. Other administrative expenses are assumed to increase by 1.5% per annum throughout the concession period due to inflation and traffic growth.

Administrative expenses (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(7)	(24)	(24)	(25)	(25)	(26)	(26)	(27)	(27)	(28)	(28)	(29)	(29)
Han'e	(9)	(17)	(18)	(18)	(18)	(18)	(19)	(19)	(20)	(20)	(20)	(21)	(21)
Hancai	(6)	(14)	(14)	(15)	(15)	(16)	(17)	(17)	(18)	(18)	(19)	(20)	(21)

Administrative expenses (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(30)	(30)	(31)	(32)	(32)	(33)	(33)	(34)	(35)	(35)	(36)	(18)
Han'e	(22)	(22)	(22)	(23)	(23)	(24)	(24)	(24)	(25)	(26)	(26)	(13)
Hancai	(22)	(22)	(23)	(24)	(25)	(26)	(27)	(23)	—	—	—	—

Finance cost and Loan drawdown / repayment

The finance cost represents the interest expenses calculated based on the interest rate and outstanding principal according to the borrowing and repayment projection provided by the Company. The interest rates are assumed to be fixed for the respective loans during the concession periods.

Finance expenses (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(235)	(202)	(175)	(165)	(151)	(138)	(124)	(110)	(94)	(80)	(70)	(59)	(44)
Han'e	(114)	(85)	(81)	(76)	(69)	(59)	(48)	(36)	(22)	(9)	(2)	(1)	(1)
Hancai	(98)	(54)	(50)	(45)	(39)	(33)	(25)	(16)	(6)	—	—	—	—

Finance expenses (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(28)	(10)	—	—	—	—	—	—	—	—	—	—
Han'e	(0)	—	—	—	—	—	—	—	—	—	—	—
Hancai	—	—	—	—	—	—	—	—	—	—	—	—

The borrowing and repayment projection is provided by the Company based on the following:

- The repayment schedule of the bank loans of Han'e and Hancai and the RMB2.39 billion bank loan of ASN with interest rate at 4.41% are in accordance with the schedule as at the Valuation Date;

- Regarding ASN's RMB1.5 billion loan with interest rate at 6.81%, the Company advised that the relatively high interest rate is due to the ongoing process of finalising the construction cost of Daguangnan Expressway. Once the process is completed, these loans will be gradually refinanced with a traditional bank loan which is projected to carry an interest rate of 4.9%.

Loan repayment (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(180)	(95)	(200)	(230)	(250)	(300)	(320)	(340)	(370)	(280)	(155)	(300)	(300)
Han'e	(71)	(68)	(108)	(118)	(198)	(258)	(258)	(298)	(328)	(271)	(28)	(18)	(11)
Hancai	(50)	(80)	(100)	(120)	(140)	(160)	(180)	(220)	(260)	—	—	—	—

Loan repayment (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(350)	(400)	—	—	—	—	—	—	—	—	—	—
Han'e	(7)	—	—	—	—	—	—	—	—	—	—	—
Hancai	—	—	—	—	—	—	—	—	—	—	—	—

Income tax

The effective income tax rate adopted is 25% which is the statutory corporate income tax rate of China. Due to the tax loss carrying forward as at the Valuation Date, ASN, Han'e and Hancai are assumed to start paying corporate income tax from 2024, 2022 and 2019 respectively.

Income tax (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	—	—	—	—	—	—	(28)	(67)	(95)	(108)	(113)	(121)	(129)
Han'e	—	—	—	—	—	(39)	(59)	(71)	(68)	(78)	(81)	(85)	(87)
Hancai	—	(26)	(31)	(47)	(55)	(63)	(72)	(80)	(75)	(82)	(89)	(96)	(103)

Income tax (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(153)	(174)	(198)	(215)	(215)	(234)	(245)	(255)	(265)	(259)	(272)	(49)
Han'e	(98)	(106)	(115)	(123)	(122)	(131)	(134)	(137)	(140)	(134)	(141)	(51)
Hancai	(115)	(124)	(131)	(139)	(142)	(149)	(155)	(92)	—	—	—	—

Capital expenditure, depreciation and amortisation

In addition to regular repairs and maintenance, periodic major overhaul is projected by Jie Cheng to take place every 5 years which corresponds to the year of state inspection, with the first being 2020, in order to restore the Three Expressways to satisfactory condition. There are also other major overhauls in specific years (such as 2027 and 2028 for ASN and Han'e, and the final year of the respective concessions). These costs are capitalised and depreciated in the remaining operation period.

Capital expenditure (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(4)	(47)	(61)	(7)	(7)	(7)	(8)	(69)	(8)	(210)	(214)	(9)	(39)
Han'e	(0)	(31)	(30)	(3)	(4)	(4)	(4)	(34)	(4)	(103)	(105)	(4)	(38)
Hancai	—	(51)	(1)	(2)	(2)	(2)	(3)	(69)	(70)	(3)	(3)	(3)	(13)

Capital expenditure (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(9)	(9)	(9)	(10)	(87)	(10)	(10)	(10)	(11)	(98)	(11)	(100)
Han'e	(4)	(4)	(5)	(5)	(43)	(5)	(5)	(5)	(5)	(48)	(6)	(49)
Hancai	(3)	(3)	(3)	(3)	(30)	(3)	(3)	(31)	—	—	—	—

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

Depreciation and amortisation are projected on the following basis:

(i.) Depreciation: straight-line method, depreciation period of 5 years, residual value of 5%;

(ii.) Amortisation: straight-line method over the concession period for the carrying value as of the Valuation Date, and over 5 years for capital expenditure subsequent to the Valuation Date, residual value of 0%.

Depreciation and amortisation (RMB million)

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASN	(145)	(214)	(272)	(279)	(280)	(282)	(281)	(275)	(276)	(297)	(338)	(358)	(355)
Han'e	(75)	(110)	(147)	(150)	(151)	(152)	(151)	(147)	(147)	(157)	(178)	(188)	(188)
Hancai	(55)	(70)	(88)	(88)	(88)	(89)	(87)	(86)	(100)	(107)	(107)	(107)	(101)

Depreciation and amortisation (RMB million)

	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	(353)	(333)	(292)	(272)	(277)	(282)	(282)	(282)	(284)	(303)	(327)	(215)
Han'e	(189)	(179)	(159)	(149)	(149)	(150)	(150)	(150)	(151)	(159)	(169)	(137)
Hancai	(89)	(82)	(82)	(82)	(86)	(90)	(91)	(94)	—	—	—	—

Change in net working capital

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

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")

Based on the above assumptions, the EBITDA of the Targets are projected to increase over time as a result of faster increase in traffic and hence revenue than cost, except for 2026 where EBITDA for Han'e and Hancai decline slightly from 2025 to 2026 due to diversion of traffic upon reopening of nearby expressways which were expected to close partially for redevelopment until 2026.

EBITDA (RMB million)

	2018A	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**
ASN	318	260	336	478	557	584	612	653	750	808	858	903	915
Han'e	164	137	173	287	340	384	434	465	443	477	505	530	536
Hancai	245	227	261	322	349	374	400	423	407	434	462	489	512

EBITDA (RMB million)

	2031F	**2032F**	**2033F**	**2034F**	**2035F**	**2036F**	**2037F**	**2038F**	**2039F**	**2040F**	**2041F**	**2042F**
ASN	994	1,039	1,086	1,131	1,137	1,218	1,261	1,304	1,345	1,339	1,414	410
Han'e	580	601	620	640	636	673	687	700	710	697	731	340
Hancai	547	577	608	638	655	686	710	460	—	—	—	—

Discount rate

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

— the market and the business risks of the Targets;

— the general economic outlook as well as specific investment environment for the business;

— the nature and current financial status of the Targets;

— the historical performance of the Targets;

— the market expectation and required rate of return for similar business; and

— the assumptions as stated in the Specific and General Assumptions of this report.

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

Item	**30 June 2019**	**Note**
Unlevered beta	0.49	Median of comparable companies' 2-year weekly beta from Bloomberg
Debt-to-equity ratio	75.9%	Median of comparable companies D/E ratio
Levered beta	0.76	Based on releveraging formula
Risk free rate	1.51%	Yield of 10 year Hong Kong government bond as at Valuation Date extracted from Bloomberg
Equity risk premium	6.65%	Equity risk premium of Hong Kong in 2019 sourced from Damodaran
Country risk premium	0.29%	Differential between country risk premium of Hong Kong and China in 2019 sourced from Damodaran
Size premium	1.80%	2019 Valuation Handbook - Guide to Cost of Capital published by Duff & Phelps, LLC.
Liquidity premium	0.7%	Valuer's judgment with reference to rate adopted in other toll road acquisitions and market factors
Cost of equity	9.4%	CAPM formula

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

Where:
R_f = *risk free rate*
ERP = equity risk premium
β = *the beta factor*
α = *firm specific risk factors (alpha)*

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

As in typical business valuation practice, in determining the beta and debt-to-equity ratio, we have considered the information of comparable companies operating toll roads in China (with revenue from toll road over 50% in the most recent two years prior to Valuation Date) and listed in Hong Kong identified from a search on Bloomberg terminal. While the comparable companies may not operate in the same location as the Targets, they operate in the same industry and country as the Targets within the same regulatory framework, therefore considered suitable for our discount rate analysis in the absence of better alternatives for estimation of industry risk level applicable to the Targets. 10 companies were identified. For our analysis purpose, we have excluded 2 companies, namely Chengdu Expressway Co., Ltd. and Qilu Expressway Company Limited from our analysis as the two companies are listed on the Stock Exchange in January 2019 and July 2018 respectively and their trading history is considered too short for the estimation of beta. As such, we have selected 8 comparable companies for our discount rate analysis purpose which is considered exhaustive based on the aforesaid selection criteria. The selected companies are tabulated below:

Company Name	Ticker	Description	Unlevered Beta	Debt-to-equity ratio
Sichuan Expressway Company Limited	107 HK EQUITY	Sichuan Expressway Company Limited offers expressway investment and construction services. The company builds toll highway, bridge, tunnel, and other traffic projects. Sichuan Expressway also conducts city operation, energy, media and financial investment businesses.	0.36	164.9%
Jiangsu Expressway Company Limited	177 HK EQUITY	Jiangsu Expressway Company Limited operates highway businesses. The company provides toll highway investment, construction, and maintenance services. Jiangsu Expressway also conducts highway passenger transportation, refueling, catering, car repair, and advertisement businesses.	0.58	29.9%
Shenzhen Expressway Company Limited	548 HK EQUITY	Shenzhen Expressway Company Limited constructs, manages and operates toll highways and expressways in China.	0.50	70.9%

Company Name	Ticker	Description	Unlevered Beta	Debt-to-equity ratio
Zhejiang Expressway Co., Ltd.	576 HK EQUITY	Zhejiang Expressway Co., Ltd., through its subsidiaries, designs, constructs, operates, and manages high grade roads, as well as develops and operates certain ancillary services, such as technical consultation, advertising, automobile servicing, and fuel facilities.	0.50	94.5%
Anhui Expressway Co. Ltd.	995 HK EQUITY	Anhui Expressway Co. Ltd. principally holds, operates and develops toll expressways and highways in Anhui province in China.	0.69	18.1%
Shenzhen Investment Holdings Bay Area Development Company Limited	737 HK EQUITY	Shenzhen Investment Holdings Bay Area Development Company Limited provides infrastructure construction services. The company provides highway construction, bridge construction, and other related services. Shenzhen Investment Holdings Bay Area Development offers services in China.	0.47	0.0%
Yuexiu Transport Infrastructure Ltd.	1052 HK EQUITY	Yuexiu Transport Infrastructure Ltd., through its subsidiaries, invests in, develops, operates, and manages toll highways, expressways, and bridges in China.	0.33	80.9%
Huayu Expressway Group Ltd	1823 HK EQUITY	Huayu Expressway Group Ltd. is a project company in the infrastructure sector in China. The company's primary business is to invest, build, operate and manage infrastructure projects in China.	0.11	337.2%

Source: Bloomberg

In determining the size premium, while each Target is an individual company owning respective concession rights, for the purpose of the Acquisition, the size of the Targets are to be considered in aggregate as the negotiation of the Acquisition was conducted on such basis. We have therefore made reference to the expected aggregate size in determining the appropriate size premium in valuing the Targets.

Discounted Cash Flow

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

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

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

IMPLEMENTATION OF ASSET APPROACH FOR VALUATION OF ANDI

Since Andi is an investment holding company which does not generate any operating cash flow, the Market Value of its equity interest is equal to the Market Value of its assets and liabilities.

We have obtained the statement of financial position of Andi as at the Valuation Date and note that its assets and liabilities items are as follows:

Assets

1. Long term equity investment;
2. Amount due from subsidiary;
3. Amount due from immediate holding company; and
4. Cash and cash equivalents

Liabilities

1. Other payables and accrued charges;
2. Amount due to subsidiaries; and
3. Loan from holding companies

The book value of the long term equity investments is RMB1,610 million as at the Valuation Date. Based on our DCF, Market Value of 90% equity interest in ASN is RMB1,883 million. As such, we have made an adjustment of RMB272 million to the book value of the long term equity investments such that the Market Value becomes RMB1,883 million.

Please refer to Appendix III for the adjustment made to the assets and liabilities of Andi. The adjusted net assets value ("ANAV") is the Market Value of the 100% equity interest in Andi.

IMPLEMENTATION OF ASSET APPROACH FOR VALUATION OF YXHB

Since YXHB is an investment holding company which does not generate any operating cash flow, the Market Value of its equity interest is equal to the Market Value of its assets and liabilities.

We have obtained the statement of financial position of YXHB as at the Valuation Date and note that its assets and liabilities items are as follows:

Assets

1. Investment in associate / subsidiary;
2. Property, plant and equipment;
3. Cash and cash equivalents;
4. Other receivables, deposits and prepayments;
5. Amount due from subsidiaries;
6. Amount due from associate; and
7. Amount due from related companies

Liabilities

1. Other payables and accrued charges;
2. Amount due to subsidiaries;
3. Borrowings; and
4. Borrowings due within one year - Current portion of LT borrowings

Based on discussion with the Company and our investigation, we understand that except for long term equity investments which comprises 28.5% equity interest in Hancai, 100% equity interest in Han'e and 100% equity interest in Andi, book value of other assets and liabilities items approximate Market Value as at the Valuation Date and no adjustment is necessary.

The book value of the investment in associate / subsidiary is RMB1,258 million as at the Valuation Date. Based on our DCF, Market Value of 28.5% equity interest in Hancai, 100% equity interest in Han'e and 100% equity interest in Andi is RMB351 million, RMB1,282 million and RMB23 million respectively, therefore a total of RMB1,656 million. As such, we have make an adjustment of RMB398 million to the book value of the investment in associate / subsidiary such that the Market Value becomes RMB1,656 million.

Please refer to Appendix III for the adjustment made to the assets and liabilities of YXHB. The adjusted net assets value ("ANAV") is the Market Value of the 100% equity interest in YXHB.

SENSITIVITY ANALYSIS

We consider the Market value of YXHB and the Targets most sensitive to discount rate and the toll revenue (based on the different scenarios depicted by Jie Cheng) and have shown the resultant sensitivity analysis below:

Sensitivity analysis for Market Value of 90% equity interest in ASN

	Cost of equity				
Scenario	**8.4%**	**8.9%**	**9.4%**	**9.9%**	**10.4%**
Optimistic	2,741	2,521	2,317	2,128	1,954
Base Case	2,263	2,065	1,883	1,713	1,557
Conservative	1,785	1,610	1,448	1,298	1,160

Sensitivity analysis for Market Value of 100% equity interest in Hancai

	Cost of equity				
Scenario	**8.4%**	**8.9%**	**9.4%**	**9.9%**	**10.4%**
Optimistic	1,615	1,499	1,390	1,288	1,193
Base Case	1,441	1,333	1,230	1,135	1,045
Conservative	1,268	1,166	1,070	981	897

Sensitivity analysis for Market Value of 100% equity interest in Han'e

	Cost of equity				
Scenario	**8.4%**	**8.9%**	**9.4%**	**9.9%**	**10.4%**
Optimistic	1,787	1,641	1,506	1,381	1,264
Base Case	1,543	1,408	1,282	1,165	1,057
Conservative	1,298	1,172	1,056	948	848

Sensitivity analysis for Market Value of 100% equity interest in YXHB

	Cost of equity				
Scenario	**8.4%**	**8.9%**	**9.4%**	**9.9%**	**10.4%**
Optimistic	1,247	1,069	903	748	604
Base Case	955	788	633	489	355
Conservative	660	505	361	228	104

The percentage change in value to YXHB from a change in cost of equity is more sensitive than the Targets due to the higher gearing of YXHB from the large shareholder's loan balance which will be discussed below.

CROSS CHECK WITH MARKET APPROACH

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

As both shareholder's loan and Target Equities were purchased in the Prior Transaction, we have to include the shareholder's loan balance of YXHB in our evaluation of the reasonableness of our valuation of the Target Equities using income approach. Based on the Market Value of the Target Equities at RMB1,107 million from the combination of asset approach and income approach, the shareholder's loan principal balance at YXHB ("Shareholder's Loan Principal") of RMB4,655 million and the associated interest of RMB85 million as of the Valuation Date (together with the Shareholder's Loan Principal the "Target Shareholder's Loan"), the total value of the Target Equities and Target Shareholder's Loan ("Total Value") amount to RMB5,847 million.

Based on the information from the Company, as both YXEGC and the Original Seller are state-owned enterprises, the Prior Transaction was priced based on a valuation completed by a PRC qualified valuer as of 30 June 2018, and remained at the same level at the completion of the Prior Transaction. Therefore, the value in the Prior Transaction is determined in substance one-year prior to the Valuation Date.

At the Market Value of the Target Equities determined by us together with the carrying value of the Target Shareholder's Loan, the Total Value represents a premium of 6.5% above the transaction price in the Prior Transaction. Based on our analysis, we understand that the value difference between the Prior Transaction to the Valuation Date can be attributed to the following:

- Decrease in risk-free rate from 30 June 2018 to the Valuation Date due to change in global interest rate environment;

- Value of a company will increase over time when it is approaching closer to profitable stage from a previously loss making position when evaluated using the income approach;

- Increased visibility towards the economic development and traffic policies of the regions connecting with the Three Expressways as at the Valuation Date; and

- An interest of 6.5% is charged on the Shareholder's Loan Principal.

We further understand from the Company that the Prior Transaction did not factor in positive change to the Three Expressways from expansion and development of the nearby road networks when determining the consideration as of 30 June 2018, in particular the widening of Wuhan to Yichang Expressway and Wuhan to Huangshi Expressway.

Based on the above, we consider our valuation of the Target Equities to be reasonable despite the premium above the transaction price in the Prior Transaction.

REMARKS

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

Figures may not sum due to rounding.

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

SPECIFIC ASSUMPTIONS

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

- The future financial performance of the Targets will be in line with the traffic and maintenance cost projections provided by Jie Cheng with the effort of the management of the Company at the required rate of return.

- The toll rate and charging mechanism will remain unchanged over the remaining concession period for the Three Expressways as forecasted by Jie Cheng.

- The financial and operational information provided and confirmed by the Company are accurate. The Targets, Andi and YXHB will have sufficient financial support as required to remain operating as a going concern.

- ASN will be able to refinance its loans as contemplated at the specific time, amount and interest rate according to the forecast by the Company.

- The capital expenditure and maintenance cost forecast are sufficient for maintaining the Three Expressways at satisfactory conditions for the forecast traffic and the regulatory requirement, there are no hidden or unexpected conditions associated with the assets of the Targets, Andi and YXHB that might adversely affect the reported value.

- As the equity of the Targets are not publicly listed and not readily marketable (i.e. illiquid) as at the Valuation Date, we have added a 0.7% premium to the discount rate to reflect the applicable Discount for Lack of Marketability ("DLOM") to the equity value of the Targets as at the Valuation Date with reference to the circumstances of the Targets, market factors and the DLOM adopted in other acquisitions of private toll road companies in China.

