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江蘇寧滬高速公路股份有限公司
JIANGSU EXPRESSWAY COMPANY LIMITED

(Established in the People's Republic of China as a joint-stock limited company)

(Stock Code: 00177)

**ANNOUNCEMENT OF THE REPLY TO REGULATORY WORK
LETTER FROM SHANGHAI STOCK EXCHANGE ON MATTERS
RELATING TO THE COMPANY'S LARGE CASH ACQUISITION
OF CONTROLLING SHAREHOLDER'S ASSETS**

The board of directors and all directors of the Company hereby warrant that there are no false records, misleading statements or major omissions in this announcement, and assume legal responsibility for the truthfulness, accuracy and completeness of its contents.

On 30 January 2024, Jiangsu Expressway Company Limited (hereinafter referred to as the “**Company**”) received a regulatory work letter on matters relating to the large cash acquisition of controlling shareholder's assets by the Company (Shanghai Stock Exchange Official Letter (2024) No. 0086) (hereinafter referred to as the “**Work Letter**”) from the Listed Company Management Department One of Shanghai Stock Exchange.

The Company and the relevant parties have carefully reviewed, analyzed and studied the issues raised in the Work Letter, and have provided response to the Shanghai Stock Exchange on the relevant issues mentioned in the Work Letter. The response is disclosed as follows:

After reviewing the “Announcement of related parties transaction in relation to the Company’s Acquisition of 65% Equity Interest in Suxichang South Expressway Company” submitted by your company, we have the following questions that require further explanation and disclosure from your company:

Question 1: Regarding the necessity of the transaction. The announcement shows that the Company intends to invest RMB5.201 billion to acquire 65% equity of the target company, Suxichang South Expressway Company, from the controlling shareholder and include it in its consolidated financial statements. The main business of the target assets is the Changzhou-Wuxi Section of the Suxichang South Expressway, which commenced operation on 30 December 2021, and has been continuously making loss since then. The target asset, along with Shanghai-Nanjing Expressway, which is controlled by the Company, and the Yanjiang Expressway in which the Company is one of the investors, are all parallel routes in the southern Jiangsu region and have a diversion effect on each other. As of 30 September 2023, the Company’s cash balance was RMB697 million, with interest-bearing loans of approximately RMB32.665 billion. The total amount of RMB5.201 billion for this transaction needs to be paid in cash within a short period of time.

Please

- (1) explain the necessity and reasonableness of this acquisition by taking into account the functional and location conditions, toll rates and traffic flow of the road network of Yanjiang Expressway and Shanghai-Nanjing Expressway, as well as the main competitive advantages and synergy of the target asset with the Company’s business.**

Reply:

In the network layout of “fifteen radiations, six north-south and ten east-west routes with multiple connections,” in Jiangsu Province, Suxichang South Expressway, Yanjiang Expressway and Shanghai-Nanjing Expressway are all east-west expressways planned for the Southern Jiangsu region. Among them, Suxichang South Expressway is part of the sixth east-west routes under the plan (Changzhou-Wuxi section), connecting Nanjing, Zhenjiang (Jurong), Changzhou, Wuxi, Suzhou and Shanghai. Shanghai-Nanjing Expressway is part of the fifth east-west routes under the plan connecting Nanjing, Zhenjiang, Changzhou, Wuxi, Suzhou and Shanghai, and Yanjiang Expressway is part of the eighth east-west route of the plan (Suzhou-Changzhou section) connecting Suzhou (Taicang), Wuxi (Jiangyin), Changzhou (Jintan) and Nanjing (Lishui). From the perspective of the planned routes, these three expressways are basically parallel and serving partially overlapped areas, and have the foundation for coordinated operation within the road network. The Suxichang South Expressway is basically parallel to the Changzhou and Wuxi sections of Shanghai-Nanjing Expressway. It is an

important component of the “Second Channel of Shanghai-Nanjing” and holds a significant position within the road network of Jiangsu. It exhibits strong synergy with the operation, management, and long-term development of the Company’s core asset, the Shanghai-Nanjing Expressway.

There are several advantages in terms of growth potential: First, the target asset has abundant capacity for traffic, and is currently in the stage of cultivating traffic flow, with less than one-third of its saturation level which is an indication of significant growth potential. In contrast, Shanghai-Nanjing Expressway and Yanjiang Expressway which are in parallel to the target asset have already reached saturation and their traffic growth rates have significantly slowed down in recent years. Second, the target asset has a relatively high proportion of bridges and tunnels, including two separate toll tunnels. The base toll rate for regular sections of the target asset is RMB0.55/kilometer, while the base toll rate for Shanghai-Nanjing Expressway and Yanjiang Expressway is RMB0.45/kilometer. Therefore, under the same traffic flow, the per km revenue is higher compared to the other two expressways, demonstrating better economic performance. Third, the target asset has a longer remaining toll collection period of 23 years, which allows it to have an operating period different with the other road assets held by the Company and provides the Company with continuous income in the long run.

Based on the above assessments, the Company believes that there are several aspects that justify the necessity and reasonableness of acquiring the target company:

The Company aims to strengthen its position as an operator in the road network of Southern Jiangsu and support its strategic development. During the “14th Five-Year Plan” period, the Company focused on its principal business and aims to expand its toll road business. The position of the target asset within the road network of Southern Jiangsu is an essential component of the Company’s overall regional layout and the acquisition of the target company is a measure taken by the Company to implement its strategic goals. It will allow the Company to focus on its principal business, increasing its market share in the regional road network, consolidating its position as a road network operator in Southern Jiangsu, and achieve sustainable development objectives.

The target asset holds a superior regional position and the acquisition of the target company will drive the synergistic development of the Company’s business. Suxichang Area serves as the first stop for Shanghai, the leader of the Yangtze River Delta region, radiating towards the middle and upper reaches of the Yangtze River region, and it is also one of the most economically active regions in China. From the perspective of the regional expressway network traffic layout, the east-west traffic is concentrated, and the total flow of east-west traffic within Wuxi has reached nearly 300,000 vehicles per day (standard flow), with a continuous growing trend. Upon the acquisition of the target asset, the Company

can achieve coordinated operation of the east-west routes in the Southern Jiangsu region, promote synergistic business development, leverage economies of scale, reduce operating costs, and further enhance the Company's profitability.

The operating trend of the target asset is positive and the timing for the acquisition is appropriate. The target asset comprises the longest and widest underwater tunnel in China, which has a relatively high construction difficulty. With the acquisition conducted after the completion of the construction, the construction risks can be fully avoided. Based on the current operating situation of the target company, the traffic is experiencing a rapid growth period within a short period of time since its opening, with traffic and revenue increased by over 50% in 2023 compared to 2022. In the next two years, the Yanjiang Expressway will undergo expansion and reconstruction, leading to significant changes in the traffic distribution pattern of the Southern Jiangsu road network. The target asset is expected to have good growth prospect in terms of traffic flow and revenue. Furthermore, the target asset and the Company's core asset, Shanghai-Nanjing Expressway, are parallel routes, which can timely accommodate the traffic overflow brought by the expansion of Shanghai-Nanjing Expressway in the future.

Based on the above analysis, the timing for acquiring the target asset is appropriate.

- (2) **make additional explanation on the source of funds and arrangement for the Company's acquisition, and considering the Company's own funds, daily operating capital requirements, and maturity of its debts, explain whether this transaction will have any adverse impact on the Company's normal production and operation, financial stability, and liquidity.**

Reply:

The funds for this acquisition will be paid in cash, using the Company's own funds or financing proceeds in line with the purpose of the funds.

The main source of the Company's operating income is toll road revenue and ancillary services, and the settlement is timely with a relatively small scale of accounts receivable. As of 30 September 2023, the Company had a total of RMB700 million in cash and RMB4.3 billion worth of financial assets, totaling RMB5 billion. The abundant scale of the Company's own funds provides a solid financial foundation for the Company's daily operations and the implementation of its long-term strategy.

In terms of operating cash flow, as of 2022, the Company's operating cash inflow was RMB12 billion, and the net cash flow from operating activities was RMB5.5 billion. As of 30 September 2023, the Company's operating cash inflow was RMB10.3 billion, and the net cash flow from operating activities was RMB5.6 billion. It is expected that the net operating cash flow will exceed RMB6 billion by the end of the year. The Company has a stable cash flow that can fully cover the capital needs for its daily operations and has enough room to allow for flexibility. Cash flow management is always in a virtuous cycle.

In terms of financial stability and liquidity, the main characteristics are as follows:

1. Reasonable debt maturity structure

Based on its business needs and financial conditions, the Company arranges the proportion of short-term and long-term debts in a reasonably fashion. As of 30 September 2023, the balance of interest-bearing liabilities was RMB34.32 billion, of which long-term interest-bearing loans were RMB30.02 billion, accounting for 87.45%, and short-term loans were RMB4.32 billion, accounting for 12.5%. The Company has a relatively low debt repayment pressure in the short term and a stable debt structure.

2. High coverage ratio of long-term funds

The Company has a high coverage ratio of long-term funds for fixed assets and toll operation rights, reaching 143%. This ratio is at a high level, indicating that the Company has strong long-term investment capabilities and can support investments in fixed assets and toll operation rights. Sufficient long-term funds reduce the Company's reliance on short-term funds, thereby reducing the financial instability caused by short-term liquidity risks, which helps the Company maintain its financial stability when facing market fluctuations or economic uncertainties.

3. Guaranteed repayment of maturing debts

From October 2023 to the end of the year, the matured debts amounted to approximately RMB5.06 billion, of which matured bank loans amounted to RMB2.37 billion and ultra-short-term notes amounted to RMB1.89 billion. It is expected that the amount of bank loans that will become matured in 2024 is approximately RMB1.74 billion, and the issuance of ultra-short-term notes will be appropriately increased and rolled over according to actual needs.