- Since all stakes involving the Targets, Andi and YXHB are controlling stakes, discount for lack of control is not necessary.

GENERAL ASSUMPTIONS

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

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

LIMITING CONDITIONS

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

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

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

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

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Furthermore, the assumptions adopted are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and us.

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

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

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

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

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

MANAGEMENT CONFIRMATION OF FACTS

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

CONFIRMATION OF INDEPENDENCE

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

OPINION OF VALUE

Based on the method employed and analysis stated above and in the appendices, we are of the opinion that the Market Value of the Hancai and YXHB as at Valuation Date are as follows:

	30 June 2019 *(in RMB million)*
38.5% equity interest in Hancai	474
100% equity interest in YXHB	633
Total	1,107

We emphasise that the above values are especially dependent on the future traffic and toll rate in the regions the Targets operate and the ability of the Targets, Andi and YXHB to repay / refinance their debt and operate as a going concern. Any unexpected significant changes impacting the traffic or toll rates in the regions or future delay or failure in debt servicing or refinancing could have a significant impact to the values of the Targets, Andi and YXHB subsequent to the Valuation Date.

As requested by the Company for their internal reference purpose only, the internal rate of return based on the FCFE and the total consideration of RMB1,107 million for the Target Equities is estimated at 9.4%.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Wiley W.F. Pun
HKICPA CICPA (non-practising) PRM
Director

Encl.

Appendix I — Annual Toll Revenue Forecast

(1) Optimistic

Optimistic Revenue (RMB million)

	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	371	449	592	680	709	742	825	903	973	1,028	1,078	1,130	1,183	1,238	1,294	1,350	1,400	1,447	1,494	1,542	1,589	1,633	1,667	553
Han'e	207	235	349	408	462	523	573	530	567	599	630	661	688	707	722	741	758	772	785	799	811	823	835	419
Hancai	285	311	374	404	433	464	496	472	503	535	567	601	636	671	706	743	765	788	810	545	—	—	—	—

(2) Conservative

Conservative Revenue (RMB million)

	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	348	413	508	582	610	641	707	768	819	870	918	964	1,005	1,046	1,089	1,132	1,175	1,219	1,263	1,307	1,351	1,387	1,422	475
Han'e	195	218	309	356	395	442	493	455	491	518	541	565	590	616	642	668	692	709	725	739	754	767	777	390
Hancai	268	291	343	368	394	420	447	429	455	482	509	537	566	595	624	654	684	714	744	499	—	—	—	—

(3) Average

Average Revenue (RMB million)

	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F	2041F	2042F
ASN	360	431	550	631	659	691	766	835	896	949	998	1,047	1,094	1,142	1,191	1,241	1,288	1,333	1,379	1,424	1,470	1,510	1,544	514
Han'e	201	227	329	382	428	482	533	493	529	558	585	613	639	661	682	705	725	740	755	769	782	795	806	405
Hancai	277	301	359	386	413	442	471	450	479	508	538	569	601	633	665	698	725	751	777	522	—	—	—	—

We have adopted the averages of the "Optimistic" and "Conservative" scenarios prepared by Jie Cheng as the Base Case for the Three Expressways.

$$\textit{Average Revenue including Value Add Tax} = \frac{\textit{Revenue under Optimistic Scenarios} + \textit{Revenue under Conservative Scenarios}}{2}$$

As the toll revenue projection in the "Optimistic" and "Conservative" scenarios prepared by Jie Cheng include value added tax of 3%, which shall be excluded in the DCF, we have adopted the formula below to exclude the value added tax for our DCF purpose in arriving at the revenue table shown in our Financial Projections section[1].

$$\textit{Average Revenue excluding Value Added Tax} = \frac{\textit{Average Revenue including Value Added Tax}}{1 + \textit{Tax Rate of Value Added Tax}}$$

[1] We have included actual other toll operating revenue for the first half of 2019 in the revenue table shown in our Financial Projections section for the Three Expressways which are not captured in the full year 2019 forecast by Jie Cheng in the tables above. No such revenue is projected from the Valuation Date onwards.

Appendix II — DCF calculations

Discounted cash flow model (FCFE) - ASN

In RMB million	6 months 31/12/2019	12 months 31/12/2020	12 months 31/12/2021	12 months 31/12/2022	12 months 31/12/2023	12 months 31/12/2024	12 months 31/12/2025	12 months 31/12/2026	12 months 31/12/2027	12 months 31/12/2028	12 months 31/12/2029
Sales	186	419	534	612	640	671	743	811	870	921	969
Cost of revenue	(74)	(56)	(29)	(28)	(28)	(30)	(61)	(31)	(31)	(32)	(34)
Tax surcharges	(0)	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)
Admin. Expenses	(21)	(24)	(25)	(25)	(26)	(26)	(27)	(27)	(28)	(28)	(29)
Depreciation & amortisation	(131)	(272)	(279)	(280)	(282)	(281)	(275)	(276)	(297)	(338)	(358)
EBIT	(40)	64	199	277	303	332	378	474	511	521	545
Interest	(87)	(175)	(165)	(151)	(138)	(124)	(110)	(94)	(80)	(70)	(59)
EBT	**(127)**	**(111)**	**35**	**126**	**164**	**207**	**268**	**380**	**432**	**451**	**486**
Less: tax	—	—	—	—	—	(28)	(67)	(95)	(108)	(113)	(121)
Add: depreciation and amortisation	131	272	279	280	282	281	275	276	297	338	358
Less: capex	(47)	(61)	(7)	(7)	(7)	(8)	(69)	(8)	(210)	(214)	(9)
Less: change in WC	—	—	—	—	—	—	—	—	—	—	—
Bank loan repayment	(95)	(200)	(230)	(250)	(300)	(320)	(340)	(370)	(280)	(155)	(300)
FCFE of ASN	(138)	(99)	77	149	139	132	68	183	130	307	414
Partial period	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount period	0.25	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Discount factor	0.9778	0.9141	0.8355	0.7637	0.6981	0.6381	0.5833	0.5332	0.4874	0.4455	0.4072
Present value	**(135)**	**(91)**	**64**	**114**	**97**	**85**	**39**	**98**	**63**	**137**	**169**

Discounted cash flow model (FCFE) - ASN

In RMB million	12 months 31/12/2030	12 months 31/12/2031	12 months 31/12/2032	12 months 31/12/2033	12 months 31/12/2034	12 months 31/12/2035	12 months 31/12/2036	12 months 31/12/2037	12 months 31/12/2038	12 months 31/12/2039	12 months 31/12/2040	12 months 31/12/2041	4 months 29/4/2042
Sales	1,017	1,062	1,109	1,157	1,205	1,250	1,294	1,338	1,383	1,427	1,466	1,499	499
Cost of revenue	(68)	(35)	(36)	(36)	(38)	(77)	(39)	(40)	(41)	(43)	(87)	(44)	(69)
Tax surcharges	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(5)	(2)
Admin. Expenses	(29)	(30)	(30)	(31)	(32)	(32)	(33)	(33)	(34)	(35)	(35)	(36)	(18)
Depreciation & amortisation	(355)	(353)	(333)	(292)	(272)	(277)	(282)	(282)	(282)	(284)	(303)	(327)	(215)
EBIT	**560**	**641**	**707**	**794**	**859**	**860**	**936**	**979**	**1,021**	**1,061**	**1,036**	**1,087**	**195**
Interest	(44)	(28)	(10)	—	—	—	—	—	—	—	—	—	—
EBT	**516**	**613**	**697**	**794**	**859**	**860**	**936**	**979**	**1,021**	**1,061**	**1,036**	**1,087**	**195**
Less: tax	(129)	(153)	(174)	(198)	(215)	(215)	(234)	(245)	(255)	(265)	(259)	(272)	(49)
Add: depreciation and amortisation	355	353	333	292	272	277	282	282	282	284	303	327	215
Less: capex	(39)	(9)	(9)	(9)	(10)	(87)	(10)	(10)	(10)	(11)	(98)	(11)	(100)
Less: change in WC	—	—	—	—	—	—	—	—	—	—	—	—	24
Bank loan repayment	(300)	(350)	(400)	—	—	—	—	—	—	—	—	—	—
FCFE of ASN	403	453	446	878	906	834	974	1,006	1,038	1,069	982	1,131	285
Partial period	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.33
Discount period	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	22.67
Discount factor	0.3722	0.3402	0.3110	0.2843	0.2599	0.2375	0.2171	0.1985	0.1814	0.1658	0.1516	0.1386	0.1305
Present value	**150**	**154**	**139**	**250**	**236**	**198**	**211**	**200**	**188**	**177**	**149**	**157**	**37**

DCF valuation summary - ASN

	In RMB million
NPV from DCF	2,884
Less: Borrowing	(656)
Add: Cash	11
Add: Net Inter-company receivables	44
Less: Net other payables	(192)
Market value of 100% equity interest in ASN	**2,092**
Market value of 90% equity interest in ASN	**1,883**

Discounted cash flow model (FCFE) - Han'e

In RMB million	6 months 31/12/2019	12 months 31/12/2020	12 months 31/12/2021	12 months 31/12/2022	12 months 31/12/2023	12 months 31/12/2024	12 months 31/12/2025	12 months 31/12/2026	12 months 31/12/2027	12 months 31/12/2028	12 months 31/12/2029
Sales	107	220	319	371	416	468	517	478	514	542	568
Cost of revenue	(40)	(34)	(18)	(17)	(18)	(19)	(37)	(19)	(20)	(20)	(21)
Tax surcharges	0	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Admin. Expenses	(14)	(18)	(18)	(18)	(18)	(19)	(19)	(20)	(20)	(20)	(21)
Depreciation & amortisation	(70)	(147)	(150)	(151)	(152)	(151)	(147)	(147)	(157)	(178)	(188)
EBIT	(16)	21	132	183	227	278	313	290	315	323	336
Interest	(30)	(81)	(76)	(69)	(59)	(48)	(36)	(22)	(9)	(2)	(1)
EBT	**(46)**	**(60)**	**56**	**114**	**168**	**230**	**277**	**268**	**306**	**320**	**335**
Less: tax	—	—	—	—	(39)	(59)	(71)	(68)	(78)	(81)	(85)
Add: depreciation and amortisation	70	147	150	151	152	151	147	147	157	178	188
Less: capex	(31)	(30)	(3)	(4)	(4)	(4)	(34)	(4)	(103)	(105)	(4)
Less: change in WC	—	—	—	—	—	—	—	—	—	—	—
Bank loan repayment	(68)	(108)	(118)	(198)	(258)	(258)	(298)	(328)	(271)	(28)	(18)
FCFE of Han'e	(74)	(51)	85	64	19	61	22	16	12	284	416
Partial period	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount period	0.25	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Discount factor	0.9778	0.9141	0.8355	0.7637	0.6981	0.6381	0.5833	0.5332	0.4874	0.4455	0.4072
Present value	**(72)**	**(46)**	**71**	**49**	**13**	**39**	**13**	**8**	**6**	**126**	**169**

Discounted cash flow model (FCFE) - Han'e

In RMB million	12 months 31/12/2030	12 months 31/12/2031	12 months 31/12/2032	12 months 31/12/2033	12 months 31/12/2034	12 months 31/12/2035	12 months 31/12/2036	12 months 31/12/2037	12 months 31/12/2038	12 months 31/12/2039	12 months 31/12/2040	12 months 31/12/2041	6 months 29/4/2042
Sales	595	620	642	662	684	704	719	733	747	760	772	782	393
Cost of revenue	(41)	(22)	(22)	(23)	(24)	(47)	(25)	(25)	(25)	(27)	(52)	(28)	(41)
Tax surcharges	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(1)
Admin. Expenses	(21)	(22)	(22)	(22)	(23)	(23)	(24)	(24)	(24)	(25)	(26)	(26)	(13)
Depreciation & amortisation	(188)	(189)	(179)	(159)	(149)	(149)	(150)	(150)	(150)	(151)	(159)	(169)	(137)
EBIT	342	386	417	456	486	482	518	532	544	554	532	557	200
Interest	(1)	(0)	—	—	—	—	—	—	—	—	—	—	—
EBT	**342**	**386**	**417**	**456**	**486**	**482**	**518**	**532**	**544**	**554**	**532**	**557**	**200**
Less: tax	(87)	(98)	(106)	(115)	(123)	(122)	(131)	(134)	(137)	(140)	(134)	(141)	(51)
Add: depreciation and amortisation	188	189	179	159	149	149	150	150	150	151	159	169	137
Less: capex	(38)	(4)	(4)	(5)	(5)	(43)	(5)	(5)	(5)	(5)	(48)	(6)	(49)
Less: change in WC	—	—	—	—	—	—	—	—	—	—	—	—	13
Bank loan repayment	(11)	(7)	—	—	—	—	—	—	—	—	—	—	—
FCFE of Han'e	395	465	486	495	507	466	532	542	552	560	509	580	250
Partial period	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50
Discount period	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	22.75
Discount factor	0.3722	0.3402	0.3110	0.2843	0.2599	0.2375	0.2171	0.1985	0.1814	0.1658	0.1516	0.1386	0.1295
Present value	**147**	**158**	**151**	**141**	**132**	**111**	**116**	**108**	**100**	**93**	**77**	**80**	**33**

DCF valuation summary - Han'e

	In RMB million
NPV from DCF	1,822
Less: Borrowing	(495)
Add: Cash	24
Less: Net Inter-company payables	(1)
Less Other non-operating liabilities	(68)
Market value of 100% equity interest in Han'e	**1,282**

Discounted cash flow model (FCFE) - Hancai

In RMB million	**6 months 31/12/2019**	**12 months 31/12/2020**	**12 months 31/12/2021**	**12 months 31/12/2022**	**12 months 31/12/2023**	**12 months 31/12/2024**	**12 months 31/12/2025**	**12 months 31/12/2026**	**12 months 31/12/2027**	**12 months 31/12/2028**	**12 months 31/12/2029**
Sales	146	292	348	375	401	429	458	437	465	493	523
Cost of revenue	(11)	(16)	(11)	(11)	(11)	(12)	(17)	(12)	(12)	(12)	(13)
Tax surcharges	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Admin. Expenses	(10)	(14)	(15)	(15)	(16)	(17)	(17)	(18)	(18)	(19)	(20)
Depreciation & amortisation	(41)	(88)	(88)	(88)	(89)	(87)	(86)	(100)	(107)	(107)	(107)
EBIT	82	172	233	259	284	312	335	306	326	353	381
Interest	(7)	(50)	(45)	(39)	(33)	(25)	(16)	(6)	—	—	—
EBT	**75**	**122**	**188**	**219**	**251**	**287**	**319**	**300**	**326**	**353**	**381**
Less: tax	(23)	(31)	(47)	(55)	(63)	(72)	(80)	(75)	(82)	(89)	(96)
Add: depreciation and amortisation	41	88	88	88	89	87	86	100	107	107	107
Less: capex	(51)	(1)	(2)	(2)	(2)	(3)	(69)	(70)	(3)	(3)	(3)
Less: change in WC	—	—	—	—	—	—	—	—	—	—	—
Bank loan repayment	(80)	(100)	(120)	(140)	(160)	(180)	(220)	(260)	—	—	—
FCFE of Hancai	(38)	78	106	110	115	119	36	(6)	348	369	389
Partial period	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount period	0.25	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Discount factor	0.9778	0.9141	0.8355	0.7637	0.6981	0.6381	0.5833	0.5332	0.4874	0.4455	0.4072
Present value	**(37)**	**71**	**89**	**84**	**80**	**76**	**21**	**(3)**	**170**	**164**	**158**

Discounted cash flow model (FCFE) - Hancai

In RMB million	12 months 31/12/2030	12 months 31/12/2031	12 months 31/12/2032	12 months 31/12/2033	12 months 31/12/2034	12 months 31/12/2035	12 months 31/12/2036	12 months 31/12/2037	8 months 27/8/2038
Sales	553	583	614	646	678	703	729	754	507
Cost of revenue	(19)	(14)	(14)	(14)	(15)	(22)	(15)	(16)	(23)
Tax surcharges	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(2)
Admin. Expenses	(21)	(22)	(22)	(23)	(24)	(25)	(26)	(27)	(23)
Depreciation & amortisation	(101)	(89)	(82)	(82)	(82)	(86)	(90)	(91)	(94)
EBIT	409	457	494	524	554	568	595	617	365
Interest	—	—	—	—	—	—	—	—	—
EBT	**409**	**457**	**494**	**524**	**554**	**568**	**595**	**617**	**365**
Less: tax	(103)	(115)	(124)	(131)	(139)	(142)	(149)	(155)	(92)
Add: depreciation and amortisation	101	89	82	82	82	86	90	91	94
Less: capex	(13)	(3)	(3)	(3)	(3)	(30)	(3)	(3)	(31)
Less: change in WC	—	—	—	—	—	—	—	—	0
Bank loan repayment	—	—	—	—	—	—	—	—	—
FCFE of Hancai	395	428	449	472	494	482	532	550	337
Partial period	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.66
Discount period	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	18.83
Discount factor	0.3722	0.3402	0.3110	0.2843	0.2599	0.2375	0.2171	0.1985	0.1842
Present value	**147**	**146**	**140**	**134**	**128**	**114**	**116**	**109**	**62**

DCF valuation summary - Hancai

	In RMB million
NPV from DCF	1,969
Less: Borrowing	(753)
Add: Cash	31
Less: Net Inter-company payables	0
Less Other non-operating liabilities	(17)
Market value of 100% equity interest in Hancai	**1,230**

Appendix III — Asset approach

Adjustment to assets and liabilities of Andi

	(Unaudited) 30 June 2019 in RMB million Book value	30 June 2019 in RMB million Adjustment	30 June 2019 in RMB million Market value
NON-CURRENT ASSETS			
Long term equity investment	1,610	272	1,883
	1,610	**272**	**1,883**
CURRENT ASSETS			
Amount due from subsidiary	2	—	2
Amount due from immediate	179	—	179
Cash and cash equivalents	1	—	1
	181	**—**	**181**
TOTAL LIABILITIES			
Other payables and accrued charges	(2)	—	(2)
Amount due to subsidiaries	(45)	—	(45)
Loan from holding companies	(1,994)	—	(1,994)
	(2,041)	**—**	**(2,041)**
NET ASSETS	**(249)**	**272**	**23**

Adjustment to assets and liabilities of YXHB

	(Unaudited) 30 June 2019 in RMB million Book value	30 June 2019 in RMB million Adjustment	30 June 2019 in RMB million Market value
NON-CURRENT ASSETS			
Investment in associate/subsidiary	1,258	398	1,656
Property, plant and equipment	0	—	0
	1,258	**398**	**1,656**
CURRENT ASSETS			
Cash and cash equivalents	7	—	7
Other receivables, deposits and prepayments	0	—	0
Amount due from subsidiaries	493	—	493
Amount due from associate	751	—	751
Amount due from related companies	2,646	—	2,646
	3,897	**—**	**3,897**
TOTAL LIABILITIES			
Other payables and accrued charges	(2)	—	(2)
Amount due to subsidiaries	(179)	—	(179)
Borrowings (non-current portion)	(4,655)	—	(4,655)
Borrowings due within one year	(85)	—	(85)
	(4,920)	**—**	**(4,920)**
NET ASSETS	**235**	**398**	**633**

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

杰 誠 顧 問 有 限 公 司
Jie Cheng Consultants Ltd.