As of the end of December 2023, the Group has obtained a total of RMB61.78 billion in bank credit facilities, of which RMB48.8 billion is unutilized, with sufficient standby liquidity. As listed company with A+H shares, the Company has good credit rating, has relatively smooth access to direct financing channels and great financial flexibility. As of the end of December 2023, the amount of medium-term notes registered but not yet issued by the Company with the China Association of Interbank Market Dealers is RMB4.5 billion, of which RMB1.0 billion is valid from 29 July 2022 to 29 July 2024 and RMB3.5 billion is valid from 12 August 2022 to 12 August 2024. In addition, the Company plans to register a reserve of RMB8 billion in 2024 for the issuance of corporate bonds. Therefore, the Company is able to ensure that all maturing debts due can be raised for repayment in a timely manner through its own funds, reserved debt financing instruments or from bank credit lines.

At the same time, in order to implement the acquisition of the target asset according to the agreement, the Company has strengthened its pre-deal study. If the Group adopts a fund-raising plan with 50% sourced from its own funds and the remaining 50% from acquisition loans from banks, it is expected, in line with established practices, the Group can secure low cost acquisition loans within a short period of time through the cooperation with domestic mainstream banks and other financial institutions.

The Company also conducted stress tests on key financial indexes and the test results showed that assuming the funding for this acquisition is solely sourced from loans, the Company's gearing ratio shall increase to approximately 55.5%.

In summary, the overall gearing ratio of the Company is sound, the free cash flow is sufficient, and the repayment of principal and interest is within a reasonable range. The acquisition of the target assets will not adversely affect the normal production and operation, financial stability and liquidity of the Company.

- (3) **taking into account the quality of the target asset, the financial status of the controlling shareholder, and the capital needs, explain whether this transaction is beneficial to improving the Company’s quality and if there is any situation of transferring benefits to the controlling shareholder, please also provide additional information on related risks.**

Reply:

The quality of the target asset is excellent. **First, from the perspective of regional economic development**, in 2023, under the continuous promotion of the national strategy of integrated development of the Yangtze River Delta region, the regional economy, population, and infrastructure have further enhanced with interconnectivity. The economic development of the “three provinces and one city” in the Yangtze River Delta region remains stable, with Jiangsu Province’s GDP reaching RMB12,822.2 billion in 2023, an increase of 5.8% from the previous year. Similar trends can also be seen in nearby provinces. It is expected that the overall economy in Jiangsu will continue to recover and grow rapidly in 2024. The “14th Five-Year Plan and 2035 Long-Term Goals Outline for National Economic and Social Development in Jiangsu Province” (《江蘇省國民經濟和社會發展第十四個五年規劃和二〇三五年遠景目標綱要》) set a goal to double the per capita regional GDP by 2035 based on the 2020 level. **Second, considering the traffic structure**, with the continuous growth of the permanent population in Jiangsu province in recent years, the Suxichang South Expressway (the main asset of the target company) mainly focuses on passenger transportation, with the growth rate of passenger vehicles generally higher than that of cargo trucks. With the deepening of development in Southern Jiangsu and the integration of the Yangtze River Delta region, the quality of Suxichang South Expressway is in line with the growing demand for passenger transportation in the region. **Third, from the perspective of the Company’s strategic asset allocation**, Suxichang South Expressway is located on the south side of urban area of the cities of Changzhou, Wuxi and Suzhou. Together with the Shanghai-Nanjing Expressway, they form a pair of inter-city transportation axes between the Suzhou, Wuxi and Changzhou’s urban area which plays an important role in improving the regional traffic capacity. From the perspective of the Company, the acquisition of Suxichang South Expressway will further improve the Company’s layout of its expressway network in Southern Jiangsu. It will also expand the scale and scope of the Company’s expressway operations. Suxichang South Expressway is an invaluable strategic investment that is expected to bring in future income and profit growth. **Fourth, from the operating and financial conditions of the target company**, the traffic volume of the target asset has been in a rapid growth period since its commencement of operations. According to the audited financial statements for the 10 months ended 2023, the operating loss from January to October 2023 was approximately RMB170 million, which has decreased as compared to the RMB249 million loss in the same period in 2022. The revenue (RMB498 million) has been able to offset the operating costs (RMB444 million). With the operation of the toll road and the commencement

of the repayment period of the financing such as construction loans, the finance costs was RMB224.1 million, a decreased by RMB27 million compared to the same period in 2022. It is expected that the acquisition will profits in the near future and become another growth point for the Company’s future profitability.

Our controlling shareholder, Jiangsu Communications Holding Limited (the “**Jiangsu Communications Holding**”), is a state-owned sole proprietorship enterprise approved by the Jiangsu Provincial People’s Government, principally engaged in investment and operation management of key transportation infrastructure in Jiangsu Province, with investment areas mainly cover the province’s highways, railways, airports, and ports. Please refer to the table below for the relevant financial information:

**Financial information of Jiangsu Communications Holding on
September 2023 and December 2022**

Unit: RMB (billion)

| | As at 30 September 2023 | As at 31 December 2022 |
|---|---|-------------------------------|
| Total assets | 832.237 | 779.41 |
| Total liabilities | 516.569 | 479.73 |
| Net assets | 315.668 | 299.68 |
| Cash and cash equivalents | 28.031 | 22.14 |
| Gearing ratio | 62.07 | 61.60 |
| | For the nine months ended 2023 | For the year ended 2022 |
| Net profits | 12.756 | 11.621 |
| Net cash flow from operating activities | 24.278 | 31.69 |

At the same time, Jiangsu Communications Holding also provides financing to the Company and its subsidiaries. As of the date of this announcement, the total amount of loans provided by Jiangsu Communications Holding to the Company is RMB3.196 billion, and the total amount of deposits held by the Company in the Group Finance Company (also an investee company of the Company), a subsidiary of Jiangsu Communications Holding, does not exceed RMB400 million.

Overall, Jiangsu Communications Holding has stable and sufficient cash flow and can fully ensure its normal business activities without any intention of occupying the cash or interests of the Company.

The acquisition of the target company will further improve the Company's layout in the southern Jiangsu expressway network and expand the Company's scale and scope of highway operations. Set out below the information regarding the risks associated with this acquisition:

- (I) **Risk of traffic flow unable to meet expectation:** Traffic flow is the main factor affecting toll revenues. Factors that can affect the traffic flow of this project include changes in macroeconomic situations, changes in regional transportation layout, changes in regional economic structures, changes in population, changes in the vehicle industry, changes in environmental factor, changes in transportation costs and changes in competitive dynamics, etc. If the actual traffic flow of the project is lower than the predicted scale in the study, the project may not generate the expected cash flow required to cover the operating expenses, generate profits, and repay the financing costs. Consequently, this could lead to financial risks.

To mitigate this risk, the Company will actively coordinate the investment timing for the expansion and improvement of the road network in Southern Jiangsu. It will also coordinate the feasibility study for the expansion plan of the Shanghai-Nanjing Expressway and align the progress of the expansion and improvement of the Yanjiang Expressway. Additionally, the Company will participate in the formulation of transportation organization plans. Simultaneously, the Company will actively participate in research and explore innovative reforms in toll policies and will collaborate with the Wuxi Municipal Transport Bureau to study and continuously optimize differentiated toll policy for the Taihu Tunnel, to ensure the expectations on the traffic flow will be met.

- (II) **Tunnel Operation Risk:** The project road involves the construction of the largest underwater highway tunnel in China. There are certain distinctive characteristics in relation to underwater highway tunnels such as relatively enclosed space, centralized mechanical and electrical systems, limitations on information transmission, and susceptibility to geological hazards. In the event of an emergency within the tunnel, the difficulty of emergency response, the complexity of rescue operations, and the consequences of accidents may become more evident. Furthermore, the distinctive features of these underwater highway tunnels give rise to substantial disparities in their maintenance and management when compared to conventional highways. This presents a special challenge for Shanghai-Nanjing Expressway, which has been engaged in professional highway operations and maintenance for 30 years and poses risks in managing the operations of large tunnels.

To mitigate this risk, the Company will further strengthen its team of professional experts dedicated to the operations of large tunnels. It will improve the emergency response system, establish a collaborative mechanism for emergency response across departments, regions, levels, and business sectors in the context of informatization, and increase investments in projects related to information technology, digitization, and intelligent construction. The Company will continuously enhance its capabilities of the large underwater tunnel operations.

(III) Local Planning Risk: The local planned expressway that would have certain impact on the Suxichang South Expressway is the west extension of Juqu Road. The west extension of Juqu Road is a local toll-free expressway planned by Wuxi City, which would serve as a primary fast route for outbound traffic from the western part of Wuxi City and has certain overlapped functionality with the project road, which may result in a partial diversion of traffic. As there is currently no construction plan for the west extension of Juqu Road and its construction poses significant challenges. As such, this west extension of Juqu Road has not been considered in the assessment assumptions. Hence, if the west extension of Juqu Road is being constructed and comes into operation during the operating period of the project road, it will have certain impact on the revenue of the Suxichang South Expressway.

To mitigate this risk, the Company will proactively monitor and engage in effective communication and coordination in Wuxi City regarding the execution of the local road planning, which aims to minimize any adverse effects of the regional road planning on the target assets.

Question 2: Regarding the financial situation of the target asset. The operating revenue in 2021, 2022, and January-October 2023 was RMB2 million, RMB383 million, and RMB498 million, respectively, and the net profit was -RMB2 million, -RMB321 million, and -RMB170 million, respectively, in a state of continuous losses. Financial costs were -RMB1 million, RMB291 million, and RMB224 million, respectively, and have remained high in recent years. As of 31 October 2023, the total liabilities of the target asset were approximately RMB7.069 billion, of which interest-bearing liabilities accounted for 99%.

Please explain:

- (1) considering the operating model, operation status, and composition of operating costs of the target asset, explain the reasons for the small income scale and low profitability of the target asset and ways to improve the situation in the future.**

Reply:

Compared with other industries, expressways are a typical heavy-asset industry with large capital expenditures during the construction period and fewer capital expenditures during the operation period. In the initial stage of operation, there are generally high financial and amortization costs, while the traffic and income levels are relatively low, resulting in overall low profitability of the project. However, as the traffic of the expressway enters the mature stage from the cultivation stage, the traffic and income levels will continue to improve. Further, with the annual repayment of principal, the scale of liabilities and financial costs will continue to decrease, and profitability will gradually improve, providing stable cash flow for the project company.

The target asset is currently in the initial stage of opening, and from the income perspective, the traffic level is less than one-third of the road's design capacity, which is still in the stage of growth. From the cost perspective, due to the significant debt burden of the target asset and the inability to capitalize interest, the fixed financial costs are substantial, resulting in two consecutive years of losses since its opening. The situation aligns with the fundamental characteristics of the industry. From the actual data of 2023, with the stabilization of the external situation and the adjustment of the road network pattern, the average traffic in 2023 reached 31,000 vehicles per day (standard amount), and toll revenue was approximately RMB630 million, with an average income of over RMB14 million per km (inclusive of tax). The traffic flow and income increased by more than 50% year on year, and the losses of the target asset was significantly reduced. In the fourth quarter of 2023, the target company achieved positive operating cash flow, began to repay principal and interest, and the scale of the existing liabilities had dropped from RMB8.298 billion at the beginning of 2023 to RMB7.069 billion as of 31 October 2023. With the continuous growth of

traffic volume for the target asset, income will further increase, scale of liabilities will further decrease, and profitability will continue to improve.

To further improve the financial condition of the target company, the following measures are proposed to be taken by the Company after the Completion:

1. **Loan interest rate optimization.** Upon the completion of the acquisition, the Company plans to negotiate with the banks to reduce the loan interest rates, reducing the annual financing costs. Upon the completion of the transfer of equity interest of the target asset, the target company can leverage on the stable and lower-cost financing products offered by the Company's high credit rating. This enables further optimization of the debt structure and to reduce the cost of capital.
 2. **Stimulating traffic growth for the target asset.** The Company plans to collaborate with the Wuxi Municipal Government to conduct further research on differentiated pricing policies and optimize the existing policies. By utilizing the procurement of services by the government, the Company aims to reduce toll fees, enhance the attractiveness of the target asset, and also mitigate the risk of additional parallel planning and construction projects in the vicinity of the target asset.
- (2) **Combining the net cash flow from the operating activities of the target assets, the scale of liabilities, the maturity of repayment, and the arrangement of interest payment to analyze the stability of its debt structure and whether there is any liquidity risk.**

Reply:

As of 31 October 2023, the total assets of the target company were RMB14.532 billion, with liabilities of RMB7.069 billion, and gearing ratio of 48.64%. The gearing ratio is well controlled, and the types, scale, and maturity structure of financing are in line with the operating periods and development trends of the expressway projects.

**The Composition of interest-bearing debts for target company
as of 31 October 2023**

| | Balance <i>(RMB million)</i> | Proportion <i>(%)</i> |
|--|--|---------------------------------|
| Project Loans | 5,839 | 84.15 |
| Medium to long-term liquidity loans | 500 | 7.20 |
| Corporate bonds allocated by Jiangsu Communications Holding | 600 | 8.65 |
| Total | 6,939 | 100.00 |

**The maturity profile of the interest-bearing debts for target company
as of 31 October 2023**

Unit: (RMB million)

| | Within 1 year | 1 to 5 years | 5 to 10 years | 10 to 15 years | Over 15 years | Total |
|--|--------------------------|-------------------------|--------------------------|---------------------------|--------------------------|---------------|
| Long term loans | 162 | 2,616 | 1,725 | 1,521 | 315 | 6,339 |
| Corporate bonds allocated by Jiangsu Communications Holding | 600 | | | | | 600 |
| Total | 762 | 2,616 | 1,725 | 1,521 | 315 | 6,939 |
| Proportion (%) | 10.98 | 37.71 | 24.85 | 21.92 | 4.54 | 100.00 |

In terms of financing interest rates, the range of the interest rate for the current project loans is 2.6–3.71%, with an average interest rate of 3.4%; the interest rate for medium- and long-term liquidity loans is 2.6%; and the interest rate for the corporate bonds allocated by Jiangsu Communications Holding is 3.76%. The interest rates are lower than the market average.

For the liabilities due within one year after the benchmark date, based on the target company's business development stage and the estimated future operating cash flow in the valuation report, on the condition that the target company's daily working capital requirements are met and the interest on all outstanding liabilities are repaid, The Company can leverage on synergies in financing and assist the target company to further optimize its financing structure and financing costs. Therefore, there is no liquidity risk for the target company in the short term.

In the long term, the target company is fully capable of repaying the principal and interest of all its interest-bearing debts. For the ten months ended in 2023, the target company's free cash flow was RMB143 million, and the principal and interest have been paid on schedule. It is expected that the full-year free cash flow in 2024 will increase and is sufficient to cover the amount of principal and interest payable. In the following years, according to the repayment plan for the existing project loans, the target company's annual free cash flow will be sufficient to cover the amount of principal and interest payable in the current year. With the increasing surplus of the target company's free cash flow, it is expected that the need for financing will gradually decrease, and all liquidity loans etc. will be fully repaid by 2029–2030. Therefore, there is no liquidity risk for the target company in the future.

It is expected that all interest-bearing debts can be fully paid off by the target company in 2041. The overall gearing ratio during the operation period is healthy, with relatively ample cash flow and good debt repayment ability.

Upon the acquisition of the target asset, the Company will leverage its excellent credit-rating background and financing channels in the capital market to assist the target company in formulating its financing plans flexibly, continuously optimizing debt structure, and keeping the cost of funds at a lower level compared to its peers while ensuring controllable liquidity risk and improving the operational efficiency of the target company.

In summary, based on the stable and growing operating cash flow of the target asset, a reasonable debt structure, and good financing and fund management capabilities, the financial leverage ratio of the target asset will be maintained at a safe level, with relatively low liquidity pressure and the risks are controllable.

Question 3: Regarding the valuation of the target asset, the income approach and market approach were selected for the valuation of the target asset in this transaction, and the valuation results under the two approaches were RMB8.001 billion and RMB7.91 billion, with appreciation rates of 7.21% and 5.99%, respectively, and the valuation results under the income approach were ultimately adopted as the basis for the valuation. The main operating assets of the target asset are fixed assets and toll road operation rights, and the asset-based approach was not selected for the valuation.

The Company is requested to further disclose the following information:

- (1) The specific calculation basis of the income approach, including but not limited to toll revenue, traffic volume, maintenance costs, and forecasting basis of the target assets, as well as the level and basis of the discount rate, and the division and basis of different forecast periods;**

Reply:

The valuation institution responsible for the registration of the transfer of state-owned assets is jointly commissioned by the three shareholders of the target company, Jiangsu Communications Holding, Wuxi Transportation Industry Group Co., Ltd., and Changzhou Expressway Investment Development Co., Ltd.. Due to the involvement of specialized knowledge in traffic engineering such as traffic volume, toll fees, and operation and maintenance costs, the three shareholders of the target company and the Company have commissioned Jiangsu Weixin Engineering Consulting Company Limited (江蘇緯信工程諮詢有限公司) to issue the “Suxichang South Expressway Traffic Flow, Toll Revenue, Operation and Maintenance Costs Forecast” report. The valuation institution referenced the data of traffic flow, toll income, and operation and maintenance costs in the income approach from the professional report issued by Jiangsu Weixin Engineering Consulting Company Limited.

The specific forecasting process of the income approach is as follows:

1. Determination of the forecast period

According to the Official Response of the Jiangsu Provincial Government on Agreeing to Levy Vehicle tolls on the Changzhou to Wuxi Section of the Suxichang South Expressway (《省政府關於同意蘇錫常南部高速公路常州至無錫段開徵車輛通行費的批覆》) (Suzhengfu [2021] No. 61) issued by the Jiangsu Provincial Government on 6 December 2021, Suxichang South Expressway is an operating toll road and shall begin the collection of toll fees on the date of completion and the conditions for opening to traffic are met, with a toll period of 25 years. Therefore, the operating period of the project is from 30 December 2021 to 29 December 2046.

The forecast period for this project is from the day after the valuation date to the end of the toll period of the project road, specifically from 1 November 2023 to 29 December 2046, with a total forecast period of approximately 23 years and 2 months.

2. Forecast of operating revenue

The historical annual main operating income of the subject includes toll revenue, clearance services revenue and operating lease income, and the revenue is also predicted based on these three components during the forecast period. (1) Toll revenue: Jiangsu Weixin Engineering Consulting Company Limited is a professional institution for traffic volume prediction research, and has made traffic volume and toll revenue predictions for Suxichang South Expressway and issued the “Suxichang South Expressway Traffic Flow, Toll Revenue, Operation and Maintenance Costs Forecast (蘇錫常南部高速公路交通量、通行費收入及運營養護成本預測)”. After reviewing the relevant calculation basis and financial analysis data of the calculation report in the report, the valuation professional made reference to the traffic volume forecast income of the report and converted it to VAT-exclusive income.

- a Traffic volume forecast: According to the “Suxichang South Expressway Traffic Flow, Toll Revenue, Operation and Maintenance Costs Forecast” report issued by Jiangsu Weixin Engineering Consulting Company Limited, the “four-stage” approach was adopted for this forecast of the traffic volume. According to the traffic volume analysis and forecasting methods for highway construction projects set out in the “Feasibility Study Report Preparation Method for Highway Construction Projects” (《公路建設項目可行性研究報告編製辦法》) issued by the Ministry of Transport in April 2010, the forecast

was modeled using the professional forecasting software, TransCAD. The basic data are sourced from the monthly traffic statistics report issued by the Jiangsu Provincial Expressway Network Operation and Management Center, and combined with relevant historical yearbooks and future planning information of regional economic, social, and transportation development, and collected the construction plans and proposals related to the target project.