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

17 October 2019

The Directors
Yuexiu Transport Infrastructure Limited

Dear Sirs,

TRAFFIC STUDY FOR YUEXIU TRANSPORT INFRASTRUCTURE LIMITED THE DAGUANGNAN EXPRESSWAY, HUBEI PROVINCE EXECUTIVE SUMMARY

1. INTRODUCTION

In accordance with your instruction to Jie Cheng Consultants Limited (hereinafter referred to the "**Consultants**") to conduct a Traffic and Toll Revenue Forecast and an Operation and Maintenance Costs Estimate Study (hereinafter referred to the "**Study**") for the tolled Daguangnan Expressway in Hubei Province (hereinafter referred to "**the Expressway**" or "**Daguangnan Expressway**" (大廣南高速)), the People's Republic of China for the Yuexiu Transport Infrastructure Limited (hereinafter referred to the "**Company**") for the purpose of valuation of the Daguangnan Expressway and the inclusion in the Company's circular of even date. This report summarizes the results and findings based on the technical analysis conducted. The Consultants confirm that an independent traffic and toll revenue forecast and an operation and maintenance costs estimate have been prepared for the Daguangnan Expressway.

Daguangnan Expressway is one of the 18 north south expressway of the "71118" national highway network in China and one of the 7 north south expressway, Macheng (麻城) to Tongshan (通山) Expressway planned for Hubei Province, and is also part of the Wuhan Urban Circular Loop Expressway. It is an important link connecting Hubei, Henan and Jiangxi Provinces.

Daguangnan Expressway is located in the southeast side of Hubei Province. It started at Ezhou (鄂州) Huahu interchange (花湖互通), which intersects with Huyu Expressway (滬渝高速), and ended in the Wangjiafan Honggang town of Tongshan County (通山縣洪港鎮王家畈), the border between Hubei and Jiangxi Province. Seven toll stations were located at Huangshi (黃石), Daye(大冶), Yinzu (殷祖), Sanxi (三溪), Longgang (龍港), Honggang (洪港) and the mainline toll station of Egan (鄂贛). There were three service areas located at Daye (大冶), Sanxi (三溪) and Yansha (燕厦). The Daguangnan Expressway is a dual 2-lane expressway with a design speed of 100 km/h and the toll length is 107.1 km. The cost per km of the Daguangnan Expressway is RMB 61.64 million.

The Daguangnan Expressway was put into trial operation in 30 April 2012 and was officially opened to traffic in 3 May 2012. The concession period of the Expressway was 30 years (from 30 April 2012 to 29 April 2042).

The location of the Daguangnan Expressway is given in Figure 1.

Figure 1 Location of the Daguangnan Expressway

In accordance with your instruction, the Consultants have conducted site visit from 29 May 2019 to 31 May 2019 and collected information including the road network, industry layout, traffic and toll revenue data and other relevant data. In utilizing the given information from the Daguangnan Expressway Management Company, the Consultants have sought confirmation from the management of the Daguangnan Expressway that no material factors have been omitted. Based on their analysis on the information collected during and after the site visit, the Consultants have completed the traffic and toll revenue forecast and the forecast of the operation and maintenance costs report during the concession period from 2019 to 29 April 2042.

The Consultants consider that they have been provided with sufficient information to reach an informed view of the Study. The Study is completed using reasonable assumptions and a widely accepted methodology with an independent, scientific, professional, diligent and prudent approach. The result of the Study has been reviewed and endorsed by the Consultants' senior staff.

2. OBJECTIVE AND SCOPE OF SERVICES

According to the Consultancy Agreement between the Company and the Consultants, the Consultants are required to:

- Carry out a traffic and toll revenue forecast for the Daguangnan Expressway from 1 January 2019 to 29 April 2042; and

- Estimate the operation and maintenance costs for the Daguangnan Expressway from 1 January 2019 to 29 April 2042.

The detail scope of works includes:

- Forecast the regional economic development trend;

- Analyze trends of the regional traffic growth;

- Understand the future development of road network in the adjoining area;

- Develop a traffic and revenue forecast model;

- Screen, collate and calibrate the basic data prior to adopting in the traffic forecast model; and

- Prepare an operation and maintenance costs estimate report.

3. RELEVANT INFORMATION AND DATA

The Study was carried out based on the following information：

- The historical GDP and planning data of Huangshi, Daye, Xianning, Ezhou, Huanggang, Wuhan, Hubei, Jiangxi, Henan and the planned GDP targets for the above provinces and cities;

- The historical traffic statistics data of Huangshi, Daye, Xianning, Ezhou, Huanggang, Wuhan, Hubei, Jiangxi, Henan;

- The historical passenger and goods traffic data for each cross section of the Daguangnan Expressway;

- The historical toll revenue of the Daguangnan Expressway;

- The historical exit and entrance traffic data from all the toll stations of the Daguangnan Expressway;
- The historical OD traffic data for the Expressway obtained from the road network center of Hubei;
- Documents approving the establishment of toll stations along the Daguangnan Expressway;
- Documents approving the existing toll rates of Hubei Province;
- The document concerning the toll charge by weight policy for trucks for the Daguangnan Expressway;
- Hubei Provincial Highway Network Planning information; and
- Other relevant national Specifications.

4. HISTORICAL DATA

Table 1 to 4 show the historical traffic, revenue and operation and maintenance cost data of the Daguangnan Expressway.

Table 1 Historical Average Annual Daily Traffic and Growth Rates

Year	AADT (vehicles per day)	Growth Rates
2015	6,149	—
2016	6,877	11.8%
2017	7,751	12.7%
2018	8,117	4.7%

Table 2 Historical Percentage of the Passenger Vehicles and the Trucks

Year	Trucks	Passenger Vehicles
2015	41%	59%
2016	37%	63%
2017	36%	64%
2018	35%	65%

Table 3 Historical Annual Revenue

Year	Revenue (million RMB)
2015	319
2016	334
2017	367
2018	360

Table 4 Historical Operation and Maintenance Cost

Year	Operation Cost (million RMB)	Maintenance Cost (million RMB)
2016	39.71	21.15
2017	42.55	13.38
2018	36.86	14.67

5. TRAFFIC AND REVENUE FORECASTING METHODOLOGY

The traffic and revenue forecast is based on conventional method widely adopted for the forecasting of traffic and toll revenue for expressway with a closed toll collection system and has been widely adopted to similar toll road traffic forecast in the PRC. The traffic and revenue forecasting methodology for the Study is given in the Figure 2.

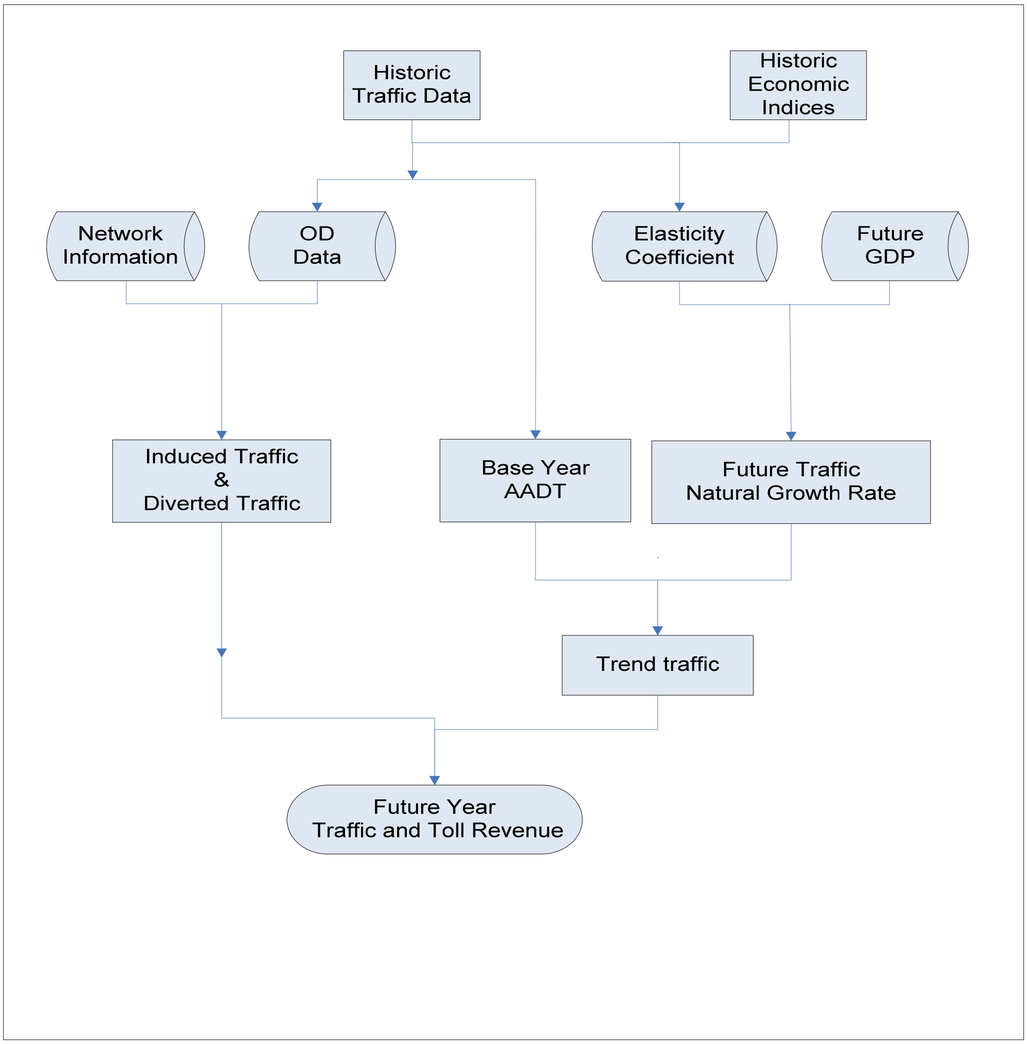


Figure 2 Traffic and Revenue Forecast Model

Notes:

- OD

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

- AADT

AADT is "Average Annual Daily Traffic" and when multiply by 365 will give the annual traffic volume.

According to the basic theory of traffic forecasting, the traffic flow of the Expressway in the future year will be influenced by the following three factors:

(1) Trend traffic growth

Trend traffic growth (i.e. natural growth traffic flow) is determined by the relationship between the social economic conditions and traffic conditions. The future traffic growth will increase due to the macroeconomic development in the future year.

(2) Induced traffic growth

Induced traffic growth is a consequence of new traffic generated as a result of:

A. Improved traffic conditions such as improved riding quality of an expressway or improved connectivity between traffic generator and the expressway;

B. Rezoning of the economic layout and industrial structure of the area by government where the Expressway is located. Such a change will lead to new economic structure and development projects and thus generates new traffic flow.

(3) Diverted traffic flow

Diverted traffic flow is a result of redistribution of traffic flow from the Expressway to a new expressway or to a widened expressway.

A. Upon opening of a new expressway some traffic will be diverted from the Expressway to the new expressway due to the availability alternate route selection.

B. When adjacent expressway is widened, traffic condition for this Expressway will deteriorate. As a consequence, traffic will be diverted from the expressway being widened to the Expressway.

1. Description of traffic forecasting process

(1) Prediction of trend traffic growth

Current year trend traffic flow = Traffic flow in the last year * (1+Trend growth factor)

Trend growth factor = Future year economic growth*Elasticity coefficient

Among them:

A. Future year economic growth: Future year economic growth of areas that will generate traffic to the Expressway is determined from an assessment of previous years economic development data, the 13th Five-Year Plan GDP and economic planning document from the government, expert opinions of economic development of PRC. The forecast has assumed a stable development of the existing major industries in the traffic influenced area.

B. Elasticity coefficient: Elasticity coefficient represents the correlation between traffic growth and economic development. The Consultants used historical social economic data and traffic data to calculate a historical elasticity coefficient of the passenger vehicles and goods vehicles growth with economic data. Based on historical elasticity coefficient, future elasticity coefficient of the passenger vehicles and goods vehicles will be predicted using a generally acceptable procedure for traffic forecast.

(2) Prediction of induced traffic flow

Current year Induced traffic flow = Traffic flow in the last year*Induced traffic coefficient

Induced traffic flow for the Expressways is mainly a consequence of the development of the Shunfeng E'zhou Airport. Its positive impact starts from construction of the airport and extends to operation as well as new industries that will be developed in the airport zone.

The determination of induced traffic coefficient is based on the research and analysis of a series of related published data issued by government. Details are as follows:

Shunfeng E'zhou Airport is located adjacent to the Expressway. Figure 1 shows the location of Shunfeng E'zhou airport. It is expected that the traffic generated during the construction and operation of the airport and the development of the associated industries will produce exchanges with other cities through the Expressway.

During the estimation of induced traffic, the Consultants has made reference to the following governmental materials which were available to the public:

A. It is estimated that the cargo throughput of Shunfeng E'zhou Airport in 2021 will exceed 1 million tons and will become the fourth airport in the world specialized in cargo transport and Asia's first cargo airport. It is estimated that in 2025, the airport will achieve an annual cargo throughput of 2.45 million tons and 1 million in terms of passengers. It is estimated that in 2030, the airport will reach an annual cargo throughput of 3.3 million tons and 1.5 million passengers.(http://www.cjrbapp.cjn.cn/toutiao/p/29350.html)

B. Hubei provincial government has prepared a logistic center development plan with Shunfeng E'zhou Airport at the heart of such plan. The Hubei provincial government plans to strongly develop airport related industries within the "Wu E Huang Huang" (Wuhan, E'zhou, Huangshi, Huanggang) region, concentrate key industrial elements such as people, goods, funds and information in order to establish group of advanced industries highly related to air traffic logistic business, build an international aviation city district, create new growth drivers and extend to driving the upgrade in regional economic and social development and industrial restructuring. (http://www.huangshi.gov.cn/xwdt/hsyw/201712/t20171221_250660.html)

C. In the official news of the E'zhou municipal government, the Shunfeng E'zhou Airport is expected to generate 200,000 new jobs, annual tax revenue of RMB20 billion and an annual GDP of RMB200 billion. (http://www.ezhou.gov.cn/zt/wqhg/lqxz/201702/t20170215_173945.html) Compared with the current GDP of E'zhou of about RMB100 billions, the Shunfeng E'zhou Airport will bring about 200% annual economic growth in the future.

The estimation of the induced traffic resulting from the construction and operation of Shunfeng E'zhou Airport includes the following three aspects:

- From 2021 and thereafter, some of the cargo throughput will be transported via the Expressway to and from the Shunfeng E'zhou Airport after its operation and will therefore generate new traffic for the Expressway. The Consultants has adopted the throughput projection from the reference referred to in A above and estimated that the proportion of goods that will be transported by trucks and then calculated the additional trucks required to carry such goods based on an assumed average tonnage per vehicle.

- During the last two years of the airport construction from 2020 to 2021, a large quantity of materials and equipment will be transported into the airport. During the same period, preparatory work for the commissioning of the airport will also begin. Therefore, it will generate a large quantity of passenger and goods traffic to the Expressway. The induced traffic coefficient is determined based on the experience of the Consultants.

- From 2021 to 2027, the airport related industries around the Shunfeng E'zhou Airport will be implemented gradually according to government's development plan and will drive the rapid growth of social economic development which, as a result, will generate new traffic for the Expressway. The estimation of the induced traffic coefficient was determined on the basis of the local government's macroeconomic planning (see references B and C above, in particular the economic development plan of the E'zhou municipal government). In addition, the Consultants has also made reference to the impact on social and industrial development of Memphis where the FedEx's airport is located, Luis Weil where the UPS headquarters are located, Guangzhou Baiyun Airport and Shenzhen Baoan Airport in estimating the induced traffic coefficient.

(3) Prediction of diverted traffic flow

Current year diverted traffic flow = Traffic flow in the last year * Diverted traffic coefficient

- Diverted coefficient of new expressway

  A. The Consultants studied and analyzed all OD data of Hubei Expressway Network to obtain the quantity of each OD pair and its proportion in the total traffic flow. Based on an analysis of route effectiveness (primarily route length between the Expressway and new expressway), the Consultants will determine the percentage of diverted traffic coefficient.

B. Planned expressway network for the future years is extracted from published document from the government.

- Diverted traffic coefficient of widening expressway

A. The Consultants estimates traffic capacity for the Expressway during widening.

B. The Consultants collects current traffic flow of the expressway to be widened and estimates the traffic flow during the period of widening after considering the natural growth assuming no reduction in traffic capacity.

C. Based on the analysis of the above two aspects, the Consultants will calculate the traffic flow that may be diverted to the Expressway according to the actual traffic flow and traffic capacity during the widening period.

D. The diverted traffic coefficient is the ratio of the quantity of diverted traffic and the traffic flow of the Expressway.

(4) Total traffic flow

Total traffic flow = Trend traffic flow + Induced traffic flow + Diverted traffic flow

(5) Toll revenue

Toll revenue = Traffic flow * Toll rate

2. Description of major assumptions

Following the principle of traffic forecasting, details of following major assumptions include:

(1) Assumption of traffic flow trend growth. (See Section 6 and 7 for details.)

(2) Assumption of induced traffic. (See Section 6 and 7 for details.)

(3) Assumption of diverted traffic. (See Section 6 and 7 for details.)

6. MAJOR ASSUMPTIONS

6.1 Factors affecting the result of the traffic and toll revenue forecast

6.1.1 The Consultants have based on published data from the national authority and the research results from international organizations to predict the future GDP growth rates. However, the GDP growth rates in future years would be affected by the trend of the international economic development, macro economical control policy in PRC, regional industrial policy and other unpredicted social, economic and natural events. Therefore, over the forecast period, there will be a risk that the actual GDP growth rates will be higher or lower than the predicted values;

6.1.2 The Consultants have assumed that the current toll free policy for truck carrying agricultural products along the Expressway which started from 1 December 2010 would continue throughout the concession period of the Daguangnan Expressway. If there is any change in this policy, the toll revenue for the Daguangnan Expressway will increase or decrease according to the change in the regulations.

6.1.3 The State Council agreed to the implementation of toll free policy for small passenger cars in major holidays in July 2012. Passenger vehicles with less or equal to 7seats using all the toll highway, including expressway and ordinary toll highway, will not be charged any toll during the Spring Festival, Qingming, Labour Day, National Day holidays and other days during those four national holidays formulated by the State Council. This policy is implemented from the National Day of 2012. If there is adjustment of the policy during the concession period, the traffic and revenue will change accordingly.

6.1.4 The completion of new expressways adjacent to the Daguangnan Expressway will result in either positive or negative impact on traffic using the Daguangnan Expressway. Based on information collected during the due diligence site visit, the following new expressways will be completed in the next few years:

- Traffic management during construction of Wuji Section of Daguang Expressway;
- Jiayu Yangtze River Bridge of the Wuhan Urban Circular Expressway,
- Ezhou to Xianning Expressway;
- Qipanzhou Yangtze River Bridge;
- Hubei section of Wuhan to Yangxin Expressway;
- Jiangxi section of Wuhan to Yangxin Expressway;
- Jiangxi section of Xianning to Jiujiang Expressway;
- Widening of Jinggangao Expressway.

If the completion dates of any of the above expressways is advanced or delayed, the traffic and toll revenue forecast will be affected. If the traffic management measures during the maintenance work are changed, the traffic and toll forecast will be affected.

6.1.5 According to the plan, SF Express (順豐速遞) has started the construction of cargo airport in Ezhou from the end of 2017 (hereinafter referred to as "SF Ezhou airport" (順豐鄂州機場)) and is planned for completion by the end of 2020 and will start operation in September 2021. The SF Ezhou airport will be the world's fourth cargo airport and Asia's first air cargo distribution center. The construction of the SF Ezhou airport will greatly promote the industrial development and economy in Wuhan city influence zone. Based on to the planned SF Ezhou airport air cargo throughput, the Consultants estimate the future traffic flow accordingly. The additional traffic generated from the associated industrial development adjacent to the SF Ezhou airport is also estimated. If there is adjustment for the SF Ezhou airport construction schedule, scale of development, the surrounding industrial planning, etc., the forecast results may be different.

6.2 Expressways under construction that will have an impact on the traffic and toll revenue of the Daguangnan Expressway

Table 5 Planned Completion Dates of New Expressways Adjacent to the Daguangnan Expressway that will have an Impact on the Traffic and Toll Revenue Forecast

Name of Expressway	**Planned Opening Time / Construction Period**
Traffic control during construction of Wuji Section of Daguang Expressway	From September 2018 to September 2019
Wuhan Urban Circular Expressway Jiayu Yangtze River Bridge	At the end of 2019
Ezhou to Xianning Expressway	At the end of 2020
Qipanzhou Yangtze River Bridge	At the end of 2020
Hubei section of Wuhan to Yangxin Expressway	At the end of 2022
Jiangxi section of Wuhan to Yangxin Expressway	At the end of 2023
Jiangxi section of Xianning to Jiujiang Expressway	At the end of 2023
Widening of Jinggangao Expressway	From December 2019 to June 2023

6.3 Road Capacity

Six level of service has been defined in the China Highway Engineering Technical Standard (JTGB01-2014). For each level of service, a different Road Traffic Capacity is defined which signifies the traffic volume that can travel on the road without delay as a consequence of road congestion.

A description of the six level of service is given in Table 6.

Table 6 Definition of Levels of Service for Highways

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

Examples of each service levels are shown in figure 3 to figure 8.

In this study, the Road Traffic Capacity of the Expressway was estimated at a level of service 6 defined in China highway engineering technical standard (JTGB01-2014).

The Road Traffic Capacity calculation is estimated from a number of variables such as peak hour factors, directional factors and vehicle compositions. These factors are determined from traffic volume data from toll system, vehicle composition, road geometry, design speed and other relevant references, with full consideration to the future trends.

Figure 3 Level of Service 1

Figure 4 Level of Service 2

Figure 5 Level of Service 3

Figure 6 Level of Service 4

Figure 7 Level of Service 5

Figure 8 Level of Service 6

The Road Traffic Capacity is derived from the formula below.

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

Where:

C_D- Design Daily Road Traffic Capacity in Passenger Car Unit (PCU);

C_B- Basic traffic capacity per lane, 2,100 PCU/h;

V/C - Volume Capacity Ratio, 1.0 in this case;

N - Number of traffic lanes in one direction; 2 in this case;

F_W - Correction factor for the effect of road width and marginal strip width on traffic capacity, 1.0 in this case;

F_P - Correction factor for the effect on drivers on the traffic capacity, 1.0 in this case;

F_{hv} - Correction factor for the effect of heavy vehicles on traffic capacity, 0.84 in this case;

PHF - Peak Hour Factor, 8.5% in this case; and

F_D - Directional Flow Factor, 0.51 in this case.

According to the calculation method of the above road capacity and the comprehension of the surrounding condition of the project by the consultant, the level of service 6 standard is adopted, and the capacity is calculated as follows: 81,000PCU/Day.

The traffic forecast estimates the number of vehicles using the Daguangnan Expressway. Therefore, it is necessary to convert the vehicles per day into PCU when estimating the Class of service of the Daguangnan Expressway and the Road Traffic Capacity during the concession period. Each vehicle will be converted into a standard Passenger Car Unit (PCU) in order to achieve the above objective. For example, a 4-seats passenger car (passenger vehicle class 1 in table 7) is equivalent to 1.0 PCU; a 20-seats passenger car(passenger vehicle class 3 in table 7) is equivalent to 1.5 PCU; a truck which is allowed to carry goods less than 2 tons (truck class 1 in table 7) is equivalent to 1.0 PCU; a truck which is allowed to carry goods more than 20 tons (truck class 5 in table 7) is equivalent to 4.0 PCU.

Using the vehicle composition at different section of the Daguangnan Expressway during different years of operation, the estimated Road Traffic Capacity will be 44,000 vehicles per day approximately with a variance of +/- 5%. When a section of the expressway reaches the Road Traffic Capacity of Class 6 standard, traffic will continue to grow slowly but the time of peak hours may be longer.

6.4 Toll Rates

Toll Rates for Different Vehicle Classification

Table 7 Toll Rate for Different Vehicle Classification

Vehicle class		Classification Standard	Toll Rate (RMB /km)
Passenger Vehicles	1	≤7 seats	0.55
	2	8 to 19 seats	0.825
	3	20 to 39 seats	1.1
	4	≥40 seats	1.375
Trucks	1	≤2 tons	0.55
	2	2 tons to 5 tons (5 tons inclusive)	0.825
	3	5 tons to 10 tons (10 tons inclusive)	1.1
	4	10 tons to 15 tons (15 tons inclusive); 20 foot container	1.375
	5	>15 tons; 40 foot container	1.65

Weight Based Toll Rates for Trucks

Table 8 Weight Based Toll Rates for Trucks

Normal Loading Vehicles	Basic Toll Rate	RMB 0.10 /ton per km
	Normal Loading Part≤20 tons	Calculated by using basic toll rate
	20 tons <Normal Loading Part ≤ 40 tons	The part less than and equal to 20 tons is calculated by using the basic toll rate; the part that is over 20 tons is calculated by linear declines from the basic toll rate to 50% of the basic toll rate.
	Normal Loading Part>40 tons	The part less than and equal to 20 tons is calculated by using the basic toll rate; the part that is over 20 tons and less than (or equals to) 40 tons is calculated by linear declines from the basic toll rate to 50% of the basic toll rate; the part that is more than 40 tons is calculated at the 50% of the basic toll rate.

Overweight Vehicles	Overweight Rate ≤ 30%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate.
	30% < Overweight Rate ≤100%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate; the other part is calculated by linear increases from 3 to 6 times of the basic toll rate.
	Overweight Rate >100%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate; the overweight part from 30% to 100% (100% inclusive) is calculated by linear increases from 3 to 6 times of the basic toll rate; the other part is calculated by using 6 times of the basic toll rate.

Note:

Normal loading of a truck is the sum of net weight of an empty truck plus the allowable weight of goods to be carried. Depending on the number of axles and type of truck, the net weight and allowable weight of goods to be carried is specified in the vehicle registration. When a truck enters into a toll gate, it will be weighted automatically by a weight bridge and the number of axles will also be determined automatically. For example, a three axle vehicle's normal loading is 25 tons. If the weight recorded by the weight bridge is below 25 tons, it will only be charged at the normal loading rate. If the weight recorded exceeds 25 tons, the charge will be the sum of the normal loading rate plus the overweight rate calculated according to the percentage of overweight of the truck.

Normally all Trucks are charged according to the "weight based toll rates" standard as described in Table 8. The toll rates for Trucks in Table 7 are only applicable in emergency when the weighting equipment in toll station is out of service.

For the purpose of calculating toll revenue from Trucks in the revenue forecast model, "weight based toll rates" has been used for all the revenue forecasting cases.

7. SUMMARY OF TRAFFIC FORECAST PROJECTION

The base year for the traffic and revenue forecast is 2019. Tables 9 to 11 show the result of the traffic and toll revenue forecast:

Table 9 Average Annual Daily Traffic for the Daguangnan Expressway (vehicles per day)

Year	Optimistic	Conservative
2019	8,549	8,163
2020	10,473	9,801
2021	12,997	11,486
2022	15,066	13,238
2023	16,354	14,337
2024	17,804	15,560
2025	19,921	17,265
2026	22,008	18,904
2027	23,916	20,332
2028	25,487	21,738
2029	26,952	23,106
2030	28,462	24,414
2031	30,014	25,624
2032	31,604	26,856
2033	33,229	28,108
2034	34,885	29,378
2035	36,364	30,662
2036	37,756	31,956
2037	39,161	33,257
2038	40,575	34,561
2039	41,994	35,866
2040	43,300	36,940
2041	44,326	37,992
2042	45,249	39,034

Table 10 Annual Average Traffic Growth Rates for the Daguangnan Expressway

Year	Optimistic	Conservative
2019	—	—
2020	22.5%	20.1%
2021	24.1%	17.2%
2022	15.9%	15.3%
2023	8.5%	8.3%
2024	8.9%	8.5%
2025	11.9%	11.0%
2026	10.5%	9.5%
2027	8.7%	7.6%
2028	6.6%	6.9%
2029	5.7%	6.3%
2030	5.6%	5.7%
2031	5.5%	5.0%
2032	5.3%	4.8%
2033	5.1%	4.7%
2034	5.0%	4.5%
2035	4.2%	4.4%
2036	3.8%	4.2%
2037	3.7%	4.1%
2038	3.6%	3.9%
2039	3.5%	3.8%
2040	3.1%	3.0%
2041	2.4%	2.8%
2042	2.1%	2.7%

Note:

- For the Optimistic Traffic Forecast Case, the section between starting point of Daguang and Huangshixi will reach its road traffic capacity in 2028; the section between Huangshixi and Daye and the section between Daye and Daye interchange will reach their road traffic capacity in 2035; the section between Daye interchange and Yinzu will reach its road traffic capacity in 2040; the section between Yinzu and Wuyang interchange and the section between Wuyang interchange and Sanxi will reach their road traffic capacity in 2041; other sections will not reach their capacity during the operation period.

- For the Conservative Traffic Forecast Case, the section between starting point of Daguang and Huangshixi will reach its road traffic capacity in 2030; the section between Huangshixi and Daye will reach its road traffic capacity in 2039; the section between Daye and Daye interchange will reach its road traffic capacity in 2040; other sections will not reach their capacity during the operation period.

Table 11 Annual Toll Revenue for the Daguangnan Expressway (in million RMB)

Year	Optimistic	Conservative
2019	371	348
2020	449	413
2021	592	508
2022	680	582
2023	709	610
2024	742	641
2025	825	707
2026	903	768
2027	973	819
2028	1,028	870
2029	1,078	918
2030	1,130	964
2031	1,183	1,005
2032	1,238	1,046
2033	1,294	1,089
2034	1,350	1,132
2035	1,400	1,175
2036	1,447	1,219
2037	1,494	1,263
2038	1,542	1,307
2039	1,589	1,351
2040	1,633	1,387
2041	1,667	1,422
2042	553	475

Explanation on forecast result:

(A) Major factor affecting the forecast:

Other than traffic growth due to GDP growth, a combination of different factors has affected the traffic growth rate from 2019 to 2028. The main factors include:

(i) 2019

- From 30 July 2017 to 14 December 2018, major maintenance was carried out at the Junshan Yangtze River Bridge at Jinggangao Expressway and traffic control measures have been implemented. During the period of the maintenance, either the northbound or the southbound traffic lane will be closed leaving half of the bridge for bi-directional traffic. Trucks will not be allowed to travel on the bridge and the truck movement would be diverted to other adjacent expressways. Daguangnan Expressway has benefited from such a traffic diversion scheme. On 14 December 2018, the maintenance work at the Junshan Yangtze River Bridge at Jinggangao Expressway was completed and the bridge was opened to all traffic. Therefore, there was a corresponding reduction of traffic previously diverted to the Daguangnan Expressway from 2019.

- From 8 September 2018 to 30 September 2019, some traffic management was implemented due to construction work at Wuji section of Daguang Expressway. As a consequence, some vehicles on Daguangnan Expressway were diverted to other adjacent expressways. On completion of the construction work in October 2019, the diverted traffic will return to Daguangnan Expressway which is a positive impact on traffic and revenue.

(ii) 2020

- The construction of SF Ezhou airport is planned for completion by the end 2020. The transportation of construction material and equipment for the airport works will bring in a substantial among of airport works related traffic for the Daguangnan Expressway in 2020.

- In 2020, the restrictions on traffic of Wuji section of Daguang Expressway will be cancelled and the vehicles will return which will result in a restorative traffic growth of the Daguangnan Expressway.

- The opening of the Jiayu Yangtze River Bridge of Wuhan City Circular Expressway by the end of 2019 will result in a small diversion effect on the Daguangnan Expressway from 2020.

- The combined effects of these factors have produced a high traffic growth of the Daguangnan Expressway in 2020.

(iii) 2021 to 2028

- Before September 2021, the preparatory work for the commission of the new airport will bring in a substantial amount of airport works related traffic for the Daguangnan Expressway in 2021.

- After September 2021, the gradual build up of air cargo and passenger will bring in new traffic to the Daguangnan Expressway. At the same time, the industrial development such as logistics park, biomedical park, international e-commerce park, ecological agriculture farm, the electronic data center and other development adjacent to the SF Ezhou airport will be completed over a period of time which will generate additional traffic to the Daguangnan Expressway and therefore, there will be a continuous stream of additional traffic on the Daguangnan Expressway from 2021 onward.

(iv) 2021

- Due to the widening of Jinggangao Expressway in 2021, some vehicles will be transferred to the Daguangnan Expressway and positive impact will take place.

- Due to the opening of the Ezhou to Xianning Expressway and the Qipanzhou Yangtze River Bridge by the end of 2020, some traffic diversion will take place.

- The combined effects of these two factors have produced a high traffic growth of the Daguangnan Expressway in 2021.

(v) 2023

- Due to the opening of the Hubei section of Wuhan to Yangxin Expressway and the completion of the widening of Jinggangao Expressway on June 2023, some traffic on Daguangnan Expressway will be diverted to these two expressways and will result in a low traffic growth rate in 2023.

(vi) 2024

- Due to the completion of the widening of Jinggangao Expressway on June 2023, the planned opening of the Jiangxi section of Wuhan to Yangxin Expressway and the Jiangxi section of Xianning to Jiujiang Expressway at the end of 2023, some traffic diversion will take place in 2024 resulting in a lower traffic growth rate in 2024.

(B) The concession period will expire on 29 April 2042 and therefore, there are only 119 days for the revenue forecast.

8. FORECAST FOR OPERATION AND MAINTENANCE COSTS

The Consultants have based on the following information to carry out an Operating and Maintenance Costs Forecast of the Daguangnan Expressway from 2019 to 2042.

1) Historical operation and maintenance costs;

2) Local unit costs for maintenance works;

3) Current maintenance quantity of Hancai Expressway;

4) Visual inspection of the quality of pavement, bridges, tunnels, slopes and associated highway facility during the site visit conducted from 29 to 31 May 2019; and

5) In-house database of the Consultants collected during the past 10 years of expressway audit.

Operation costs include labor costs and administration costs. Labor costs include salary, bonus and staff welfare. Administration costs cover the cost to maintain smooth operation of the Expressway Company including management fee, utilities for the expressway operation, office expenses, business travel expenses, accommodation rental and utilities expenses, entertainment, communication expenses, property management fee, vehicle operating expenses, Consultant fee, toll ticket receipt printing expenses, traffic police and highway administrator expenses, administrative cost for the road network center, tax for the use of land and buildings used by the Expressway Company, etc.

The Consultants reviewed the historical operation costs data of the Expressway Company and complemented by local information to determine the future management structure as well as the future administration and staff costs in order to forecast the future operation costs.

Maintenance costs can be divided into routine maintenance costs and special maintenance costs. Routine maintenance will be conducted regularly and targets to maintain the Expressway at a suitable operating condition and will also delay the appearance of major defects. Special maintenance refers to construction activity such as reconstruction of road pavement, repair of bridges and tunnels, replacement of electrical and mechanical facilities in order to meet regulatory requirement of an operating expressway.

In China, the Ministry of Transportation and Communication will conduct a national inspection on all expressways every five years. Therefore special maintenance works have been planned for those years when the national inspection will be conducted to ensure that the Expressway will pass the national inspection. In order to ensure a smooth hand-over inspection, a budget has been provided in 2042 for special maintenance work. Major pavement maintenance has been planned in 2027 and 2028 to recover the performance of road pavement to the original design standard.

The Consultants adopted the preventative maintenance principle in the costs forecast in order to minimize the overall maintenance costs and to smooth out the annual maintenance costs.

The Operation and Maintenance Costs of the Expressway is given in Table 12.

Table 12 O&M Costs of Daguangnan Expressway (Unit：RMB million)

Year	**O&M Cost**	**Year**	**O&M Cost**
2019	142.0	2031	73.7
2020	141.7	2032	74.8
2021	60.7	2033	75.9
2022	60.1	2034	79.7
2023	61.0	2035	196.6
2024	64.2	2036	82.1
2025	156.2	2037	83.3
2026	66.1	2038	84.6
2027	269.5	2039	88.6
2028	273.5	2040	220.0
2029	71.5	2041	91.3
2030	137.1	2042	187.8

Note:

1) A budget of RMB 80.33 million has been provided to upgrade the ETC equipment in 2019;

2) The O&M Costs for 2020, 2025, 2030, 2035 and 2040 have allowed for the works required to meet the National Inspection cycle,

3) A budget has been provided for special maintenance work prior to hand over in 2042 ;

4) A major pavement maintenance has been will planned in 2027 and 2028;

5) The O&M costs for 2042 have reflected the fact that the concession period ends on end of April.

9. CONCLUSIONS

The Consultants conclude that the Traffic and Toll Revenue Forecast and the Operation and Maintenance Costs Estimate Report prepared from the above methodology and assumptions are in line with common professional practice. The forecast results can be used by the Company as a reference document for the valuation of the Daguangnan Expressway as long as the risk factors are fully considered. Full details of the Study and data are presented in the "Hubei Province Daguangnan Expressway Traffic Study Report".

Yours sincerely,

Albert Cheung Chung Hoi
FHKIHT, FIHT, FHKIE, MICE
Managing Director
Jie Cheng Consultants Limited

Albert Cheung is a Fellow of the Hong Kong Institution of Engineers, Hong Kong Institution of Highways and Transportation and Institution of Highways and Transportation, UK. He is also a Member of the Institution of Civil Engineers, UK. He is the Managing Director of Jie Cheng Consultants Ltd and has over 44 years of experience in conducting investigation, feasibility study, design, construction supervision and technical audit of multi-disciplinary infra-structures projects in Mainland China and Hong Kong. He has specialized in conducting due diligence study for toll highways since 1990 and has been the Project Director for a traffic consultant company assisting infrastructure company IPO listing in Hong Kong. Traffic volume and toll revenue projections project experience in Hubei Province included : Wuhan to Jingmen Expressway (2012, acted for a private investor), Wuhan to Xiaogan Expressway (2009, acted for a Hong Kong listed company), Huangshi to Huangmei Expressway (2007, acted for a China listed company), Jingzhou to Dongyuemiao Expressway (2010, acted for a China state-owned enterprise), Suiyuenan Expressway (2014, acted for the Company) and Jingmen to Yichang Expressway (2019, acted for a Hong Kong listed company).

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

杰誠顧問有限公司
Jie Cheng Consultants Ltd.

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

17 October 2019

The Directors
Yuexiu Transport Infrastructure Limited

Dear Sirs,

TRAFFIC STUDY FOR YUEXIU TRANSPORT INFRASTRUCTURE LIMITED THE WUHAN TO CAIDIAN EXPRESSWAY, HUBEI PROVINCE EXECUTIVE SUMMARY

1. INTRODUCTION

In accordance with your instruction to Jie Cheng Consultants Limited (hereinafter referred to the "**Consultants**") to conduct a Traffic and Toll Revenue Forecast and an Operation and Maintenance Costs Estimate Study (hereinafter referred to the "**Study**") for the tolled Wuhan to Caidian Expressway in Hubei Province (hereinafter referred to "**the Expressway**" or "**Hancai Expressway**" (**漢蔡高速**)), the People's Republic of China for the Yuexiu Transport Infrastructure Limited (hereinafter referred to the "**Company**") for the purpose of valuation of the Hancai Expressway and the inclusion in the Company's circular of even date. This report summarizes the results and findings based on the technical analysis conducted. The Consultants confirm that an independent traffic and toll revenue forecast and an operation and maintenance costs estimate have been prepared for the Hancai Expressway.

The Hancai Expressway is one of the seven fast urban exit roads planned by Wuhan. It is an important western expressway corridor connecting the Wuhan middle ring road and outer ring road and will continue to join the Huyu Expressway (滬渝高速).

The Hancai Expressway starts at Miliangshan (米糧山) located at Wuhan middle ring road, extends westwards to the Hongmiao interchange (紅廟互通) located at Jinggangao Expressway (京港澳高速) and ends at the Zhuru interchange (侏儒互通) located at Caidian District which links with Huyu Expressway (滬渝高速).