The traffic volume forecasting process is as follows:

- 1) Divide the study area into smaller areas based on project characteristics and calculate the base year OD;
- 2) Establish a road network model and calibrate and verify parameters based on historical data;
- 3) Calculate the traffic generation of each community area in the main years based on future economic growth rate and elasticity coefficient analysis;
- 4) Use the Fratar approach to calculate the OD distribution of each community area in the main years;
- 5) Calibrate the road network information in the main years, adopt the UE distribution model, and conduct traffic volume distribution;
- 6) Calculate the average traffic volume, segment and vehicle type traffic volume of Suxichang South Expressway for each year, and analyze the characteristics and reasons for traffic volume changes,

The annual average daily traffic volume for each year of the project road is set out in the table below:

| Year | Natural traffic | | Standard traffic | | Remark |
|------------------------|--------------------|----------------|--------------------|----------------|---|
| | Traffic (veh/d) | Growth rate | Traffic (veh/d) | Growth rate | |
| 2023 | 27,593 | 69.4% | 31,614 | 52.1% | The project has just open to traffic and the base is relatively low due to the impact of the epidemic |
| November-December 2023 | 19,178 | 49.3% | 23,050 | 37.1% | |
| 2024 | 42,160 | 52.8% | 47,373 | 49.8% | Please refer to the text below for details |
| 2025 | 56,933 | 35.0% | 62,656 | 32.3% | |
| 2026 | 66,095 | 16.1% | 72,187 | 15.2% | |
| 2027 | 63,847 | -3.4% | 69,798 | -3.3% | Completion of the expansion of Yanjiang Expressway |
| 2028 | 73,915 | 15.8% | 81,365 | 16.6% | Commencement of the expansion of the Shanghai-Nanjing Expressway |
| 2029 | 90,919 | 23.0% | 99,787 | 22.6% | |
| | | | | | Opening of Xitai and Ningchang Expressway |
| 2030 | 101,967 | 12.2% | 111,679 | 11.9% | Completion of the expansion of Shanghai-Nanjing Expressway |
| 2031 | 100,805 | -1.1% | 110,182 | -1.3% | |
| 2032 | 78,070 | -22.6% | 85,046 | -22.8% | |
| 2033 | 82,002 | 5.0% | 89,162 | 4.8% | |
| 2034 | 85,728 | 4.5% | 93,064 | 4.4% | Suzhou-Suzhou-Taihu Lake Corridor and Changtai Expressway commence their operations |
| 2035 | 89,255 | 4.1% | 96,754 | 4.0% | |
| 2036 | 106,896 | 19.8% | 116,383 | 20.3% | |
| 2037 | 110,071 | 3.0% | 119,708 | 2.9% | |
| 2038 | 113,039 | 2.7% | 122,813 | 2.6% | |
| 2039 | 115,703 | 2.4% | 125,590 | 2.3% | |
| 2040 | 118,021 | 2.0% | 127,991 | 1.9% | |
| 2041 | 120,046 | 1.7% | 130,082 | 1.6% | |
| 2042 | 121,824 | 1.5% | 131,910 | 1.4% | |
| 2043 | 123,387 | 1.3% | 133,510 | 1.2% | |
| 2044 | 124,761 | 1.1% | 134,896 | 1.0% | |
| 2045 | 125,982 | 1.0% | 136,129 | 0.9% | |
| 2046 | 127,061 | 0.9% | 137,208 | 0.8% | |

The forecast results show that the overall growth rate of project road traffic is gradually decreasing. The main reasons for the higher traffic growth rate in 2024–2025 are as follows:

- i. The operation time of the project road is short, and the traffic is in a period of rapid growth.
- ii. In June 2023, the Beijing-Shanghai Expressway completed its expansion and opened to traffic, and vehicles from Wufengshan heading south can connect to the Southern Tunnel through Luoxi Hub. It is expected that the traffic in the first half of 2024 will be significantly higher than that in the first half of 2023; at the same time, Guangjing Expressway is about to commence its expansion, which will further increase the number of vehicles heading south through Wufengshan.
- iii. Yanjiang Expressway will commence the construction in 2024, and restrictions on vehicles with 3 or more axes is proposed to be imposed on the entire route. Referencing the experience of the expansion of the Beijing-Shanghai Expressway, there will be a large proportion of traffic transfer during the expansion period, about 50–60%; at the same time, the section of Yanjiang Expressway that is parallel to the Southern Tunnel – the Jiangyin pilot section, the one-way closure for construction will be scheduled to begin in July 2024 and will last for one year. There will be a greater degree of overflow in the traffic of Yanjiang Expressway.
- iv. Currently, the Shanghai-Nanjing Expressway Wuxi section is almost saturated and it is difficult to accommodate the trend of increasing traffic flow in the road network and the impact of diversion from other branch roads. During the expansion of the Yanjiang Expressway, only the Southern Tunnel has a relatively large surplus capacity in the road network to accommodate the diverted vehicles from the branch roads.

b Toll revenue forecast: Calculated based on the predicted traffic flow and the current toll standards, the calculation process also takes into account the fitting and verification of relevant parameters based on historical data, and collects the project toll mileage table provided by the target company. The specific forecasting process is as follows:

- 1) Suxichang South Expressway includes three types of toll facilities: general road sections, Taihu Tunnel, and Mount Yaoxian Tunnel, each with different toll standards and billing methods. The toll revenue of the project road needs to be aggregated from the tolls of each type of facility.

The toll revenue calculation formula for general road sections is: annual toll revenue = traffic volume of each vehicle type × corresponding toll standard × number of toll days per year × toll mileage × toll adjustment rate;

The toll revenue calculation formula for the two tunnels is: annual toll revenue = traffic volume of each vehicle type × corresponding toll standard × number of toll days per year × toll adjustment rate.

- 2) Toll mileage: The toll mileage is extracted from the simplified calculation map of the toll mileage of the Changzhou-Wuxi section of Suxichang South Expressway provided by the network center. The toll mileage for the project is a total of 55.30 kilometers, including 40.46 kilometers of the main line (including 29.33 kilometers of general road sections, 10.00 kilometers of Taihu Tunnel, and 1.13 kilometers of Mount Yaoxian Tunnel) and 14.84 kilometers of ramps.

3) Toll standards:

The following assumptions are made for toll standards in the valuation:

- i. For expressways that have already been completed and put into operation, the toll rates approved will remain unchanged.
- ii. For the expressways that are expected to be completed and put into operation before 2025: for the reconstruction and expansion projects and new bridge and tunnel projects, reference is made to the “Pricing Mechanism for Expressway Tolls in Jiangsu Province” (江蘇省高速公路收費定價機制) jointly issued by the Department of Transportation, the Development and Reform Commission and the Department of Finance of Jiangsu Province in 2021; and for other newly built general projects, the basic rates for passenger vehicles and trucks will be RMB0.55/km and RMB0.45/km, respectively.
- iii. For expressways projects expected to be completed and put into operation after 2025, the project construction cost will be further increased, and the average toll standard may also be increased accordingly. In this context, it is expected that the proportion of traffic flow distribution within the entire Suxichang South Expressway will be increased compared to the current situation.
- iv. Generally, the implementation period of differential policy is less than 5 years, and it is necessary to dynamically adjust the differentiation program regularly based on the effectiveness. In this forecast, it is assumed that the subsequent differential policy will remain unchanged from the program that will be extended in 2024, and the later optimized program will not be considered for the time being.

- 4) Toll adjustment rate: The toll adjustment rate takes into account the impact of differential policy, toll free period on holidays for small passenger vehicles, ramp tolls, ETC discounts, and rounding of cash tolls on actual tolls. As the impact of policies on traffic volume varies in different months, the first year of the valuation will be calculated based on the traffic and revenue Data for November to December 2022, and the Data for November 2022 to October 2023 will be used for calculation in the following years.

② Clearance services revenue: Clearance services revenue refers to the revenue generated by the subject for providing towing and rescue services for malfunction vehicles on the expressway. For clearance services revenue, this valuation is projected with reference to the proportion of clearance services revenue to toll revenue in the historical years. ③ Operating lease revenue: The subject's operating lease revenue includes rental income from gas stations and service areas. The valuer collected relevant lease contracts and noted that gas station rentals are calculated based on a per-tonne fuel volume basis, and in conjunction with the actual lease revenue collected in the historical years, the forecast period is projected with reference to historical lease revenue and taking into account a certain amount of growth.

3. Forecast of operating costs

Principal business costs include toll related expenses, clearance services costs, and operating lease costs. Toll related expenses include: amortization of intangible assets, depreciation, road and bridge maintenance fees, technical service fees, etc. Clearance services costs include: equipment usage fees, fuel costs and others. Operating lease costs include: office expenses, property management fees, vehicle usage fees, etc.

a Forecast of toll related expenses:

1) Road and bridge maintenance fees

According to the Administrative Measures for Expressway Maintenance in Jiangsu Province (《江蘇省高速公路養護管理辦法》), expressway maintenance mainly includes routine maintenance, and major and medium repair projects.

Routine maintenance mainly involves the maintenance of highways and their engineering facilities as well as the rehabilitation of ancillary road facilities to keep them in good condition at all times. It mainly includes road cleaning, cleaning

of median strips, repairing road shoulders, slopes, and dredging of drainage facilities, pumping of tunnels, treatment of minor pavement defects, cleaning of bridge expansion joints, cleaning of signs and guardrails, and localized repairs. The cost for this part is relatively stable. In the valuation, the forecast is based on 2022 data and an annual growth rate of 3%.