The toll length of the Hancai Expressway is 35.983 km and the cost per km of the Hancai Expressway is RMB 58.83 million. The design speed is 100km/h. The section between the Qintai (琴台) and the Hongmiao interchange (紅廟互通) of the Hancai Expressway is a dual 3-lane expressway and the section between the Hongmiao interchange (紅廟互通) and the Zhuru interchange (侏儒互通) of the Hancai Expressway is a dual 2-lane expressway. Two toll stations are located at Qintai (mainline toll station) and Suohe. One service areas is located at Xihu.

The Hancai Expressway was put into trial operation in 28 August 2008, and was officially opened to traffic in 18 October 2008. The concession period of the Expressway was 30 years (from 28 August 2008 to 27 August 2038).

The location of the Hancai Expressway is given in Figure 1.

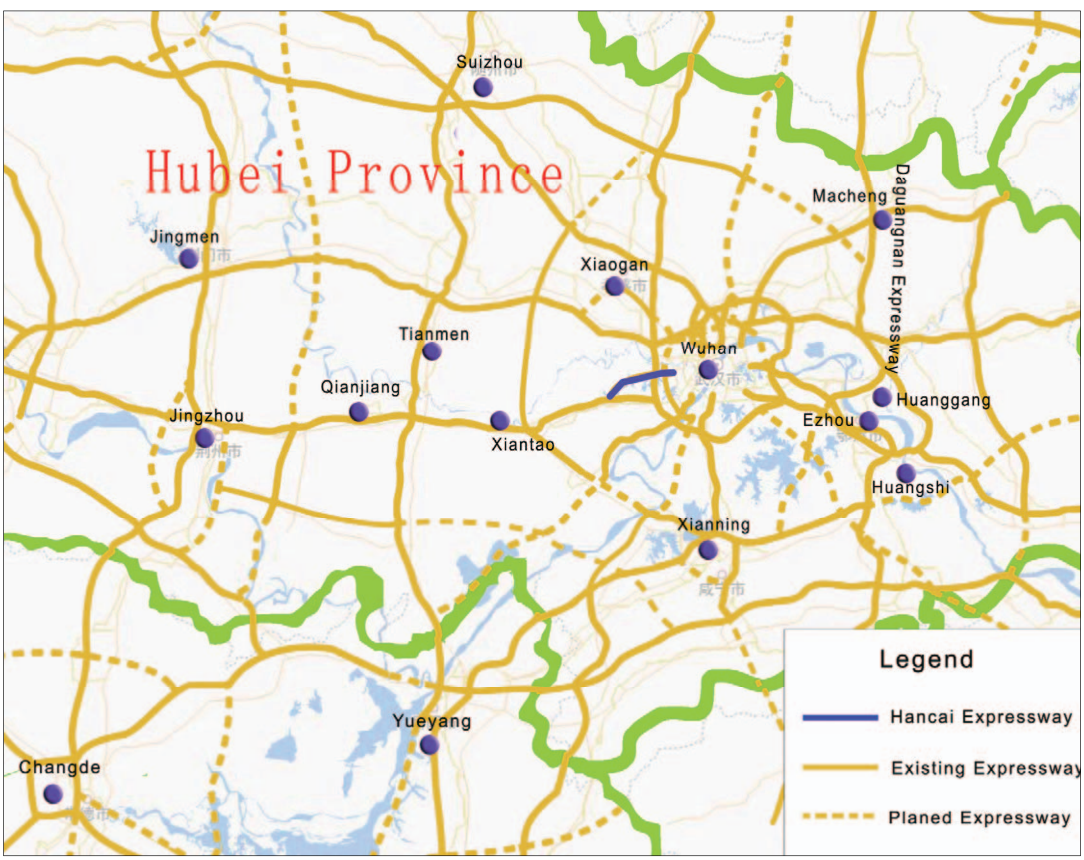


Figure 1 Location of the Hancai Expressway

In accordance with your instruction, the Consultants have conducted site visit from 29 May 2019 to 31 May 2019 and collected information including the road network, industry layout, traffic and toll revenue data and the other relevant data. In utilizing the given information from the Hancai Expressway Management Company, the Consultants have sought confirmation from the management of the Hancai Expressway that no material factors have been omitted. Based on their analysis on the information collected during and after the site visit, the Consultants have completed the traffic and toll revenue forecast and the forecast of the operation and maintenance costs report during the concession period from 2019 to 27 August 2038.

The Consultants consider that they have been provided with sufficient information to reach an informed view of the Study. The Study is completed using reasonable assumptions and a widely accepted methodology with an independent, scientific, professional, diligent and prudent approach. The result of the Study has been reviewed and endorsed by the Consultants' senior staff.

2. OBJECTIVE AND SCOPE OF SERVICES

According to the Consultancy Agreement between the Company and the Consultants, the Consultants are required to:

- Carry out a traffic and toll revenue forecast for the Hancai Expressway from 1 January 2019 to 27 August 2038; and

- Estimate the operation and maintenance costs for the Hancai Expressway from 1 January 2019 to 27 August 2038.

The detail scope of works includes:

- Forecast the regional economic development trend;

- Analyze trends of the regional traffic growth;

- Understand the future development of road network in the adjoining area;

- Develop a traffic and revenue forecast model;

- Screen, collate and calibrate the basic data prior to adopting in the traffic forecast model; and

- Prepare an operation and maintenance costs estimate report.

3. RELEVANT INFORMATION AND DATA

The Study was carried out based on the following information：

- The historical GDP and planning data of Wuhan, Caidian, Dongxihu, Xiantao, Hubei, and the planned GDP targets for the above provinces and cities;
- The historical traffic statistics data of Wuhan, Caidian, Dongxihu, Xiantao, Hubei;
- The historical passenger and goods traffic data for each cross section of the Hancai Expressway;
- The historical toll revenue of the Hancai Expressway;
- The historical exit and entrance traffic data from the all toll stations for the Hancai Expressway;
- The historical OD traffic data for the Expressway obtained from the road network center of Hubei;
- Documents approving the establishment of toll stations along the Hancai Expressway;
- Documents approving the existing toll rates of Hubei Province ;
- The document concerning the toll charge by weight policy for goods vehicles for the Hancai Expressway;
- Hubei Provincial Highway Network Planning information; and
- Other relevant national Specifications.

4. HISTORICAL DATA

Table 1 to 4 show the historical traffic, revenue and operation and maintenance cost data of the Hancai Expressway.

Table 1 Historical Average Annual Daily Traffic and Growth Rates

Year	AADT (vehicles per day	Growth Rates
2015	10,335	—
2016	16,074	55.5%
2017	19,054	18.5%
2018	22,553	18.4%

Table 2 Historical Percentage of the Passenger Vehicles and the Goods Vehicles

Year	Goods Vehicles	Passenger Vehicles
2015	17%	83%
2016	14%	86%
2017	16%	84%
2018	21%	79%

Table 3 Historical Annual Revenue

Year	Revenue (million RMB)
2015	146
2016	195
2017	245
2018	304

Table 4 Historical Operation and Maintenance Cost

Year	Operation Cost (million RMB)	Maintenance Cost (million RMB)
2016	14.74	9.79
2017	18.13	8.04
2018	21.93	6.22

5. TRAFFIC AND REVENUE FORECASTING METHODOLOGY

The traffic and revenue forecast is based on conventional method widely adopted for the forecasting of traffic and toll revenue for expressway with a closed toll collection system and has been widely adopted to similar toll road traffic forecast in the PRC. The traffic and revenue forecasting methodology for the Study is given in the Figure 2.

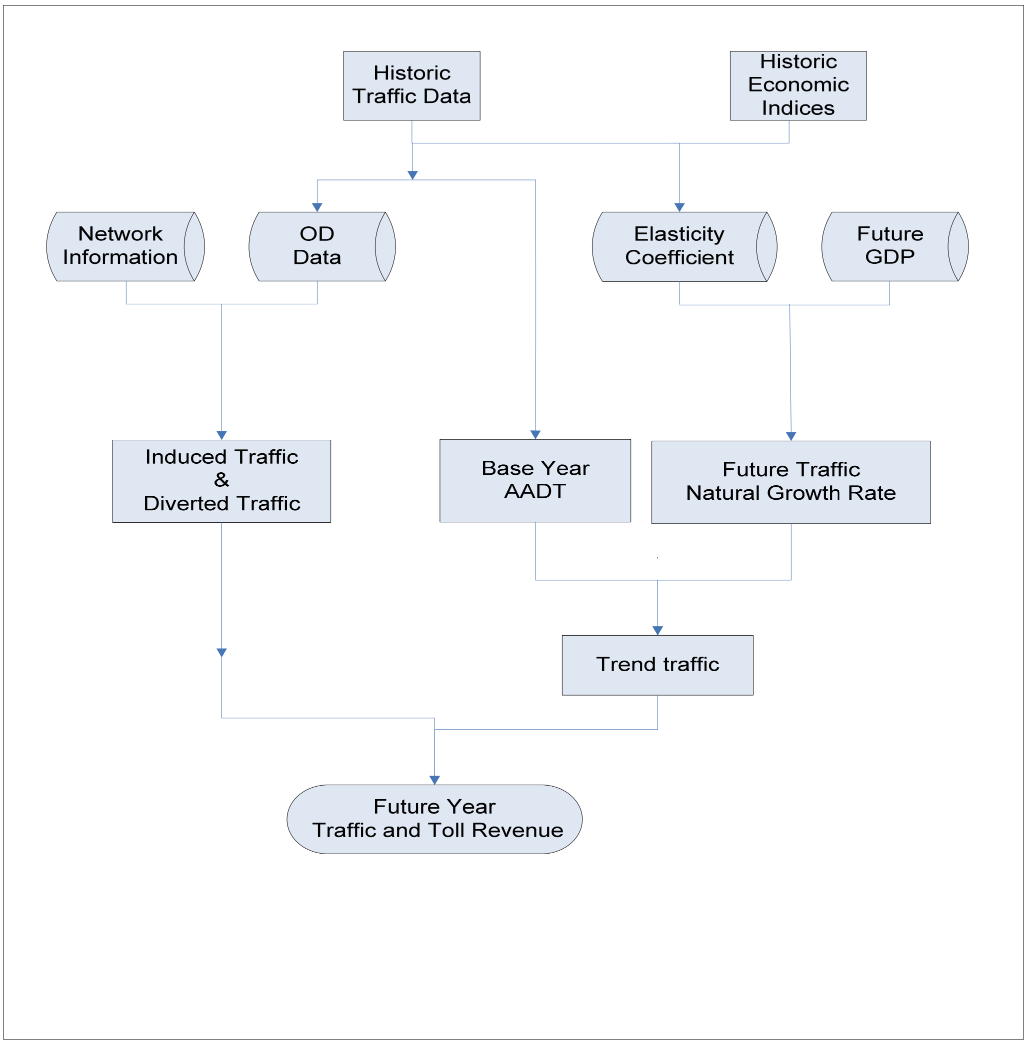


Figure 2 Traffic and Revenue Forecast Model

Notes:

- OD

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

- AADT

AADT is "Average Annual Daily Traffic" and when multiply by 365 will give the annual traffic volume.

According to the basic theory of traffic forecasting, the traffic flow of the Expressway in the future year will be influenced by the following three factors:

(1) Trend traffic growth

Trend traffic growth (i.e. natural growth traffic flow) is determined by the relationship between the social economic conditions and traffic conditions. The future traffic growth will increase due to the macroeconomic development in the future year.

(2) Induced traffic growth

Induced traffic growth is a consequence of new traffic generated as a result of:

A. Improved traffic conditions such as improved riding quality of an expressway or improved connectivity between traffic generator and the expressway;

B. Rezoning of the economic layout and industrial structure of the area by government where the Expressway is located. Such a change will lead to new economic structure and development projects and thus generates new traffic flow.

(3) Diverted traffic flow

Diverted traffic flow is a result of redistribution of traffic flow from the Expressway to a new expressway or to a widened expressway.

A. Upon opening of a new expressway some traffic will be diverted from the Expressway to the new expressway due to the availability alternate route selection.

B. When adjacent expressway is widened, traffic condition for this Expressway will deteriorate. As a consequence, traffic will be diverted from the expressway being widened to the Expressway.

1. Description of traffic forecasting process

(1) Prediction of trend traffic growth

Current year trend traffic flow = Traffic flow in the last year * (1+Trend growth factor)

Trend growth factor = Future year economic growth*Elasticity coefficient

Among them:

A. Future year economic growth: Future year economic growth of areas that will generate traffic to the Expressway is determined from an assessment of previous years economic development data, the 13th Five-Year Plan GDP and economic planning document from the government, expert opinions of economic development of PRC. The forecast has assumed a stable development of the existing major industries in the traffic influenced area.

B. Elasticity coefficient: Elasticity coefficient represents the correlation between traffic growth and economic development. The Consultants used historical social economic data and traffic data to calculate a historical elasticity coefficient of the passenger vehicles and goods vehicles growth with economic data. Based on historical elasticity coefficient, future elasticity coefficient of the passenger vehicles and goods vehicles will be predicted using a generally acceptable procedure for traffic forecast.

(2) Prediction of induced traffic flow

Current year Induced traffic flow = Traffic flow in the last year * Induced traffic coefficient

The Expressway will not induce traffic flow in the coming years.

(3) Prediction of diverted traffic flow

Current year diverted traffic flow = Traffic flow in the last year * Diverted traffic coefficient

- Diverted coefficient of new expressway

  A. The Consultants studied and analyzed all OD data of Hubei Expressway Network to obtain the quantity of each OD pair and its proportion in the total traffic flow. Based on an analysis of route effectiveness (primarily route length between the Expressway and new expressway), the Consultants will determine the percentage of diverted traffic coefficient.

  B. Planned expressway network for the future years is extracted from published document from the government.

- Diverted traffic coefficient of widening expressway

  A. The Consultants estimates traffic capacity for the Expressway during widening.

  B. The Consultants collects current traffic flow of the expressway to be widened and estimates the traffic flow during the period of widening after considering the natural growth assuming no reduction in traffic capacity.

  C. Based on the analysis of the above two aspects, the Consultants will calculate the traffic flow that may be diverted to the Expressway according to the actual traffic flow and traffic capacity during the widening period.

  D. The diverted traffic coefficient is the ratio of the quantity of diverted traffic and the traffic flow of the Expressway.

(4) Total traffic flow

Total traffic flow = Trend traffic flow + Induced traffic flow + Diverted traffic flow

(5) Toll revenue

Toll revenue = Traffic flow * Toll rate

2. Description of major assumptions

Following the principle of traffic forecasting, details of following major assumptions include:

(1) Assumption of traffic flow trend growth. (See Section 6 and 7 for details.)

(2) Assumption of diverted traffic. (See Section 6 and 7 for details.)

6. MAJOR ASSUMPTIONS

6.1 Factors affecting the result of the traffic and toll revenue forecast

6.1.1 The Consultants have based on published data from the national authority and the research results from international organizations to predict the future GDP growth factors. However, the GDP growth in future years would be affected by the trend of the international economic development, macro economical control policy in PRC, regional industrial policy and other unpredicted social, economic and natural events. Therefore, over the forecast period, there will be a risk that the actual GDP growth values will be higher or lower than the predicted values;

6.1.2 The Consultants have assumed that the current toll free policy for goods vehicle carrying agricultural products along the expressway network in China starting from 1 December 2010 would continue throughout the concession period of the Hancai Expressway. If there is any change in this policy, the toll revenue for the Hancai Expressway will increase or decrease according to the change in the regulations.

6.1.3 The State Council agreed to the implementation of toll free policy for small passenger cars in major holidays in July 2012. Passenger vehicles with less or equal to 7seats using all the toll highway including expressway and ordinary toll highway will not be charged any toll during the Spring Festival, Qingming, Labour Day, National Day holidays and other days during those four national holidays formulated by the State Council. This policy is implemented from the National Day of 2012. If there is adjustment of the policy during the concession period, the traffic and revenue will change accordingly.

6.1.4 The completion of new expressways adjacent to the Hancai Expressway will result in either positive or negative impact on traffic using the Hancai Expressway. Based on information collected during the due diligence site visit, the following changes will occur in the next few years:

- The section of the Wuhan Urban Circular Loop Expressway between Dasui and Hanshi (the northern section of Xiaogan); and

- Widening of Wuhan to Yichang Expressway.

If the completion dates of any of the above expressways is advanced or delayed, the traffic and toll revenue forecast will be affected.

6.1.5 In order to improve the economic and social development in Caidian District, the Caidian District People's Government and the Hancai Expressway management company, in consultation with the relevant government departments, have agreed that the Caidian District People's Government will pay for passenger traffic movement as follows:

- Passenger vehicles with less or equal to 7 seats entering the expressway from Caidian Toll Station of the Jinggangao Expressway and exiting the expressway from Qintai Toll Station of the Hancai Expressway or entering the expressway from Qintai Toll Station of the Hancai Expressway and exiting the expressway from Caidian Toll Station of the Jinggangao Expressway will not be charged any toll from the expressway operator. The Caidian District People's Government will pay directly to the expressway operator based on actual traffic volume.

- The effective date of this agreement started from 08 hour in 1 July 2016 to 24 hour in 30 June 2017.

In 2017, the small passenger traffic subsidy agreement was extended from 00 hour in 1 July 2017 to 24 hour of 30 June 2019. In June 2019, the new agreement has been audited by all parties concerned and awaits official approval. The subsidized toll program has continued to implement.

Due to the subsidized toll program, it is more convenient and cheaper for small passenger vehicles to travel between Caidian District and the Wuhan city center. Such a subsidized program has increased the small passenger vehicle traffic between this section of the Hancai Expressway and increased toll revenue for the Hancai Expressway.

In the prediction process, the subsidized program will continue to the end of the concession. If there is adjustment of the subsidized program during the concession period, the traffic and revenue will change accordingly.

6.2 Expressways under construction that will have an impact on the traffic and toll revenue of the Hancai Expressway

Table 5 Planned Completion Dates of New Expressways Adjacent to the Hancai Expressway that will have an Impact on the Traffic and Toll Revenue Forecast

Name of Expressway	**Planned Opening Date / Construction Period**
Section between Dasui and Hanshi (the northern section of Xiaogan) of Wuhan city circular loop expressway	At the end of 2020
Widening of Wuhan to Yichang Expressway	2020 to 2025

6.3 Road Capacity

Six level of service has been defined in the China Highway Engineering Technical Standard (JTGB01-2014). For each level of service, a different Road Traffic Capacity is defined which signifies the traffic volume that can travel on the road without delay as a consequence of road congestion.

A description of the six level of service is given in Table 6.

Table 6 Definition of Levels of Service for Highways

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

Examples of each service levels are shown in figure 3 to figure 8.

In this study, the Road Traffic Capacity of the Expressway was assumed at a level of service of 6 as defined in the China Highway Engineering Technical Standard (JTGB01-2014).

The Road Traffic Capacity calculation is estimated from a number of variables such as peak hour factors, directional factors and vehicle compositions. These factors are determined from traffic volume data from toll system, vehicle composition, road geometry, design speed and other relevant references, with full consideration to the future trends.

Figure 3 Level of Service 1

Figure 4 Level of Service 2

Figure 5 Level of Service 3

Figure 6 Level of Service 4

Figure 7 Level of Service 5

Figure 8 Level of Service 6

The Road Traffic Capacity is derived from the formula below.

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

Where:

C_D- Design Daily Road Traffic Capacity in Passenger Car Unit (PCU);

C_B- Basic traffic capacity per lane, 2,100 PCU/h;

V/C - Volume Capacity Ratio, 1.0 in this case;

N - Number of traffic lanes in one direction; 2/3 in this case;

F_W - Correction factor for the effect of road width and marginal strip width on traffic capacity, 1.0 in this case;

F_P - Correction factor for the effect on drivers on the traffic capacity, 1.0 in this case;

F_{hv} - Correction factor for the effect of heavy vehicles on traffic capacity, 0.95 in this case;

PHF - Peak Hour Factor, 8.0% in this case; and

F_D - Directional Flow Factor, 0.51 in this case.

For a level of service of 6 the road capacity is calculated as 97,000 PCU/Day (between the Hongmiao interchange and the Zhuru interchange, dual 2-lane expressway) and 146,000 PCU/Day (between the Qintai and the Hongmiao interchange, dual 3-lane expressway).

The traffic forecast estimates the actual number of vehicles using the Hancai Expressway. Therefore, it is necessary to convert the vehicles per day into PCU when comparing the forecast traffic volume with the CPU calculated from the Road Traffic Capacity manual. The Technical Standard provides a conversion factor for each type of vehicle into a Passenger Car Unit (PCU). For example, a 4-seats passenger car (passenger vehicle class 1 in table 7) is equivalent to 1.0 PCU; a 20-seats passenger car (passenger vehicle class 3 in table 7) is equivalent to 1.5 PCU; a goods vehicle which is allowed to carry goods less than 2 tons (goods vehicle class 1 in table 7) is equivalent to 1.0 PCU; a goods vehicle which is allowed to carry goods more than 20 tons (goods vehicle class 5 in table 7) is equivalent to 4.0 PCU.

Using the vehicle composition at different section of the Hancai Expressway during different years of operation, the estimated Road Traffic Capacity will be 64,000 vehicles per day (dual 2-lane expressway) or 130,000 vehicles per day (dual 3-lane expressway) approximately with a variance of +/- 5%. When a section of the expressway reaches the Road Traffic Capacity of Class 6 standard, traffic will continue to grow slowly but the duration of peak hours will be longer.

6.4 Toll Rates

Toll Rates for Different Vehicle Classification

Table 7 Toll Rate for Different Vehicle Classification

Vehicle class		Classification Standard	Toll Rate (RMB Yuan/km)
Passenger Vehicles (PV)	1	≤7 seats	0.76
	2	8 to 19 seats	1.14
	3	20 to 39 seats	1.52
	4	≥40 seats	1.90
Goods Vehicles (GV)	1	≤2 tons	0.76
	2	>2 tons, ≤5 tons	1.14
	3	>5 tons, ≤10 tons	1.52
	4	>10 tons, ≤15 tons; 20 foot container	1.90
	5	>15 tons; 40 foot container	2.28

Weight Based Toll Rates for Goods Vehicles

Table 8 Weight Based Toll Rates for Goods Vehicles

Normal Loading Vehicles	Basic Toll Rate	RMB 0.12 /ton per km
	Normal Loading Part ≤ 20 tons	Calculated by using basic toll rate
	20 tons <Normal Loading Part ≤ 40 tons	The part less than and equal to 20 tons is calculated by using the basic toll rate; the part that is over 20 tons is calculated by linear declines from the basic toll rate to 50% of the basic toll rate.
	Normal Loading Part > 40 tons	The part less than and equal to 20 tons is calculated by using the basic toll rate; the part that is over 20 tons and less than (or equals to) 40 tons is calculated by linear declines from the basic toll rate to 50% of the basic toll rate; the part that is more than 40 tons is calculated at the 50% of the basic toll rate.
Overweight Vehicles	Overweight Rate ≤ 30%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate.
	30%<Overweight Rate ≤100%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate; the other part is calculated by linear increases from 3 to 6 times of the basic toll rate.
	Overweight Rate >100%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate; the overweight part from 30% to 100% (100% inclusive) is calculated by linear increases from 3 to 6 times of the basic toll rate; the other part is calculated by using 6 times of the basic toll rate.

Note:

Normal loading of a goods vehicle is the sum of net weight of an empty goods vehicle plus the allowable weight of goods to be carried. Depending on the number of axles and type of goods vehicle, the net weight and allowable weight of goods to be carried is specified in the vehicle registration. When a goods vehicle enters into a toll gate, it will be weighted automatically by a weight bridge and the number of axles will also be determined automatically. For example, a three axle vehicle's normal loading is 25 tons. If the weight recorded by the weight bridge is below 25 tons, it will only be charged at the normal loading rate. If the weight recorded exceeds 25 tons, the charge will be the sum of the normal loading rate plus the overweight rate calculated according to the percentage of overweight of the goods vehicle.

Normally all Goods Vehicles are charged according to the "weight based toll rates" standard as described in Table 8. The toll rates for Goods Vehicles in Table 7 are only applicable in emergency when the weighting equipment in toll station is out of service.

For the purpose of calculating toll revenue from Goods Vehicles in the revenue forecast model, "weight based toll rates" has been used for all the revenue forecasting cases.

7. SUMMARY OF TRAFFIC FORECAST PROJECTION

The base year for the traffic and revenue forecast is 2019. Tables 9 to 11 show the result of the traffic and toll revenue forecast:

Table 9 Average Annual Daily Traffic for the Hancai Expressway (vehicles per day)

Year	Optimistic	Conservative
2019	21,340	20,045
2020	23,402	21,863
2021	28,060	25,741
2022	30,404	27,755
2023	32,756	29,762
2024	35,214	31,849
2025	37,776	34,012
2026	36,458	33,055
2027	38,953	35,161
2028	41,532	37,327
2029	44,189	39,546
2030	46,920	41,815
2031	49,718	44,127
2032	52,576	46,477
2033	55,490	48,859
2034	58,450	51,267
2035	60,308	53,695
2036	62,127	56,136
2037	63,958	58,568
2038	65,794	60,035

Table 10 Annual Average Traffic Growth Rates

Year	**Optimistic**	**Conservative**
2019	—	—
2020	9.7%	9.1%
2021	19.9%	17.7%
2022	8.4%	7.8%
2023	7.7%	7.2%
2024	7.5%	7.0%
2025	7.3%	6.8%
2026	-3.5%	-2.8%
2027	6.8%	6.4%
2028	6.6%	6.2%
2029	6.4%	5.9%
2030	6.2%	5.7%
2031	6.0%	5.5%
2032	5.8%	5.3%
2033	5.5%	5.1%
2034	5.3%	4.9%
2035	3.2%	4.7%
2036	3.0%	4.5%
2037	2.9%	4.3%
2038	2.9%	2.5%

Note:

1. For the Optimistic Traffic Forecast Case, the section between Hongmiao Interchange and Xintianpu Interchange will reach its road traffic capacity in 2035 and other sections will not reach their capacity during the operation period.

2. For the Conservative Traffic Forecast Case, the section between Hongmiao Interchange and Xintianpu Interchange will reach its road traffic capacity in 2037 and other sections will not reach their capacity during the operation period.

Table 11 Annual Toll Revenue (in million RMB)

Year	**Optimistic**	**Conservative**
2019	285	268
2020	311	291
2021	374	343
2022	404	368
2023	433	394
2024	464	420
2025	496	447
2026	472	429
2027	503	455
2028	535	482
2029	567	509
2030	601	537
2031	636	566
2032	671	595
2033	706	624
2034	743	654
2035	765	684
2036	788	714
2037	810	744
2038	545	499

Explanation on forecast result:

A. Major factor affecting the forecast:

Other than traffic growth due to GDP growth (trend growth), a combination of different factors has affected the traffic growth rate from 2019 to 2026. The main factors include:

(i) From 30 July 2017 to 14 December 2018, major maintenance would be carried out at the Junshan Yangtze River Bridge at Jinggangao Expressway and traffic management measures have been implemented. During the period of the maintenance, either the northbound or the southbound traffic lane will be closed leaving half of the bridge for bi-directional traffic. Goods vehicles will not be allowed to travel on the bridge and goods vehicle movement would be diverted to other adjacent expressways. Hancai Expressway has benefited from such a traffic management scheme. On 14 December 2018, the maintenance work at the Junshan Yangtze River Bridge at Jinggangao Expressway is completed and the bridge has been opened to all traffic. Therefore, there will be a corresponding reduction of traffic previously diverted to the Hancai Expressway in 2019.

(ii) The opening of the section between Dasui and Hanshi (the northern section of Xiaogan) of the Wuhan City Circular Loop Expressway at the end of 2020 will divert some traffic along the Hancai Expressway; In 2021, the widening of Wuhan to Yichang Expressway will commence and some traffic will be transferred to Hancai Expressway, which will have a positive impact on Hancai Expressway. Combined with the above factors, the growth rate of traffic volume in Hancai Expressway in 2021 will be high.

(iii) In 2026, the widening of Wuhan to Yichang Expressway will be completed and vehicles originally transferred to Hancai Expressway will return to Wuhan to Yichang Expressway which will result in reduction of traffic.

B. The concession period will expire on 27 August 2038 and therefore, there are only 239 days for the revenue forecast.

8. FORECAST FOR OPERATION AND MAINTENANCE COSTS

The Consultants have based on the following information to carry out an Operating and Maintenance Costs Forecast of the Hancai Expressway from 2019 to 2038.

1) Historical operation and maintenance costs;

2) Local unit costs for maintenance works;

3) Current maintenance quantity of Hancai Expressway;

4) Visual inspection of the quality of pavement, bridges, tunnels, slopes and associated highway facility during the site visit conducted from 29 to 31 May 2019; and

5) In-house database of the Consultants collected during the past 10 years of expressway audit.

Operation costs include labor costs and administration costs. Labor costs include salary, bonus and staff welfare. Administration costs cover the cost to maintain smooth operation of the Expressway Company including management fee, utilities for the expressway operation, office expenses, business travel expenses, accommodation rental and utilities expenses, entertainment, communication expenses, property management fee, vehicle operating expenses, Consultant fee, toll ticket receipt printing expenses, traffic police and highway administrator expenses, administrative cost for the road network center, tax for the use of land and buildings used by the Expressway Company, etc.

The Consultants reviewed the historical operation costs data of the Expressway Company and complemented by local information to determine the future management structure as well as the future administration and staff costs in order to forecast the future operation costs.

Maintenance costs can be divided into routine maintenance costs and special maintenance costs. Routine maintenance will be conducted regularly and targets to maintain the Expressway at a suitable operating condition and will also delay the appearance of major defects. Special maintenance refers to construction activity such as reconstruction of road pavement, repair of bridges and tunnels, replacement of electrical and mechanical facilities in order to meet regulatory requirement of an operating expressway. i

In China, the Ministry of Transportation and Communication will conduct a national inspection on all expressways every five years. Therefore special maintenance works have been planned for those years when the national inspection will be conducted to ensure that the Expressway will pass the national inspection. In order to ensure a smooth hand-over inspection, a budget has been provided in 2038 for special maintenance work. Major pavement maintenance has been planned in 2025 and 2026 to recover the performance of road pavement to the original design standard.

The Consultants adopted the preventative maintenance principle in the costs forecast in order to minimize the overall maintenance costs and to smooth out the annual maintenance costs.

The Operation and Maintenance Costs of the Expressway from 2019 to 2038 is given in Table 12.

Table 12 O&M Cost of Hancai Expressway (Unit : RMB million)

Year	O&M Cost	Year	O&M Cost
2019	92.7	2029	36.2
2020	32.3	2030	53.4
2021	28.7	2031	38.2
2022	28.7	2032	39.3
2023	29.4	2033	40.4
2024	31.0	2034	42.6
2025	103.5	2035	76.6
2026	100.2	2036	45.1
2027	33.4	2037	46.4
2028	34.3	2038	77.0

Note:

1) In 2019 a budget of RMB 30.88 million on ETC equipment upgrade and a budget of RMB 35 million on pavement maintenance before the national military sports event to be held in Wuhan has been provided;

2) The O&M Costs for 2025, 2030 and 2035 have allowed for the works required to meet the National Inspection cycle,

3) A budget for special maintenance work in 2038 for hand-over inspection;

4) A major pavement maintenance has been planned for 2025 and 2026.

9. CONCLUSIONS

The Consultants conclude that the Traffic and Toll Revenue Forecast and the Operation and Maintenance Costs Estimate Report prepared from the above methodology and assumptions are in line with common professional practice. The forecast results can be used by the Company as a reference document for the valuation of the Hancai Expressway as long as the risk factors are fully considered. Full details of the Study and data are presented in the "Hubei Province Hancai Expressway Traffic Study Report".

Yours sincerely,

Albert Cheung Chung Hoi
FHKIHT, FIHT, FHKIE, MICE
Managing Director
Jie Cheng Consultants Limited

Albert Cheung is a Fellow of the Hong Kong Institution of Engineers, Hong Kong Institution of Highways and Transportation and Institution of Highways and Transportation, UK. He is also a Member of the Institution of Civil Engineers, UK. He is the Managing Director of Jie Cheng Consultants Ltd and has over 44 years of experience in conducting investigation, feasibility study, design, construction supervision and technical audit of multi-disciplinary infra-structures projects in Mainland China and Hong Kong. He has specialized in conducting due diligence study for toll highways since 1990 and has been the Project Director for a traffic consultant company assisting infrastructure company IPO listing in Hong Kong. Traffic volume and toll revenue projections project experience in Hubei Province included : Wuhan to Jingmen Expressway (2012, acted for a private investor), Wuhan to Xiaogan Expressway (2009, acted for a Hong Kong listed company), Huangshi to Huangmei Expressway (2007, acted for a China listed company), Jingzhou to Dongyuemiao Expressway (2010, acted for a China state-owned enterprise), Suiyuenan Expressway (2014, acted for the Company) and Jingmen to Yichang Expressway (2019, acted for a Hong Kong listed company).

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

杰 誠 顧 問 有 限 公 司
Jie Cheng Consultants Ltd.

Room 602,
Chung Wai Commercial Building,
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Hong Kong

17 October 2019

The Directors
Yuexiu Transport Infrastructure Limited

Dear Sirs,

TRAFFIC STUDY FOR YUEXIU TRANSPORT INFRASTRUCTURE LIMITED THE HAN'E EXPRESSWAY, HUBEI PROVINCE EXECUTIVE SUMMARY

1. INTRODUCTION

In accordance with your instruction to Jie Cheng Consultants Limited (hereinafter referred to the "**Consultants**") to conduct a Traffic and Toll Revenue Forecast and an Operation and Maintenance Costs Estimate Study (hereinafter referred to the "**Study**") for the tolled Han'e Expressway in Hubei Province (hereinafter referred to "**the Expressway**" or "**Han'e Expressway**" (漢鄂高速)), the People's Republic of China for the Yuexiu Transport Infrastructure Limited (hereinafter referred to the "**Company**") for the purpose of valuation of the Han'e Expressway and the inclusion in the Company's circular of even date. This report summarizes the results and findings based on the technical analysis conducted. The Consultants confirm that an independent traffic and toll revenue forecast and an operation and maintenance costs estimate have been prepared for the Han'e Expressway.

Han'e Expressway is one of the seven fast urban exit roads planned by Wuhan. It is an important eastern expressway corridor connecting Wuhan (武漢)，Ezhou (鄂州), Huanggang (黃岡) and Huangshi (黃石). It is also an important link connecting Hubei, Henan and Jiangxi Provinces.

Han'e Expressway starts in Xinqiao (新橋) of Zuoling Town (左嶺鎮) at Wuhan, connected with Heping to Zuoling expressway(和左高速), ends at the Huahu interchange(花湖互通) (located at Ezhou) of the south connecting road leading to the Edong Yangtze River Bridge of the Daguang Expressway(大廣高速). Han'e Expressway is connected to Daguangnan Expressway and Huyu expressway(滬渝高速). The Han'e Expressway is a dual 2-lane expressway with a design speed of 100 km/h and the toll length is 54.752 km. The cost per km of the Han'e Expressway is RMB 65.30 million. Five toll stations were located at Gedian (葛店), Huapu (華蒲), Ezhouxi (鄂州西), Ezhouzhong (鄂州中) and Ezhoudong (鄂州東). One service area was located at Huanglong (黃龍).

The Han'e Expressway was put into operation in 31 December 2012. The concession period of the Expressway was 29.5 years (from 31 December 2012 to 30 June 2042).

The location of the Han'e Expressway is given in Figure 1.

Figure 1 Location of the Han'e Expressway

In accordance with your instruction, the Consultants have conducted site visit from 29 May 2019 to 31 May 2019 and collected information including the road network, industry layout, traffic and toll revenue data and other relevant data. In utilizing the information provided by the Han'e Expressway Management Company, the Consultants have sought confirmation from the management of the Han'e Expressway that no material factors have been omitted. Based on their analysis on the information collected during and after the site visit, the Consultants have completed the traffic and toll revenue forecast and the forecast of the operation and maintenance costs report during the concession period from 2019 to 30 June 2042.

The Consultants consider that they have been provided with sufficient information to reach an informed view of the Study. The Study is completed using reasonable assumptions and a widely accepted methodology with an independent, scientific, professional, diligent and prudent approach. The result of the Study has been reviewed and endorsed by the Consultants' senior staff.

2. OBJECTIVE AND SCOPE OF SERVICES

According to the Consultancy Agreement between the Company and the Consultants, the Consultants are required to:

- Carry out a traffic and toll revenue forecast for the Han'e Expressway from 1 January 2019 to 30 June 2042; and

- Estimate the operation and maintenance costs for the Han'e Expressway from 1 January 2019 to 30 June 2042.

The detail scope of works includes:

- Forecast the regional economic development trend;

- Analyze trends of the regional traffic growth;

- Understand the future development of road network in the adjoining area;

- Develop a traffic and revenue forecast model;

- Screen, collate and calibrate the basic data prior to adopting in the traffic forecast model; and

- Prepare an operation and maintenance costs estimate report.

3. RELEVANT INFORMATION AND DATA

The Study was carried out based on the following information：

- The historical GDP and planning data of Wuhan, Hongshan District, Ezhou, Huangshi, Huanggang, Hubei province and the planned GDP targets for the above province and cities;

- The historical traffic statistics data of Wuhan, Hongshan District, Ezhou, Huangshi, Huanggang and Hubei Province;

- The historical passenger and goods traffic data for each cross section of the Han'e Expressway;

- The historical toll revenue of the Han'e Expressway;

- The historical exit and entrance traffic data from all toll stations of the Han'e Expressway;
- The historical OD traffic data for the Han'e Expressway obtained from the road network center of Hubei;
- Documents approving the establishment of toll stations along the Han'e Expressway;
- Documents approving the existing toll rates of Hubei Province;
- The document concerning the toll charge by weight policy for trucks for the Han'e Expressway;
- Hubei Provincial Highway Network Planning information; and
- Other relevant national Specifications.

4. HISTORICAL DATA

Table 1 to 4 show the historical traffic, revenue and operation and maintenance cost data of the Han'e Expressway.

Table 1 Historical Average Annual Daily Traffic and Growth Rates

Year	AADT (vehicles per day)	Growth Rates
2015	10,432	—
2016	13,398	28%
2017	14,852	11%
2018	15,646	5%

Table 2 Historical Percentage of the Passenger Vehicles and the Trucks

Year	**Trucks**	**Passenger Vehicles**
2015	22%	78%
2016	23%	77%
2017	25%	75%
2018	27%	73%

Table 3 Historical Annual Revenue

Year	**Revenue (million RMB)**
2015	188
2016	167
2017	196
2018	211

Table 4 Historical Operation and Maintenance Cost

Year	**Operation Cost (million RMB)**	**Maintenance Cost (million RMB)**
2016	23.53	7.08
2017	22.77	7.03
2018	21.97	14.80

5. TRAFFIC AND REVENUE FORECASTING METHODOLOGY

The traffic and revenue forecast is based on conventional method widely adopted for the forecasting of traffic and toll revenue for expressway with a closed toll collection system and has been widely adopted to similar toll road traffic forecast in the PRC. The traffic and revenue forecasting methodology for the Study is given in the Figure 2.