Major and medium repair projects mainly refer to the medium- and long-term comprehensive repairs for the larger damages of highways and their engineering facilities, so as to fully restore them to the original design standards, or to carry out local improvements and individual additions within the scope of the original technical grade, so as to gradually improve the capacity of highway projects. This includes comprehensive repairs of roads that have reached their service life to restore them to their original design standards, or timely repairs of major damages caused by floods, earthquakes, etc., to ensure their normal use. In practice, there is uncertainty in the timing and scale of maintenance projects. In this valuation, it is assumed that the main maintenance works of roads during the project operation period are as follows:

Road maintenance projects: Generally speaking, according to the annual road inspection and assessment report, the corresponding project plan and program will be formulated, and the early regular practice is to carry out pavement overhaul once every 10 to 12 years. Considering the low proportion of heavy vehicles on Suxichang South Expressway and the further promotion of preventive maintenance at this stage, the major road repair cycle should be extended. With reference to the experience of other projects in the province, it is assumed in this valuation that a major repair project will be carried out once during the operation period, i.e. in the 15th year of operation, i.e. in 2036. The cost is calculated based on the current price of RMB200 per square meter, taking into account the 2% annual growth rate.

Other ancillary projects: Road markings will be renewed every 3 years, with annual cost allocation and a 2% annual growth rate. Guardrails will be replaced once within their lifespan and the costs of which will be apportioned annually and taking into account a 2% annual growth rate.

2) Technical consulting fees

Technical consulting fees will be calculated at 3.05% of the road and bridge maintenance fees. This value is the ratio of technical consulting fees to cumulative road and bridge maintenance fees from January 2022 to October 2023.

3) Three major system costs

It mainly includes daily maintenance and repairs of electromechanical facilities. The forecast is based on 2022 data and calculated at an annual growth rate of 3%.

4) Commission management fees will be based on 2022 data, with an 8% increase forecast for the whole year of 2023, and calculated at a 5% annual growth rate for 2024–2025, and an annual growth rate of 3% thereafter.

5) Water, electricity, and gas fees will be based on 2022 data, and considering that a large number of equipment will not be in use in the near future, such fees will be calculated based on annual growth rates of 10%, 5%, and 3% for the years 2023–2025, 2026–2030, and thereafter, respectively;

6) Lease fees, labor costs, and other expenses will be based on 2022 data and calculated at an annual growth rate of 2%;

7) Road network management fees will be calculated at 0.6% of the current toll revenue. This value is the ratio of road network management fees to cumulative toll revenue from January 2022 to October 2023.

8) Other expenses will be based on the data for 2022 to October 2023, averaged on a monthly basis for the forecast of November to December 2023, and then calculated based on a 2% annual growth rate thereafter;

9) Depreciation and amortization: Depreciation of fixed assets and amortization of intangible assets will be based on the existing and newly-added fixed assets of the target company, and will be forecasted according to the target company's existing depreciation and amortization policies.

b Forecast of clearance services costs:

- 1) Equipment utilization costs: mainly outsourcing costs. Referring to the actual costs for January–October 2023 to forecast the costs for November–December 2023, a 1% growth rate will be considered in future years based on the 2023 costs.
- 2) For expenses such as fuel and gas, and others: Forecast is conducted according to the proportion of their historical annual expenses to the clearance services revenue.

c Forecast of operating lease costs:

Operating lease costs are generated from external leasing operations in Taihu Bay service area. According to interviews by the valuer, as of the valuation date, Taihu Bay service area has been fully leased out. In the future, it is expected that the current operating mode will continue, and there will not be significant changes in operating lease costs. Therefore, property management fees will be forecasted by considering a certain growth rate on the basis of the 2023 costs, and other fees such as office expenses and water fees will be forecasted on a fixed fee basis.

4. Forecast of Taxes and Surcharges

Tax and surcharges mainly include the following: Urban Construction Tax (城建税), Education Surcharge (教育费附加), Local Education Surcharge (地方教育费附加), Stamp Tax (印花税), Property Tax (房产税), and Land Use Tax (土地使用税). The Urban Construction Tax, Education Surcharge, and Local Education Surcharge are mainly based on Value Added Tax (增值税), with tax rates of 7%, 3%, and 2% respectively. The Stamp Tax is 0.03% of the contract amount. The Property Tax is calculated based on the purchase price at a rate of 1.2% of 70% of the consideration of the property, or based on rental income at a rate of 12% of the rental income. The Land Use Tax is RMB6 per square meter. According to current tax preferential policies, Property Tax and Land Use Tax are exempted for the annual period of 2023. Based on predictions of future revenue and cost, as well as analysis of historical data, it is forecasted that the business tax and additional fees for the future annual period of the company are predicted.

5. Forecast of Other Operating Income and Costs

The target company does not have any other operating income or other operating costs.

6. Forecast of Sales Expenses

The target company incurred minimal sales expenses in historical years, and they are not forecasted for the future.

7. Forecast of Administrative Expenses

The administrative expenses incurred by the target company in historical years mainly consist of intermediary agency fees, which are relatively small in amount. Data for November to December 2023 are based on the actual amounts incurred by the enterprise, while for the years 2024 and beyond, the amounts incurred in 2023 are used as reference to forecast fixed amounts.

8. Forecast of Financial Expenses

Financial expenses consist of interest payments, calculated according to the agreed interest rate in loan contracts.

9. Forecast of Depreciation and Amortization

Depreciation is mainly calculated based on the original value, accounting depreciation period, and residual value rate of each asset. Amortization follows the target company's policy and is amortized using the traffic flow method.

10. Forecast of Capital Expenditure

Based on the assumption of ongoing operations, certain capital expenditures need to be considered in future years to maintain the basic operation of the enterprise and the forecasted scale of income. Capital expenditures involve updating existing assets, primarily the renewal of mechanical and electrical equipment. Updates for road maintenance and ancillary projects are already considered in the main operating costs.

11. Forecast of Working Capital and Increase in Working Capital

Working capital refers to the cash occupied by the enterprise in obtaining commercial credit from others due to changes in business activities, cash needed to maintain normal operations, etc. At the same time, in economic activities, providing commercial credit can reduce immediate cash payments accordingly.

Estimating the increment of working capital primarily involves considering the essential factors necessary to maintain normal operations, such as inventory, accounts receivable, prepaid expenses, accounts payable, and advance payments. Taxes payable and employee salaries payable are often incurred during operations and have relatively quick turnover, therefore, they are also considered as part of working capital.

Increment of Working Capital = Current Working Capital – Previous Working Capital

According to our understanding, the target company's operating current assets include necessary cash and accounts receivable. Operating current liabilities consist of taxes payable. Among these, operating cash is determined based on the minimum cash holding level. The minimum cash holding level is determined based on the enterprise's monthly cash needs as of the benchmark date. The management of the target company is entrusted to the Company, and the target company is required to pay certain management fees. The minimum cash holding level is forecasted based on the management fee agreed upon in this case. For the forecast of accounts receivable, toll fees of the target company are all handled and split by Jiangsu Expressway Network Operation & Management Co., Ltd. The data splitting and confirmation of toll fee income require certain procedures and may be slightly delayed in time. In this case, the accounts receivable is forecasted based on the average monthly toll fee income in the future. Regarding accounts payable, it is forecasted based on the monthly tax payable.

12. Forecast of Debt Principal Repayment

The repayment of debt principal is forecasted based on the repayment dates stipulated in the loan contracts.

13. Forecast of Income Tax

The income tax rate for the target company is 25%. It is forecasted based on the income tax rate as of the valuation date and considering the historical years' compensable losses in this case.

14. Determination of Equity Cash Flow

Based on the above forecasts, the forecasted equity cash flow during the forecast period is as follows:

Unit: 0'000

Figures for November 2023 to 2030:

| Year | November-December | | | | | | | |
|--|-------------------|-----------|------------|------------|------------|------------|------------|------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| I. Operating income | 8,408.94 | 86,443.01 | 112,667.94 | 129,422.97 | 126,228.10 | 148,535.06 | 181,079.50 | 202,385.57 |
| Revenue from main business | 8,408.94 | 86,443.01 | 112,667.94 | 129,422.97 | 126,228.10 | 148,535.06 | 181,079.50 | 202,385.57 |
| Other operating income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Less: (i) Operating costs | 6,895.84 | 46,999.40 | 55,755.20 | 61,255.25 | 60,922.87 | 68,062.52 | 78,943.38 | 86,304.50 |
| Main operating costs | 6,895.84 | 46,999.40 | 55,755.20 | 61,255.25 | 60,922.87 | 68,062.52 | 78,943.38 | 86,304.50 |
| Other operating costs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (ii) Taxes and surcharges | 0.00 | 559.57 | 1,346.03 | 1,525.25 | 1,413.18 | 1,649.70 | 1,996.16 | 2,221.66 |
| (iii) Sales expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (iv) Administrative expenses | 3.11 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| (v) Research and development expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (vi) Finance costs | 4,082.21 | 23,370.42 | 20,712.89 | 18,976.49 | 17,435.25 | 15,154.66 | 12,675.43 | 10,648.21 |
| II. Operating profit | -2,572.23 | 15,503.62 | 34,843.82 | 47,655.98 | 46,446.79 | 63,658.18 | 87,454.53 | 103,201.20 |
| III. Total profit | -2,572.23 | 15,503.62 | 34,843.82 | 47,655.98 | 46,446.79 | 63,658.18 | 87,454.53 | 103,201.20 |
| Less: Income tax expense | 0.00 | 0.00 | 0.00 | 11,582.56 | 11,611.70 | 15,914.55 | 21,863.63 | 25,800.30 |
| IV. Net profit | -2,572.23 | 15,503.62 | 34,843.82 | 36,073.41 | 34,835.09 | 47,743.64 | 65,590.90 | 77,400.90 |
| Add: Depreciation of fixed assets | 1,841.99 | 11,051.94 | 11,051.94 | 11,051.94 | 11,531.61 | 12,025.63 | 12,534.49 | 13,058.58 |
| Add: Long-term amortization of intangible assets | 2,047.02 | 25,173.59 | 33,294.84 | 38,359.53 | 37,090.03 | 43,236.63 | 53,025.92 | 59,345.22 |
| Less: Repayment of loan principal | -1,903.75 | 53,915.00 | 65,280.00 | 40,867.50 | 58,550.00 | 94,195.00 | 54,965.00 | 55,505.00 |
| Less: Capital expenditure (excluding tax) | 0.00 | 0.00 | 0.00 | 0.00 | 4,945.00 | 5,093.00 | 5,246.00 | 5,403.00 |
| Add: Effect of VAT on cash flow | 495.05 | 4,224.86 | | | | | | |
| Less: Increase in working capital | 3,729.99 | 2,083.43 | 1,575.37 | 293.34 | -178.72 | 1,318.22 | 1,948.70 | 1,274.01 |
| Plus: Working capital recoveries | | | | | | | | |
| VI. Equity cash flows | -14.41 | -44.42 | 12,335.23 | 44,324.04 | 20,140.46 | 2,399.69 | 68,991.61 | 87,622.70 |