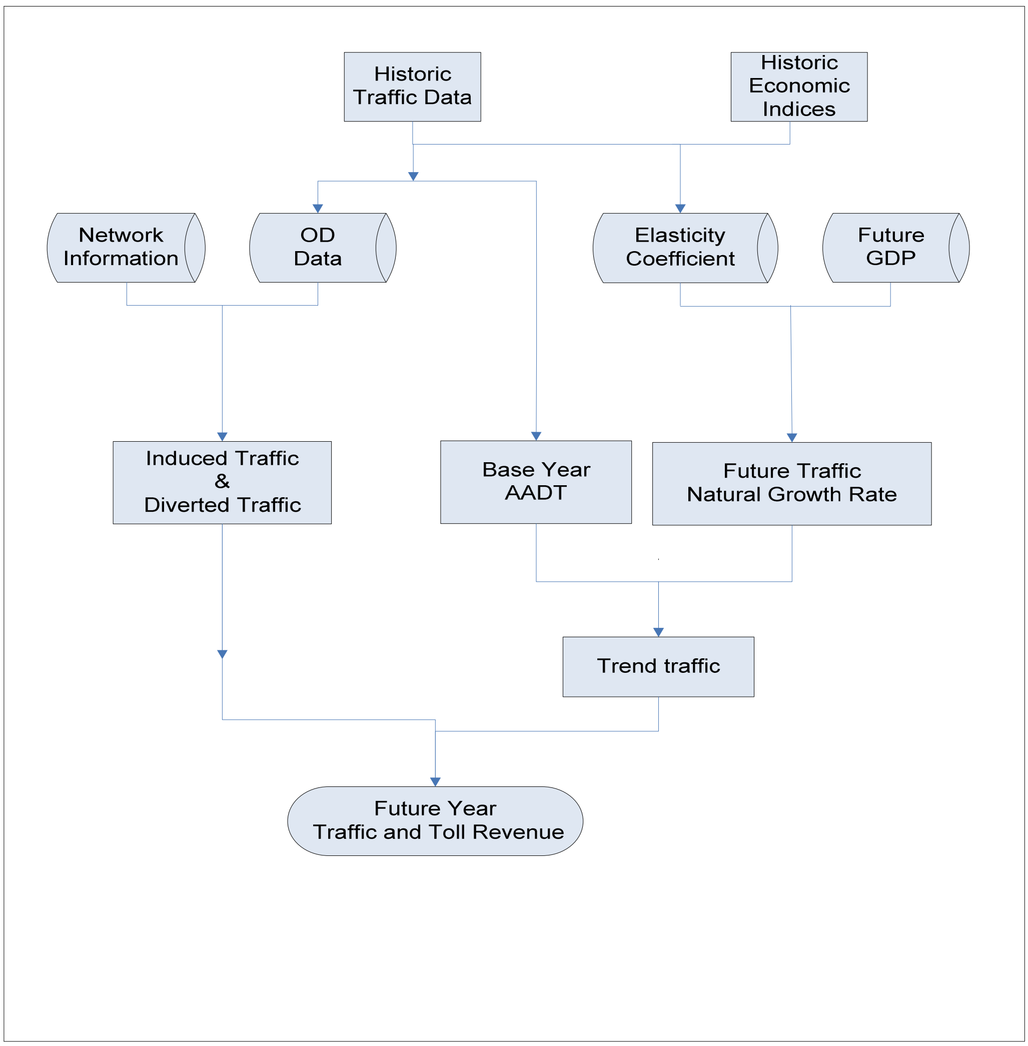

Figure 2 Traffic and Revenue Forecast Model

Notes:

- OD

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

- AADT

AADT is "Average Annual Daily Traffic" and when multiply by 365 will give the annual traffic volume.

According to the basic theory of traffic forecasting, the traffic flow of the Expressway in the future year will be influenced by the following three factors:

(1) Trend traffic growth

Trend traffic growth (i.e. natural growth traffic flow) is determined by the relationship between the social economic conditions and traffic conditions. The future traffic growth will increase due to the macroeconomic development in the future year.

(2) Induced traffic growth

Induced traffic growth is a consequence of new traffic generated as a result of:

A. Improved traffic conditions such as improved riding quality of an expressway or improved connectivity between traffic generator and the expressway;

B. Rezoning of the economic layout and industrial structure of the area by government where the Expressway is located. Such a change will lead to new economic structure and development projects and thus generates new traffic flow.

(3) Diverted traffic flow

Diverted traffic flow is a result of redistribution of traffic flow from the Expressway to a new expressway or to a widened expressway.

A. Upon opening of a new expressway some traffic will be diverted from the Expressway to the new expressway due to the availability alternate route selection.

B. When adjacent expressway is widened, traffic condition for this Expressway will deteriorate. As a consequence, traffic will be diverted from the expressway being widened to the Expressway.

1. Description of traffic forecasting process

(1) Prediction of trend traffic growth

Current year trend traffic flow = Traffic flow in the last year * (1+Trend growth factor)

Trend growth factor = Future year economic growth*Elasticity coefficient

Among them:

A. Future year economic growth: Future year economic growth of areas that will generate traffic to the Expressway is determined from an assessment of previous years economic development data, the 13th Five-Year Plan GDP and economic planning document from the government, expert opinions of economic development of PRC. The forecast has assumed a stable development of the existing major industries in the traffic influenced area.

B. Elasticity coefficient: Elasticity coefficient represents the correlation between traffic growth and economic development. The Consultants used historical social economic data and traffic data to calculate a historical elasticity coefficient of the passenger vehicles and goods vehicles growth with economic data. Based on historical elasticity coefficient, future elasticity coefficient of the passenger vehicles and goods vehicles will be predicted using a generally acceptable procedure for traffic forecast.

(2) Prediction of induced traffic flow

Current year Induced traffic flow = Traffic flow in the last year*Induced traffic coefficient

Induced traffic flow for the Expressways is mainly a consequence of the development of the Shunfeng E'zhou Airport. Its positive impact starts from construction of the airport and extends to operation as well as new industries that will be developed in the airport zone.

The determination of induced traffic coefficient is based on the research and analysis of a series of related published data issued by government. Details are as follows:

Shunfeng E'zhou Airport is located adjacent to the Expressway. Figure 1 shows the location of Shunfeng E'zhou airport. It is expected that the traffic generated during the construction and operation of the airport and the development of the associated industries will produce exchanges with other cities through the Expressway.

During the estimation of induced traffic, the Consultants has made reference to the following governmental materials which were available to the public:

A. It is estimated that the cargo throughput of Shunfeng E'zhou Airport in 2021 will exceed 1 million tons and will become the fourth airport in the world specialized in cargo transport and Asia's first cargo airport. It is estimated that in 2025, the airport will achieve an annual cargo throughput of 2.45 million tons and 1 million in terms of passengers. It is estimated that in 2030, the airport will reach an annual cargo throughput of 3.3 million tons and 1.5 million passengers.(http://www.cjrbapp.cjn.cn/toutiao/p/29350.html)

B. Hubei provincial government has prepared a logistic center development plan with Shunfeng E'zhou Airport at the heart of such plan. The Hubei provincial government plans to strongly develop airport related industries within the "Wu E Huang Huang" (Wuhan, E'zhou, Huangshi, Huanggang) region, concentrate key industrial elements such as people, goods, funds and information in order to establish group of advanced industries highly related to air traffic logistic business, build an international aviation city district, create new growth drivers and extend to driving the upgrade in regional economic and social development and industrial restructuring. (http://www.huangshi.gov.cn/xwdt/hsyw/201712/t20171221_250660.html)

C. In the official news of the E'zhou municipal government, the Shunfeng E'zhou Airport is expected to generate 200,000 new jobs, annual tax revenue of RMB20 billion and an annual GDP of RMB200 billion. (http://www.ezhou.gov.cn/zt/wqhg/lqxz/201702/t20170215_173945.html) Compared with the current GDP of E'zhou of about RMB100 billions, the Shunfeng E'zhou Airport will bring about 200% annual economic growth in the future.

The estimation of the induced traffic resulting from the construction and operation of Shunfeng E'zhou Airport includes the following three aspects:

- From 2021 and thereafter, some of the cargo throughput will be transported via the Expressway to and from the Shunfeng E'zhou Airport after its operation and will therefore generate new traffic for the Expressway. The Consultants has adopted the throughput projection from the reference referred to in A above and estimated that the proportion of goods that will be transported by trucks and then calculated the additional trucks required to carry such goods based on an assumed average tonnage per vehicle.

- During the last two years of the airport construction from 2020 to 2021, a large quantity of materials and equipment will be transported into the airport. During the same period, preparatory work for the commissioning of the airport will also begin. Therefore, it will generate a large quantity of passenger and goods traffic to the Expressway. The induced traffic coefficient is determined based on the experience of the Consultants.

- From 2021 to 2027, the airport related industries around the Shunfeng E'zhou Airport will be implemented gradually according to government's development plan and will drive the rapid growth of social economic development which, as a result, will generate new traffic for the Expressway. The estimation of the induced traffic coefficient was determined on the basis of the local government's macroeconomic planning (see references B and C above, in particular the economic development plan of the E'zhou municipal government). In addition, the Consultants has also made reference to the impact on social and industrial development of Memphis where the FedEx's airport is located, Luis Weil where the UPS headquarters are located, Guangzhou Baiyun Airport and Shenzhen Baoan Airport in estimating the induced traffic coefficient.

(3) Prediction of diverted traffic flow

Current year diverted traffic flow = Traffic flow in the last year * Diverted traffic coefficient

- Diverted coefficient of new expressway

  A. The Consultants studied and analyzed all OD data of Hubei Expressway Network to obtain the quantity of each OD pair and its proportion in the total traffic flow. Based on an analysis of route effectiveness (primarily route length between the Expressway and new expressway), the Consultants will determine the percentage of diverted traffic coefficient.

B. Planned expressway network for the future years is extracted from published document from the government.

- Diverted traffic coefficient of widening expressway

A. The Consultants estimates traffic capacity for the Expressway during widening.

B. The Consultants collects current traffic flow of the expressway to be widened and estimates the traffic flow during the period of widening after considering the natural growth assuming no reduction in traffic capacity.

C. Based on the analysis of the above two aspects, the Consultants will calculate the traffic flow that may be diverted to the Expressway according to the actual traffic flow and traffic capacity during the widening period.

D. The diverted traffic coefficient is the ratio of the quantity of diverted traffic and the traffic flow of the Expressway.

(4) Total traffic flow

Total traffic flow = Trend traffic flow + Induced traffic flow + Diverted traffic flow

(5) Toll revenue

Toll revenue = Traffic flow * Toll rate

2. Description of major assumptions

Following the principle of traffic forecasting, details of following major assumptions include:

(1) Assumption of traffic flow trend growth. (See Section 6 and 7 for details.)

(2) Assumption of induced traffic. (See Section 6 and 7 for details.)

(3) Assumption of diverted traffic. (See Section 6 and 7 for details.)

6. MAJOR ASSUMPTIONS

6.1 Factors affecting the result of the traffic and toll revenue forecast

6.1.1 The Consultants have based on published data from the national authority and the research results from international organizations to predict the future GDP growth rates. However, the GDP growth rates in future years would be affected by the trend of the international economic development, macro economical control policy in PRC, regional industrial policy and other unpredicted social, economic and natural events. Therefore, over the forecast period, there will be a risk that the actual GDP growth rates will be higher or lower than the predicted values;

6.1.2 The Consultants have assumed that the current toll free policy for truck carrying agricultural products along the Expressway which started from 1 December 2010 would continue throughout the concession period of the Han'e Expressway. If there is any change in this policy, the toll revenue for the Han'e Expressway will increase or decrease according to the change in the regulations.

6.1.3 The State Council agreed to the implementation of toll free policy for small passenger cars in major holidays in July 2012. Passenger vehicles with less or equal to 7seats using all the toll highway, including expressway and ordinary toll highway, will not be charged any toll during the Spring Festival, Qingming, Labour Day, National Day holidays and other days during those four national holidays formulated by the State Council. This policy is implemented from the National Day of 2012. If there is adjustment of the policy during the concession period, the traffic and revenue will change accordingly.

6.1.4 The completion of new expressways adjacent to the Han'e Expressway will result in either positive or negative impact on traffic using the Han'e Expressway. Based on information collected during the due diligence site visit, the following changes will occur in the next few years:

- Widening of Wuhan to Huangshi Expressway;
- Hubei section of Wuhan to Yangxin Expressway;
- Jiangxi section of Wuhan to Yangxin Expressway.

If the completion dates of any of the above expressways is advanced or delayed, the traffic and toll revenue forecast will be affected.

6.1.5 According to the plan, SF Express (順豐速遞) has started the construction of cargo airport in Ezhou from the end of 2017 (hereinafter referred to as "SF Ezhou airport"(順豐鄂州機場)) and is planned for completion by the end of 2020 and will start operation in September 2021. The SF Ezhou airport will be the world's fourth cargo airport and Asia's first air cargo distribution center. The construction of the SF Ezhou airport will greatly promote the industrial development and economy in Wuhan city influence zone. Based on to the planned SF Ezhou airport air cargo throughput, the Consultants estimate the future traffic flow accordingly. The additional traffic generated from the associated industrial development adjacent to the SF Ezhou airport is also estimated. If there is adjustment for the SF Ezhou airport construction schedule, scale of development, the surrounding industrial planning, etc., the forecast results may be different.

6.2 Expressways under construction that will have an impact on the traffic and toll revenue of the Han'e Expressway

Table 5 Planned Completion Dates of New Expressways Adjacent to the Han'e Expressway that will have an Impact on the Traffic and Toll Revenue Forecast

Name of Expressway	Planned Opening Time / Construction Period
Widening of Wuhan to Huangshi Expressway	2020 to 2025
Hubei section of Wuhan to Yangxin Expressway	At the end of 2022
Jiangxi section of Wuhan to Yangxin Expressway	At the end of 2023

6.3 Road Capacity

Six level of service has been defined in the China Highway Engineering Technical Standard (JTGB01-2014). For each level of service, a different Road Traffic Capacity is defined which signifies the traffic volume that can travel on the road without delay as a consequence of road congestion.

A description of the six level of service is given in Table 6.

Table 6 Definition of Levels of Service for Highways

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

Examples of each service levels are shown in figure 3 to figure 8.

In this study, the Road Traffic Capacity of the Expressway was assumed at a level of service of 6 as defined in the China Highway Engineering Technical Standard (JTGB01-2014).

The Road Traffic Capacity calculation is estimated from a number of variables such as peak hour factors, directional factors and vehicle compositions. These factors are determined from traffic volume data from toll system, vehicle composition, road geometry, design speed and other relevant references, with full consideration to the future trends.

Figure 3 Level of Service 1

Figure 4 Level of Service 2

Figure 5 Level of Service 3

Figure 6 Level of Service 4

Figure 7 Level of Service 5

Figure 8 Level of Service 6

The Road Traffic Capacity is derived from the formula below.

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

Where:

C_D- Design Daily Road Traffic Capacity in Passenger Car Unit (PCU);

C_B- Basic traffic capacity per lane, 2,100 PCU/h;

V/C - Volume Capacity Ratio, 1.0 in this case;

N - Number of traffic lanes in one direction; 2 in this case;

F_W - Correction factor for the effect of road width and marginal strip width on traffic capacity, 1.0 in this case;

F_P - Correction factor for the effect on drivers on the traffic capacity, 1.0 in this case;

F_{hv} - Correction factor for the effect of heavy vehicles on traffic capacity, 0.92 in this case;

PHF - Peak Hour Factor, 8.0% in this case; and

F_D - Directional Flow Factor, 0.51 in this case.

According to the calculation method of the above road capacity and the comprehension of the surrounding condition of the project by the consultant, the level of service 6 standard is adopted, and the capacity is calculated as follows: 95,000PCU/Day.

The traffic forecast estimates the number of vehicles using the Han'e Expressway. Therefore, it is necessary to convert the vehicles per day into PCU when estimating the Class of service of the Han'e Expressway and the Road Traffic Capacity during the concession period. Each vehicle will be converted into a standard Passenger Car Unit (PCU) in order to achieve the above objective. For example, a 4-seats passenger car (passenger vehicle class 1 in table 7) is equivalent to 1.0 PCU; a 20-seats passenger car (passenger vehicle class 3 in table 7) is equivalent to 1.5 PCU; a truck which is allowed to carry goods less than 2 tons (truck class 1 in table 7) is equivalent to 1.0 PCU; a truck which is allowed to carry goods more than 20 tons (truck class 5 in table 7) is equivalent to 4.0 PCU.

Using the vehicle composition at different section of the Han'e Expressway during different years of operation, the estimated Road Traffic Capacity will be 63,500 vehicles per day approximately with a variance of +/- 5%. When a section of the expressway reaches the Road Traffic Capacity of Class 6 standard, traffic will continue to grow slowly but the time of peak hours may be longer.

6.4 Toll Rates

Toll Rates for Different Vehicle Classification

Table 7 Toll Rate for Different Vehicle Classification

Vehicle class		Classification Standard	Toll Rate (RMB /km)
Passenger Vehicles	1	≤7 seats	0.4
	2	8 to 19 seats	0.6
	3	20 to 39 seats	0.8
	4	≥40 seats	1
Trucks	1	≤2 tons	0.4
	2	2 tons to 5 tons (5 tons inclusive)	0.6
	3	5 tons to 10 tons (10 tons inclusive)	0.8
	4	10 tons to 15 tons (15 tons inclusive); 20 foot container	1
	5	>15 tons; 40 foot container	1.2

Weight Based Toll Rates for Trucks

Table 8 Weight Based Toll Rates for Trucks

Normal Loading Vehicles	Basic Toll Rate	RMB 0.08 /ton per km
	Normal Loading Part≤20 tons	Calculated by using basic toll rate
	20 tons <Normal Loading Part≤40 tons	The part less than and equal to 20 tons is calculated by using the basic toll rate; the part that is over 20 tons is calculated by linear declines from the basic toll rate to 50% of the basic toll rate.
	Normal Loading Part>40 tons	The part less than and equal to 20 tons is calculated by using the basic toll rate; the part that is over 20 tons and less than (or equals to) 40 tons is calculated by linear declines from the basic toll rate to 50% of the basic toll rate; the part that is more than 40 tons is calculated at the 50% of the basic toll rate.
Overweight Vehicles	Overweight Rate≤30%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate.
	30%<Overweight Rate ≤100%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate; the other part is calculated by linear increases from 3 to 6 times of the basic toll rate.
	Overweight Rate >100%	The toll charge for the normal loading part and the overweight part below 30% (30% inclusive) is calculated by using the basic toll rate; the overweight part from 30% to 100% (100% inclusive) is calculated by linear increases from 3 to 6 times of the basic toll rate; the other part is calculated by using 6 times of the basic toll rate.

Note:

Normal loading of a truck is the sum of net weight of an empty truck plus the allowable weight of goods to be carried. Depending on the number of axles and type of truck, the net weight and allowable weight of goods to be carried is specified in the vehicle registration. When a truck enters into a toll gate, it will be weighted automatically by a weight bridge and the number of axles will also be determined automatically. For example, a three axle vehicle's normal loading is 25 tons. If the weight recorded by the weight bridge is below 25 tons, it will only be charged at the normal loading rate. If the weight recorded exceeds 25 tons, the charge will be the sum of the normal loading rate plus the overweight rate calculated according to the percentage of overweight of the truck.

Normally all Trucks are charged according to the "weight based toll rates" standard as described in Table 8. The toll rates for Trucks in Table 7 are only applicable in emergency when the weighting equipment in toll station is out of service.

For the purpose of calculating toll revenue from Trucks in the revenue forecast model, "weight based toll rates" has been used for all the revenue forecasting cases.