Figures for 2031 to 2038:

| Year | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| I. Operating income | 199,844.04 | 155,706.12 | 162,720.03 | 169,775.07 | 176,438.08 | 212,055.75 | 217,464.87 | 223,060.22 |
| Revenue from main business | 199,844.04 | 155,706.12 | 162,720.03 | 169,775.07 | 176,438.08 | 212,055.75 | 217,464.87 | 223,060.22 |
| Other operating income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Less: (i) Operating costs | 77,583.24 | 63,456.44 | 66,624.87 | 69,707.85 | 72,705.83 | 122,891.03 | 86,774.95 | 89,050.19 |
| Main operating costs | 77,583.24 | 63,456.44 | 66,624.87 | 69,707.85 | 72,705.83 | 122,891.03 | 86,774.95 | 89,050.19 |
| Other operating costs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (ii) Taxes and surcharges | 2,191.25 | 1,713.52 | 1,785.67 | 1,858.16 | 1,926.32 | 1,894.13 | 2,360.21 | 2,416.59 |
| (iii) Sales expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (iv) Administrative expenses | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| (v) Research and development expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (vi) Finance costs | 9,207.90 | 8,376.90 | 7,472.86 | 6,562.32 | 5,679.75 | 4,698.26 | 3,420.04 | 2,134.16 |
| II. Operating profit | 110,851.64 | 82,149.27 | 86,826.64 | 91,636.75 | 96,116.18 | 82,562.33 | 124,899.66 | 129,449.29 |
| III. Total profit | 110,851.64 | 82,149.27 | 86,826.64 | 91,636.75 | 96,116.18 | 82,562.33 | 124,899.66 | 129,449.29 |
| Less: Income tax expense | 27,712.91 | 20,537.32 | 21,706.66 | 22,909.19 | 24,029.04 | 20,640.58 | 31,224.91 | 32,362.32 |
| IV. Net profit | 83,138.73 | 61,611.95 | 65,119.98 | 68,727.56 | 72,087.13 | 61,921.75 | 93,674.74 | 97,086.97 |
| Add: Depreciation of fixed assets | 4,810.75 | 3,999.60 | 4,572.29 | 5,162.14 | 5,769.75 | 6,395.60 | 6,560.50 | 6,730.44 |
| Add: Long-term amortization of intangible assets | 58,549.73 | 45,192.68 | 47,379.89 | 49,453.38 | 51,414.21 | 61,844.89 | 63,611.76 | 65,261.73 |
| Less: Repayment of loan principal | 23,340.00 | 26,110.00 | 26,690.00 | 25,497.50 | 25,750.00 | 36,830.00 | 33,600.00 | 33,600.00 |
| Less: Capital expenditure (excluding tax) | 5,565.00 | 5,732.00 | 5,904.00 | 6,081.00 | 6,264.00 | 6,452.00 | 6,645.00 | 6,845.00 |
| Add: Effect of VAT on cash flow | | | | | | | | |
| Less: Increase in working capital | -345.53 | -2,706.56 | 433.05 | 433.52 | 411.17 | 3,277.88 | -791.39 | 330.11 |
| Plus: working capital recoveries | | | | | | | | |
| VI. Equity cash flows | 117,939.74 | 81,668.79 | 84,045.10 | 91,331.06 | 96,845.93 | 83,602.36 | 124,393.39 | 128,304.03 |

Figures for 2039 to 2046:

| Year | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| I. Operating income | 228,051.63 | 233,011.82 | 236,142.90 | 239,419.02 | 242,285.88 | 245,452.03 | 246,996.60 | 247,579.49 |
| Income from main business | 228,051.63 | 233,011.82 | 236,142.90 | 239,419.02 | 242,285.88 | 245,452.03 | 246,996.60 | 247,579.49 |
| Other operating income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Less: (i) Operating costs | 91,159.98 | 93,091.29 | 94,861.56 | 96,513.86 | 98,058.63 | 99,513.83 | 100,894.10 | 102,207.50 |
| Main operating costs | 91,159.98 | 93,091.29 | 94,861.56 | 96,513.86 | 98,058.63 | 99,513.83 | 100,894.10 | 102,207.50 |
| Other operating costs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (ii) Taxes and surcharges | 2,466.39 | 2,515.73 | 2,545.27 | 2,576.24 | 2,602.71 | 2,632.27 | 2,644.26 | 2,645.78 |
| (iii) Sales expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (iv) Administrative expenses | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| (v) Research and development expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| (vi) Finance costs | 1,336.91 | 672.93 | 148.40 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| II. Operating profit | 133,078.34 | 136,721.88 | 138,577.67 | 140,318.92 | 141,614.54 | 143,295.94 | 143,448.24 | 142,716.22 |
| III. Total profit | 133,078.34 | 136,721.88 | 138,577.67 | 140,318.92 | 141,614.54 | 143,295.94 | 143,448.24 | 142,716.22 |
| Less: Income tax expense | 33,269.59 | 34,180.47 | 34,644.42 | 35,079.73 | 35,403.64 | 35,823.98 | 35,862.06 | 35,679.05 |
| IV. Net profit | 99,808.76 | 102,541.41 | 103,933.25 | 105,239.19 | 106,210.91 | 107,471.95 | 107,586.18 | 107,037.16 |
| Add: Depreciation of fixed assets | 6,905.43 | 7,085.65 | 7,271.31 | 7,462.60 | 7,659.60 | 7,862.53 | 8,071.46 | 8,286.71 |
| Add: Long-term amortization of intangible assets | 66,737.40 | 68,013.27 | 69,124.41 | 70,095.80 | 70,946.02 | 71,682.53 | 72,337.73 | 72,911.11 |
| Less: Repayment of loan principal | 13,100.00 | 16,000.00 | 12,000.00 | | | | | |
| Less: Capital expenditure (excluding tax) | 7,050.00 | 7,261.00 | 7,479.00 | 7,704.00 | 7,935.00 | 8,173.00 | 8,418.00 | 8,671.00 |
| Add: Effect of VAT on cash flow | | | | | | | | |
| Less: Increase in working capital | 304.15 | 301.69 | 201.97 | 215.42 | 194.18 | 208.77 | 119.24 | 65.77 |
| Plus: Working capital recoveries | | | | | | | | 16,315.83 |
| VI. Equity cash flows | 152,997.44 | 154,077.65 | 160,648.00 | 174,878.16 | 176,687.35 | 178,635.24 | 179,458.13 | 195,814.04 |

15. Determination of the Discount Rate:

1) *Model of selected discount rate*

Following the principle of consistency between the income amount and the discount rate, the basis to determine the income amount for this valuation is the amount of equity cash flow and the capital asset pricing model (CAPM) is chosen as the discount rate.

formula of CAPM model:

$$k_e = r_f + \beta_e \times R_{Pm} + r_c$$

Where: r_f : risk-free return rate;

R_{Pm} : market risk premium;

r_c : specific corporate risk adjustment coefficient

β_e : expected market risk coefficient of equity capital of appraised entity

$$\beta_e = \beta_u \times [1 + (1-t) \times (D/E)]$$

β_u : expected leverage-free market risk coefficient of comparable company

$$\beta_u = \beta_t / [1 + (1-t) \times (D_i/E_i)]$$

Since the above method of estimating β coefficient uses historical data, the actual β_U value without financial leverage that we estimate should be the historical β coefficient and not the future expected β coefficient. In order to estimate the expected future β coefficient, the Blume Adjustment method should be adopted. The formula is as follows:

$$\beta_{adj} = \frac{2}{3} \times \beta_{unadj} + \frac{1}{3} \times 1$$

Where: β_{adj} represents adjusted β value, β_{unadj} represents historical β value.

β_t : expected average market risk coefficient of comparable company

D_i, E_i : interest-bearing debts and equity capitals of comparable companies respectively

2) *Determination of relevant parameters in the model*

① *Determination of the risk-free rate of return R_f*

We adopted the Yield to Maturate Rate of national debts as the risk-free rate of return R_f . We selected the national debts, of which the period is 10 years from its maturity date to the valuation date, taken the average of its Yield to Maturate Rate as the average yield, which in turn taken as the risk-free rate of return R_f . By checking the data available from RoyalFlush and calculating the average yield of the national debts with 10 years from the valuation date, we obtained the result of 3.01%.

② *Determination of the excess return on equity markets risk (ERP)*

Market risk premium refers to the expected excess rate of return by investors for their investment in the market with similar risks, which means risk compensation over the risk-free rate. Among them, when calculating the excess rate of return on equity investment (R_m), we selected the CSI 300 Index, the most representative index in China's stock market with the help of Royal Flush iFinD data terminal, and use the year-end transaction closing prices (resumption price) of the constituent stocks of the CSI 300 Index at the end of each year to estimate the 10-year geometric average rate of return of each of the 300 stocks in a 10-year cycle using a rolling method.

The market risk premium ERP was 6.71% in 2023.

③ *Determination of the market risk coefficient β for equity*

According to the business characteristics of the target company, the evaluator queried the β_L value with financial leverage of comparable listed companies in Shanghai and Shenzhen A-shares as at 31 October 2023 through the RoyalFlush iFinD system, and then converted it to the β_U value without financial leverage based on the income tax rate and capital structure of comparable listed companies.

Since the above method of estimating β coefficient uses historical data, the actual β_U value without financial leverage that we estimate should be the historical β coefficient and not the future expected β coefficient. In order to estimate the expected future β coefficient, the Blume Adjustment method should be adopted. The formula is as follows:

$$\beta_{adj} = \frac{2}{3} \times \beta_{unadj} + \frac{1}{3} \times 1$$

Where: β_{adj} represents adjusted β value, β_{unadj} represents historical β value.

The adjusted β_U value without financial leverage of comparable listed companies estimated according to the above formula, and take its average value as the β_U value of the target company. Taking the average value of the capital structure of comparable listed companies as the target capital structure of the target company, and then combining with the income tax rate implemented during the forecast period of the target company, inputting each parameter into the formula for the calculation of the equity systematic risk coefficient, the equity systematic risk coefficient of the target company is calculated. Calculation formula:

$$\beta_L = \beta_U \times \left[1 + (1-T) \times \frac{D}{E} \right]$$

Where: β_L : β coefficient with financial leverage

β_U : β coefficient without financial leverage

T: Income tax rate

After calculation, the β equity of the appraised entity is 0.5045.

In this case, the target company's own capital structure will be used as the target capital structure. The target capital structure will be determined by iteratively calculating the ratio of interest-bearing debt balance to equity value for each year of the forecast period, which ultimately determines the forecasted annual β for the target company.

| Forecast period | November-December | | | | | | | |
|---|-------------------|--------|--------|--------|--------|--------|--------|--------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Interest-bearing debt/ equity value | 91.30% | 90.11% | 75.58% | 62.81% | 55.98% | 46.64% | 34.46% | 28.90% |
| Adjusted β coefficient without financial leverage (β U) | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 |
| Income tax rate after the benchmark date (for the enterprise itself) | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| β equity of appraised entity | 0.8500 | 0.8454 | 0.7905 | 0.7422 | 0.7163 | 0.681 | 0.6349 | 0.6139 |
| Forecast period | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 |
| Interest-bearing debt/ equity value | 23.92% | 22.42% | 19.95% | 17.50% | 15.28% | 13.09% | 9.75% | 6.99% |
| Adjusted β coefficient without financial leverage (β U) | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 |
| Income tax rate after the benchmark date (for the enterprise itself) | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| β equity of appraised entity | 0.595 | 0.5894 | 0.58 | 0.5707 | 0.5623 | 0.5541 | 0.5414 | 0.5309 |
| Forecast period | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 |
| Interest-bearing debt/ equity value | 4.03% | 2.98% | 1.40% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Adjusted β coefficient with financial leverage (β U) | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 |
| Income tax rate after the benchmark date (for the enterprise itself) | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| β equity of appraised entity | 0.5197 | 0.5158 | 0.5098 | 0.5045 | 0.5045 | 0.5045 | 0.5045 | 0.5045 |

④ *Determination of the enterprise-specific risk adjustment coefficient R_c*

As companies selected for the calculation of the risk coefficient are listed companies, compared with the comparable listed companies, the entity is an unlisted company and the excess returns arising from such entity's specific risks should be taken into account.

In this valuation, considering the characteristic individual risks that may arise from differences between the target company and comparable listed companies in terms of financing conditions, capital liquidity, governance structure and capital debt results, the enterprise-specific risk excess rate of return (R_c) was determined to be 1.3%.

2) *Determination of the discount rate for the forecast period*

| Item | November-December | | | | | | | |
|----------------------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Discount rate R_e (CAPM) | <u>10.01%</u> | <u>9.98%</u> | <u>9.61%</u> | <u>9.29%</u> | <u>9.12%</u> | <u>8.88%</u> | <u>8.57%</u> | <u>8.43%</u> |
| Item | | | | | | | | |
| | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 |
| Discount rate R_e (CAPM) | <u>8.30%</u> | <u>8.26%</u> | <u>8.20%</u> | <u>8.14%</u> | <u>8.08%</u> | <u>8.03%</u> | <u>7.94%</u> | <u>7.87%</u> |
| Item | | | | | | | | |
| | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 |
| Discount rate R_e (CAPM) | <u>7.80%</u> | <u>7.77%</u> | <u>7.73%</u> | <u>7.70%</u> | <u>7.70%</u> | <u>7.70%</u> | <u>7.70%</u> | <u>7.70%</u> |

16. Calculation Process and Conclusion of the Appraised Value

1) *Process for determining the value of operating assets*

Based on the various parameters identified in the above analysis and projections, by discounting the projected equity cash flows for each year of the income period, the value of the enterprise operating assets is as shown in the table below:

Amount unit: RMB0'000

| Item | November-December | | | | | | | |
|---|-------------------|------------|------------|------------|------------|------------|------------|------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Equity cash flow | -14.41 | -44.42 | 12,335.23 | 44,324.04 | 20,140.46 | 2,399.69 | 68,991.61 | 87,622.70 |
| Discount rate | 10.01% | 9.98% | 9.61% | 9.29% | 9.12% | 8.88% | 8.57% | 8.43% |
| Discount coefficient | 0.9921 | 0.9385 | 0.8548 | 0.7810 | 0.7152 | 0.6561 | 0.6035 | 0.5562 |
| Discounted equity cash flows | -14.29 | -41.69 | 10,543.95 | 34,616.24 | 14,403.48 | 1,574.44 | 41,633.15 | 48,733.76 |
| Item | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 |
| Equity cash flow | 117,939.74 | 81,668.79 | 84,045.10 | 91,331.06 | 96,845.93 | 83,602.36 | 124,393.39 | 128,304.03 |
| Discount rate | 8.30% | 8.26% | 8.20% | 8.14% | 8.08% | 8.03% | 7.94% | 7.87% |
| Discount coefficient | 0.5132 | 0.4740 | 0.4380 | 0.4049 | 0.3745 | 0.3466 | 0.3210 | 0.2974 |
| Discounted equity cash flows | 60,531.93 | 38,710.81 | 36,807.88 | 36,977.72 | 36,269.13 | 28,975.40 | 39,924.99 | 38,163.33 |
| Item | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 |
| Equity cash flow | 152,997.44 | 154,077.65 | 160,648.00 | 174,878.16 | 176,687.35 | 178,635.24 | 179,458.13 | 195,814.04 |
| Discount rate | 7.80% | 7.77% | 7.73% | 7.70% | 7.70% | 7.70% | 7.70% | 7.70% |
| Discount coefficient | 0.2758 | 0.2559 | 0.2375 | 0.2205 | 0.2047 | 0.1901 | 0.1765 | 0.1639 |
| Discounted equity cash flows | 42,201.75 | 39,430.07 | 38,154.52 | 38,559.38 | 36,172.98 | 33,957.07 | 31,674.56 | 32,090.43 |
| Accumulated discounted equity cash flow | | | | | 760,050.97 | | | |

2) *Determination of the surplus assets, non-operating assets/liabilities*

Surplus assets represent surplus currency funds, and non-operating assets and liabilities mainly include construction fees payables, and sporadic and infrequent transactions.

| Item | Amount <i>(RMB0'000)</i> |
|---------------------------|------------------------------------|
| Surplus assets | 52,726.67 |
| Non-operating assets | 0.59 |
| Non-operating liabilities | 12,699.60 |

17. **Appraisal Conclusion**

All shareholders' equity interests value = operating assets value + surplus assets + non-operating assets value – non-operating liabilities value

$$=760,050.97+52,726.67+0.59-12,669.6$$

$$=8,001 \text{ million. (rounded to nearest million)}$$

The above appraisal results have not been filed with the state-owned assets supervision and administration department and the data may be subject to change.

(2) The selection of comparable companies or comparable transactions under the market approach, the basis and reasonableness for such selection;

Reply:

1. Selection of cases

Through searching the equity transaction cases of expressway operating companies that have been completed within the recent year on RoyalFlush, it was found that there were relatively few cases of transaction and public information available, which poses challenges to effectively adjust for differences in the cases and the target company. Consequently, the transaction case comparison method cannot be used in this instance. However, since there are several listed companies engaged in expressway operations, the comparable listed company comparison method can be used for the market approach measurement.

From the analysis of industry characteristic, the operating costs of expressway operations have a significant proportion of fixed costs. Profitability can only be achieved when the traffic volume reaches a certain scale. The main factor determining the magnitude of traffic volume is the level of regional economic development. Therefore, fundamentally speaking, as long as the regional economy has a large base and a high growth rate, the profits of expressway companies within the region will be guaranteed. Hence, regional factors are the primary drivers affecting traffic volume and, subsequently, the value of expressway companies.