7. SUMMARY OF TRAFFIC FORECAST PROJECTION

The base year for the traffic and revenue forecast is 2019. Tables 9 to 11 show the result of the traffic and toll revenue forecast:

Table 9 Average Annual Daily Traffic for the Han'e Expressway (vehicles per day)

Year	Optimistic	Conservative
2019	15,522	14,643
2020	17,876	16,627
2021	26,800	23,675
2022	31,395	27,329
2023	35,729	30,502
2024	40,740	34,274
2025	44,840	38,481
2026	41,686	35,643
2027	44,850	38,761
2028	47,700	41,099
2029	50,405	43,178
2030	53,206	45,318
2031	55,611	47,515
2032	57,504	49,764
2033	59,019	52,061
2034	60,838	54,397
2035	62,431	56,514
2036	63,862	58,099
2037	65,239	59,629
2038	66,561	60,991
2039	67,822	62,307
2040	69,021	63,590
2041	70,154	64,556
2042	71,216	65,456

Table 10 Annual Average Traffic Growth Rates for the Han'e Expressway

Year	Optimistic	Conservative
2019	—	—
2020	15.2%	13.5%
2021	49.9%	42.4%
2022	17.1%	15.4%
2023	13.8%	11.6%
2024	14.0%	12.4%
2025	10.1%	12.3%
2026	-7.0%	-7.4%
2027	7.6%	8.7%
2028	6.4%	6.0%
2029	5.7%	5.1%
2030	5.6%	5.0%
2031	4.5%	4.8%
2032	3.4%	4.7%
2033	2.6%	4.6%
2034	3.1%	4.5%
2035	2.6%	3.9%
2036	2.3%	2.8%
2037	2.2%	2.6%
2038	2.0%	2.3%
2039	1.9%	2.2%
2040	1.8%	2.1%
2041	1.6%	1.5%
2042	1.5%	1.4%

Note:

- For the Optimistic Traffic Forecast Case, the section between Xinqiao and Gedian will reach its road traffic capacity in 2024; the section between Gedian and the intersection point of Huange and Han'e will reach its road traffic capacity in 2025; the section between the intersection point of Huange and Han'e and Huapu, the section between Huapu and Ezhouxi and the section Ezhouzhong and Ezhoudong will reach their road traffic capacity in 2031; the section between Ezhoudong and Daguangnan interchange will reach its road traffic capacity in 2032; the section between Ezhouxi and Ezhouzhong will reach its road traffic capacity in 2034.

- For the Conservative Traffic Forecast Case, the section between Xinqiao and Gedian will reach its road traffic capacity in 2027; the section between Gedian and the intersection point of Huange and Han'e will reach its road traffic capacity in 2028; the section between the intersection point of Huange and Han'e and Huapu will reach its road traffic capacity in 2034; the section between Huapu and Ezhouxi and the section between Ezhouzhong and Ezhoudong will reach their road traffic capacity in 2035; the section between Ezhoudong and Daguangnan interchange will reach its road traffic capacity in 2036; the section between Ezhouxi and Ezhouzhong will reach its road traffic capacity in 2039.

Table 11 Annual Toll Revenue for the Han'e Expressway (in million RMB)

Year	Optimistic	Conservative
2019	207	195
2020	235	218
2021	349	309
2022	408	356
2023	462	395
2024	523	442
2025	573	493
2026	530	455
2027	567	491
2028	599	518
2029	630	541
2030	661	565
2031	688	590
2032	707	616
2033	722	642
2034	741	668
2035	758	692
2036	772	709
2037	785	725
2038	799	739
2039	811	754
2040	823	767
2041	835	777
2042	419	390

Explanation on forecast result:

(A) Major factor affecting the forecast:

Other than traffic growth due to GDP growth, a combination of different factors has affected the traffic growth rate from 2019 to 2028. The main factors include:

(i) 2019

- From 30 July 2017 to 14 December 2018, major maintenance would be carried out at the Junshan Yangtze River Bridge at Jinggangao Expressway and traffic management measures have been implemented. During the period of the maintenance, either the northbound or the southbound traffic lane will be closed leaving half of the bridge for bi-directional traffic. Trucks will not be allowed to travel on the bridge and the truck movement would be diverted to other adjacent expressways. Han'e Expressway has benefited from such a traffic diversion scheme. On 14 December 2018, the maintenance work at the Junshan Yangtze River Bridge at Jinggangao Expressway has been completed and opened to all traffic. Therefore, traffic previously diverted to Han'e Expressway will return to Jinggangao Expressway in 2019. Resulting in a negative traffic impact.

(ii) 2020

- The construction of SF Ezhou airport is planned for completion by the end 2020. The transportation of construction material and equipment for the airport works will bring in a substantial among of airport works related traffic for the Han'e Expressway in 2020.

(iii) 2021 to 2028

- Before September 2021, the preparatory work for the commission of the new airport will bring in a substantial among of airport works related traffic for the Han'e Expressway in 2021.

- After September 2021, the gradual build up of air cargo and passenger will bring new traffic flow to the Han'e Expressway. At the same time, the industrial development such as logistics park, biomedical park, international e-commerce park, ecological agriculture farm, the electronic data center and other development adjacent to the SF Ezhou airport will be completed over a period of time which will generate additional traffic to the Han'e Expressway and therefore, there will be a continuous stream of additional traffic on the Han'e Expressway from 2021 onward.

(iv) 2021

- In 2021, the widening of Wuhan to Huangshi Expressway will commence and some traffic will be transferred to Han'e Expressway, which will have a positive impact on Han'e Expressway. There will be a substantial traffic growth on the Han'e Expressway in 2021.

(v) 2023

- Due to the opening of the Hubei section of Wuhan to Yangxin Expressway by the end of 2022, some traffic diversion will take place resulting in a lower traffic growth rate in 2023.

(vi) 2024

- Due to the planned opening of the Jiangxi section of Wuhan to Yangxin Expressway at the end of 2023, some traffic diversion will take place in 2024 resulting in a lower traffic growth rate in 2024.

(vii) 2026

- By the end of 2025, the widening of Wuhan to Huangshi Expressway will be completed and vehicles originally transferred to Han'e Expressway will return to Wuhan to Huangshi Expressway which will result in reduction of traffic.

(B) The concession period will expire on 30 June 2042 and therefore, there are only 181 days for the revenue forecast.

8. FORECAST FOR OPERATION AND MAINTENANCE COSTS

The Consultants have based on the following information to carry out an Operating and Maintenance Costs Forecast of the Han'e Expressway from 2019 to 2042.

1) Historical operation and maintenance costs;

2) Local unit costs for maintenance works;

3) Current maintenance quantity of Han'e Expressway;

4) Visual inspection of the quality of pavement, bridges, tunnels, slopes and associated highway facility during the site visit conducted from 29 to 31 May 2019; and

5) In-house database of the Consultants collected during the past 10 years of expressway audit.

Operation costs include labor costs and administration costs. Labor costs include salary, bonus and staff welfare. Administration costs cover the cost to maintain smooth operation of the Expressway Company including management fee, utilities for the expressway operation, office expenses, business travel expenses, accommodation rental and utilities expenses, entertainment, communication expenses, property management fee, vehicle operating expenses, Consultant fee, toll ticket receipt printing expenses, traffic police and highway administrator expenses, administrative cost for the road network center, tax for the use of land and buildings used by the Expressway Company, etc.

The Consultants reviewed the historical operation costs data of the Expressway Company and complemented by local information to determine the future management structure as well as the future administration and staff costs in order to forecast the future operation costs.

Maintenance costs can be divided into routine maintenance costs and special maintenance costs. Routine maintenance will be conducted regularly and targets to maintain the Expressway at a suitable operating condition and will also delay the appearance of major defects. Special maintenance refers to construction activity such as reconstruction of road pavement, repair of bridges and tunnels, replacement of electrical and mechanical facilities in order to meet regulatory requirement of an operating expressway.

In China, the Ministry of Transportation and Communication will conduct a national inspection on all expressways every five years. Therefore special maintenance works have been planned for those years when the national inspection will be conducted to ensure that the Expressway will pass the national inspection. In order to ensure a smooth hand-over inspection, a budget has been provided in 2042 for special maintenance work. Major pavement maintenance has been planned in 2027 and 2028 to recover the performance of road pavement to the original design standard.

The Consultants adopted the preventative maintenance principle in the costs forecast in order to minimize the overall maintenance costs and to smooth out the annual maintenance costs.

The Operation and Maintenance Costs of the Expressway from 2019 to 2042 is given in Table 12.

Table 12 O&M Cost of Han'e Expressway (Unit：RMB million)

Year	O&M Cost	Year	O&M Cost
2019	94.4	2031	47.8
2020	81.3	2032	48.5
2021	39.1	2033	49.2
2022	39.0	2034	51.6
2023	39.5	2035	112.8
2024	41.6	2036	53.2
2025	89.7	2037	54.0
2026	42.8	2038	54.8
2027	143.0	2039	57.4
2028	145.1	2040	126.2
2029	46.4	2041	59.2
2030	100.7	2042	103.9

Note:

1) A budget of RMB 55 million has been provided on ETC equipment upgrade in 2019;

2) The O&M Costs for 2020, 2025, 2030, 2035 and 2040 have allowed for the works required to meet the National Inspection cycle,

3) A budget has been provided for special maintenance work before the hand-over inspection in 2042;

4) A major pavement maintenance work has been planned in 2027 and 2028;

5) The O&M costs for 2042 have reflected the fact that the concession period ends on end of June.

9. CONCLUSIONS

The Consultants conclude that the Traffic and Toll Revenue Forecast and the Operation and Maintenance Costs Estimate Report prepared from the above methodology and assumptions are in line with common professional practice. The forecast results can be used by the Company as a reference document for the valuation of the Han'e Expressway as long as the risk factors are fully considered. Full details of the Study and data are presented in the "Hubei Province Han'e Expressway Traffic Study Report".

Yours sincerely,

Albert Cheung Chung Hoi
FHKIHT, FIHT, FHKIE, MICE
Managing Director
Jie Cheng Consultants Limited

Albert Cheung is a Fellow of the Hong Kong Institution of Engineers, Hong Kong Institution of Highways and Transportation and Institution of Highways and Transportation, UK. He is also a Member of the Institution of Civil Engineers, UK. He is the Managing Director of Jie Cheng Consultants Ltd and has over 44 years of experience in conducting investigation, feasibility study, design, construction supervision and technical audit of multi-disciplinary infra-structures projects in Mainland China and Hong Kong. He has specialized in conducting due diligence study for toll highways since 1990 and has been the Project Director for a traffic consultant company assisting infrastructure company IPO listing in Hong Kong. Traffic volume and toll revenue projections project experience in Hubei Province included : Wuhan to Jingmen Expressway (2012, acted for a private investor), Wuhan to Xiaogan Expressway (2009, acted for a Hong Kong listed company), Huangshi to Huangmei Expressway (2007, acted for a China listed company), Jingzhou to Dongyuemiao Expressway (2010, acted for a China state-owned enterprise), Suiyuenan Expressway (2014, acted for the Company) and Jingmen to Yichang Expressway (2019, acted for a Hong Kong listed company).

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares and, in respect of equity derivatives, underlying shares in, and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Enlarged Group which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or, which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

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

Name of Director	Capacity	Approximate % of shareholding in the total issued Shares	Number of Shares held (long position)	Number of Shares held (short position)
Mr. He Baiqing	Beneficial owner	0.003	52,000	Nil
Mr. Lau Hon Chuen Ambrose	Beneficial owner	0.012	195,720	Nil

(b) Interests in associated corporation(s)

Name of Director	Name of associated corporation	Capacity	Approximate % of shareholding in the total issued shares	Number of shares held (long position)	Number of shares held (short position)
Mr. Li Feng	Yuexiu Property Company Limited	Beneficial owner	0.001	172,900	Nil
Mr. Lau Hon Chuen Ambrose	Yuexiu Property Company Limited	Beneficial owner	0.031	4,841,200	Nil

Save as disclosed above, as at the LPD, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Enlarged Group which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the LPD, so far as is known to the Directors or chief executives of the Company, the following persons (other than the Directors and chief executives of the Company) had, or was deemed or taken to have, an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at the general meetings of the Company:

Name of substantial Shareholder	Capacity	Long/ Short position/ Lending pool	Number of Shares	Approximate % of shareholding in the total issued Shares
Guangzhou Yue Xiu Holdings *(Note 1)*	Interest of controlled corporations	Long position	739,526,200	44.20
Yue Xiu Enterprises (Holdings) Limited ("**Yue Xiu Enterprises**") *(Notes 1 & 2)*	Beneficial owner and interest of controlled corporations	Long position	739,526,200	44.20

Name of substantial Shareholder	Capacity	Long/ Short position/ Lending pool	Number of Shares	Approximate % of shareholding in the total issued Shares
First Dynamic Limited ("**First Dynamic**") *(Note 3)*	Interest of controlled corporation	Long position	367,500,000	21.96
Housemaster Holdings Limited ("**Housemaster**") *(Notes 2 & 3)*	Beneficial owner	Long position	367,500,000	21.96
Grace Lord Group Limited ("**Grace Lord**") *(Note 2)*	Beneficial owner	Long position	303,159,087	18.12
Matthews International Capital Management, LLC	Investment Manager	Long position	116,934,000	6.98
JPMorgan Chase & Co. *(Note 4)*	Interest of controlled corporations	Long position	7,476,279	0.45
	Investment manager	Long position	45,932,000	2.75
	Person having a security interest in shares	Long position	3,900,000	0.23
	Approved lending agent	Lending pool	28,610,000	1.71
	Interest of controlled corporations	Short position	7,170,000	0.42

Notes:

1. The entire issued shares of Yue Xiu Enterprises are owned by Guangzhou Yue Xiu Holdings. By virtue of the SFO, Guangzhou Yue Xiu Holdings was deemed to be interested in the interest of Yue Xiu Enterprises in the shares of the Company as described in note 2 below.

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

3. First Dynamic, a wholly-owned subsidiary of Yue Xiu Enterprises, owned the entire issued share capital of Housemaster. By virtue of the SFO, First Dynamic was deemed to be interested in the 367,500,000 Shares held by Housemaster.

4. According to the corporate substantial shareholder notice filed by JPMorgan Chase & Co., JPMorgan Chase & Co. was interested in (i) a total of 85,918,279 shares (long position) in the respective capacities as disclosed above representing approximately 5.13% of the total number of Shares in issue of which 50,000 shares were unlisted derivatives (cash settled); and (ii) a total of 7,170,000 shares (short position) in the capacity as disclosed above of which 7,084,000 shares were unlisted derivatives (cash settled).

Save as disclosed above, as at the LPD, so far as is known to the Directors or chief executives of the Company, there was no person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, had direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

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

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

(a) As at the LPD, none of the Directors or the directors of any Target Group Member had, or have had, any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

(b) There was no contract or arrangement subsisting as at the date of this circular in which any of the Directors or the directors of any Target Group Member was materially interested and which is significant in relation to the business of the Enlarged Group.

5. COMPETING INTERESTS

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

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claims of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened by or against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular which are or may be material:

(a) the SPA; and

(b) the Loan Transfer Agreement.

8. SERVICE CONTRACTS OF DIRECTORS AND REMUNERATION OF THE DIRECTORS OF THE TARGET GROUP

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

As at the LPD, none of the directors of the Target Group Members had any existing or proposed service contracts with any member of the Enlarged Group Member. Each director of the Target Group Members has a term of office of three years in accordance with the articles of association of the relevant Target Group Member and shall be eligible for re-election for a further term of three years. The terms of office of the directors of the Target Group Members may be terminated without any compensation at shareholders' meetings in accordance with the articles of association of the relevant Target Group Members.

The aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Group will not be varied in consequence of the Acquisition.

9. EXPERTS AND CONSENTS

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

Name	Qualification
CLSA Capital Markets Limited	A corporation licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
DBS Bank Ltd.	A company incorporated in Singapore with limited liability and an authorized financial institution (as defined under the SFO) registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Jie Cheng Consultants Limited	Independent professional traffic consultant
PricewaterhouseCoopers	Certified Public Accountants
Savills Valuation and Professional Services Limited	Independent professional business valuer
Somerley Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the LPD, the above experts:

(a) did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(b) did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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

10. GENERAL

(a) The registered office of the Company is situated at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

(b) The principal place of business of the Company in Hong Kong is at 17A Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Yu Tat Fung, solicitor of the High Court of Hong Kong.

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday other than public holidays, up to and including the date of the SGM at the principal place of business of the Company at 17A Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong:

(a) the memorandum of association and the bye-laws of the Company;

(b) the material contracts referred to in the section headed "7. MATERIAL CONTRACTS" in this appendix;

(c) the Board Letter, the text of which is set out on pages 7 to 31 of this circular;

(d) the Independent Board Committee Letter, the text of which is set out on pages 32 to 33 of this circular;

(e) the accountant's report on the Target Group, the text of which is set out in Appendix III to this circular;

(f) the report on the Unaudited Pro Forma Financial Information on the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the valuation report on the Target Equities, the text of which is set out in Appendix V to this circular;

(h) the summary of the Traffic Study Report in relation to Daguangnan Expressway prepared by Jie Cheng, the text of which is set out in Appendix VI to this circular;

(i) the summary of the Traffic Study Report in relation to Hancai Expressway prepared by Jie Cheng, the text of which is set out in Appendix VII to this circular;

(j) the summary of the Traffic Study Report in relation to Han'e Expressway prepared by Jie Cheng, the text of which is set out in Appendix VIII to this circular;

(k) the written consents from the experts referred to in the section headed "9. EXPERTS AND CONSENTS" of this appendix;

(l) the annual reports of the Company for each of the three financial years ended 31 December 2016, 2017 and 2018 respectively;

(m) the New Shareholder's Loan Agreement; and

(n) this circular.

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

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

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Yuexiu Transport Infrastructure Limited ("**Company**") will be held at Plaza I-IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, on Tuesday, 5 November 2019 at 10:30 a.m. to consider and, if thought fit, approve, with or without modifications, the following resolution as an ordinary resolution. Unless otherwise indicated, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 17 October 2019 (the "**Circular**") to which this notice forms part.

ORDINARY RESOLUTION

"**THAT**:

(a) the agreement dated 12 September 2019 and entered into between Guangzhou Yue Xiu Enterprises (Holding) Limited* (廣州越秀企業集團有限公司) ("**Vendor**") and Guangzhou Yueda Investment Company Limited* (廣州越達投資有限責任公司) ("**Purchaser**"), pursuant to which, among other things, the Vendor shall sell and the Purchaser shall purchase (i) 100% of the equity interests in Yuexiu (Hubei) Expressway Company Limited* (越秀(湖北)高速公路有限公司) ("**YXHB**"); (ii) 38.5% of the equity interests in Hancai Expressway Company Limited of Hubei Province* (湖北省漢蔡高速公路有限公司); and (iii) all the rights, benefits and title of and in the entire shareholder's loan owed by YXHB to the Vendor from 20 March 2019 under the Previous Loan Facility, the principal amount of which is RMB4,654,503,531.78 together with the interest accrued thereon at the interest rate of 6.5% per annum (a copy of the aforesaid agreement has been produced before the Meeting, marked "A" and initialled by the Chairman of the Meeting for the purpose of identification) and the transactions provided or contemplated thereunder be and are hereby approved, confirmed and ratified in all respects; and

(b) any one or more Directors be and are hereby authorised for and on behalf of the Company to sign, execute, perfect, perform and deliver all such other agreements, instruments, deeds and documents and do all such acts or things and take all such steps as he/they may in his/their absolute discretion consider to be necessary or expedient to implement or give effect to or otherwise in connection with or incidental to the agreement set out in paragraph (a) above and all the transactions contemplated thereunder and to agree to such variations, amendments or waivers as are, in his/their opinion, in the interests of the Company and its shareholders."

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

Hong Kong, 17 October 2019

Notes:

1. The register of members of the Company will be closed from Friday, 1 November 2019 to Tuesday, 5 November 2019, both days inclusive, during which period no transfer of shares will be registered. For the purpose of ascertaining the shareholders' eligibility to participate in the SGM to be held on Tuesday, 5 November 2019, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 31 October 2019.

2. A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxy to attend and, on a poll, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy does not need to be a member of the Company.

3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting thereof.

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

Executive Directors	:	*LI Feng (Chairman), HE Baiqing and CHEN Jing*
Independent Non-executive Directors	:	*FUNG Ka Pun, LAU Hon Chuen Ambrose and CHEUNG Doi Shu*