The target company's project road starts from the Qianhuang Interchange of the Changyi Expressway, crossing the Xili-Caohe re-routing section, Changcao Highway, and the Xinchang Railway on the south side of Qianhuang Town, intersects with the Xiyi Expressway and passes through the Changzhou Taihu Bay Tourism Resort via Panjia Town, enters into the territory of Mashan of Wuxi through the south of Xueyan Town, spanning both Changzhou and Wuxi, which is located in the economically developed area of southern region of Jiangsu Province. According to the GDP data released by the PRC authorities for the year 2022, Jiangsu Province ranked second with a GDP of RMB12.2 trillion, while Guangdong Province led the other provinces with a GDP of RMB12.9 trillion. Based on the data on listed expressway companies exported from Royal Flush, firstly, we exclude cases where toll revenue accounts for less than 50% of total operating revenue in the audited financial statements for the year 2022, secondly, we search for comparable listed companies operating in Jiangsu and Guangdong provinces. Applying these steps, the following three companies are identified: Nanjing-Shanghai Expressway, Shenzhen Expressway, and GPED A. Since Guangdong Expressway includes GPED A and GPED B, GPED

A is screened out as GPED B features weaker liquidity, which is difficult to be differentiated when calculating the ratio of value. As the comparable cases for market-based valuation are typically 3-6 cases, the regional criteria can be slightly relaxed while maintaining strict comparability in terms of business operations. Ranking the companies with the highest proportion of toll revenue to operating revenue, among which Shanxi Road and Bridge's operating revenue is 100% toll revenue, and the total assets are also very close to the target company. Therefore, it is included in comparable cases, and finally the Nanjing-Shanghai Expressway, Shenzhen Expressway, and Shanxi Road and Bridge are selected as comparable cases.

2. Selection of valuation ratios

In terms of selecting valuation ratios, due to the stable income and abundant cash flow of the Company with expressway operating rights, the financial leverage is generally high in the initial stage of operation, and then the proportion of interest-bearing debt decreases year by year due to the annual repayment of principal and interest. As a result, there may be significant differences in the capital structure of similar companies due to different initial construction financial leverage ratios, repayment plans, and cash flows, resulting in similar cash flows. Therefore, equity indicators of two companies with similar enterprise values, such as PB and PE, show significant differences. Therefore, equity indicators are not suitable for this type of enterprises. The indicators based on the full investment approach are more suitable for the evaluation of the target company. Additionally, as the target company is in rapid growth period and the performance of listed companies is generally stable, the enterprise value/pre-tax amortization profit and enterprise value/pre-tax profit are not suitable for this valuation. Taking into account the above considerations, the enterprise value/core assets (fixed assets + intangible assets) are used as the valuation ratios for this valuation, which takes into account the full investment approach, avoiding phased differences in profit indicators and considering the factor of heavy asset investment in expressway. Since each company has non-operating assets and liabilities, in order to unify the comparison criteria between companies, adjustments are made to non-operating assets and liabilities.

3. Liquidity discount

As the comparable listed companies selected for this valuation are all listed companies with strong liquidity in their shares, and the appraised entity is a non-listed company, it is necessary to consider the discount for lack of liquidity. The arithmetic mean of the discount rate for lack of liquidity confirmed in this valuation based on the comparison between the P/E ratio of listed companies in the capital market and the P/E ratio of mergers and acquisitions of non-listed companies, as calculated by domestic institutions, is 32%. The enterprise value/core assets after deducting liquidity discount are as follows:

| Project | Nanjing-Shanghai Expressway | Shenzhen Expressway | Shanxi Road and Bridge |
|--|--------------------------------|------------------------|---------------------------|
| Enterprise value before adjustments | 7,550,457.76 | 5,577,974.76 | 1,501,731.36 |
| Non-operating assets/liabilities | 380,172.52 | 324,893.30 | 57,169.65 |
| Enterprise value after adjustments | 7,170,285.24 | 5,253,081.46 | 1,444,561.70 |
| Enterprise value/core assets after liquidity discount | 1.2387 | 1.3534 | 1.0100 |

4. Adjustments to the valuation ratios

i Determination of comparable financial indicators and their standard scores

Based on the industry-wide performance description of the road transportation industry in the “Overall Enterprises Performance Appraisal Index 2022”, compiled by the State-owned Assets Supervision and Administration Commission of the State Council, combined with the characteristics of the appraised entity, the return on net assets, return on total assets, sales (operating) profit margin, total asset turnover, accounts receivable turnover, current asset turnover, gearing ratio and interest-bearing liabilities ratio are amended as financial indicators. As the listed companies all have multiple road properties, as well as other businesses, the performance of their value is basically considered to be earnings in perpetuity, whereas the target

company is a single road property with a limited number of years of toll collection, the years of earnings are also used as a correction factor to compare the appraised entity with comparable listed companies. The weightings of the indicators are allocated as follows:

| No. | Indicator classification | Indicator name | Weighting |
|--------------|---------------------------------|------------------------------------|--------------------------|
| 1 | Profitability status | Return on net assets | 10 |
| | | Return on total assets | 15 |
| | | Sales (operating) profit margin | 20 |
| 2 | Asset quality status | Total asset turnover ratio | 15 |
| | | Accounts receivable turnover ratio | 5 |
| | | Current asset turnover ratio | 5 |
| 3 | Debt risk situation | Gearing ratio | 5 |
| | | Interest-bearing liabilities ratio | 5 |
| 4 | Years of earnings | Years of earnings | <u>20</u> |
| Total | | | <u><u>100</u></u> |

According to the “Overall Enterprises Performance Appraisal Index 2022”, the average values of the five financial indicators are used as the “excellent value”, “good value”, “average value”, “lower value” and “poor value”, and adjusts them to correspond to the five evaluation standards. The excellent value is full score, the poor value is 70 points, the middle three grades are treated with averaged score, and the years of earnings are adjusted separately by 10%, multiplied by the corresponding weights as follows.

After adjusting the corresponding financial indicators, the standard values for each level are as follows:

Table of Standard Values for Financial Indicator

| Item | Excellent value | Good value | Average value | Lower value | Poor value |
|------------------------------------|------------------------|-------------------|----------------------|--------------------|-------------------|
| I. Profitability status | | | | | |
| Return on net assets | 15 | 13.875 | 12.75 | 11.625 | 10.5 |
| Return on total assets | 15 | 13.875 | 12.75 | 11.625 | 10.5 |
| Sales (operating) profit margin | 15 | 13.875 | 12.75 | 11.625 | 10.5 |
| II. Asset quality status | | | | | |
| Total asset turnover ratio | 15 | 13.875 | 12.75 | 11.625 | 10.5 |
| Accounts receivable turnover ratio | 5 | 4.625 | 4.25 | 3.875 | 3.5 |
| Current asset turnover ratio | 5 | 4.625 | 4.25 | 3.875 | 3.5 |
| III. Debt risk situation | | | | | |
| Gearing ratio | 5 | 4.625 | 4.25 | 3.875 | 3.5 |
| Interest-bearing liabilities ratio | 5 | 4.625 | 4.25 | 3.875 | 3.5 |
| Subtotal | <u>80</u> | <u>74</u> | <u>68</u> | <u>62</u> | <u>56</u> |
| Years of earnings | <u>20</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>18</u> |

ii *Determination of standard values for comparable financial indicators*

Based on the table of standard values for financial indicators for expressway enterprise performance evaluation of “Overall Enterprises Performance Appraisal Index 2022”, and combined with the enterprise’s own characteristics, the standard values of each comparable financial indicator are as follows:

Table of Standard Values for Financial Indicators of Performance Evaluation

| Item | Excellent value | Good value | Average value | Lower value | Poor value |
|--|-----------------|------------|---------------|-------------|------------|
| I. Profitability status | | | | | |
| Return on net assets (%) | 9 | 4.7 | 1.6 | -4.6 | -8.7 |
| Return on total assets (%) | 5 | 3.5 | 1.4 | -1.6 | -7.2 |
| Sales (operating) profit margin (%) | 26.1 | 15.3 | 3.9 | -17.3 | -34.6 |
| II. Asset quality status | | | | | |
| Total asset turnover ratio (times) | 0.5 | 0.4 | 0.3 | 0.2 | 0.1 |
| Accounts receivable turnover ratio (times) | 40.3 | 28.6 | 11.8 | 7.6 | 4.8 |
| Current asset turnover ratio (times) | 2.8 | 1.7 | 1 | 0.5 | 0.1 |
| III. Debt risk situation | | | | | |
| Gearing ratio (%) | 51 | 56 | 61 | 71 | 86 |
| Interest-bearing liabilities ratio (%) | 30.6 | 49.7 | 68.2 | 83.1 | 101 |

iii Calculation of financial indicators of comparable listed companies and appraised entity

Based on the adjusted financial data of comparable listed companies and the appraised entity, the financial indicators are calculated as follows:

Table of Numerical Values of Financial Indicators

| Item | Nanjing-Shanghai Expressway | Shenzhen Expressway | Shanxi Road and Bridge | Suxichang Company |
|--|-----------------------------|---------------------|------------------------|-------------------|
| I. Profitability status | | | | |
| Return on net assets (%) | 10.23 | 7.08 | 10.13 | -4.51 |
| Return on total assets (%) | 7.77 | 5.65 | 6.52 | -0.15 |
| Sales (operating) profit margin (%) | 34.56 | 26.51 | 34.94 | -83.62 |
| II. Asset quality status | | | | |
| Total asset turnover ratio (times) | 0.18 | 0.14 | 0.12 | 0.02 |
| Accounts receivable turnover ratio (times) | 16.75 | 8.77 | 13.58 | 89.37 |
| Current asset turnover ratio (times) | 1.49 | 1.03 | 2.00 | 0.57 |
| III. Debt risk situation | | | | |
| Gearing ratio (%) | 51.63 | 60.46 | 64.32 | 53.74 |
| Interest-bearing liabilities ratio (%) | 74.74 | 77.12 | 86.75 | 89.46 |

iv Calculation of the scores of the financial indicators of comparable listed companies and appraised entity

The financial indicators of each comparable listed company and the appraised entity were compared with the performance evaluation standards of listed companies, and the interpolation method was used to calculate the scores of each indicator. The specific formula is as follows:

Financial indicator score = (financial indicator value – low-grade financial indicator standard value) ÷ (high-grade financial indicator standard value – low-grade financial indicator standard value) × (high-grade financial indicator standard value score – low-grade financial indicator standard value score) + low-grade financial indicator standard value score

The scores of the indicators of comparable listed companies and appraised entity can be obtained after summarising the scores of each financial indicator, and the results are set out in the table below:

| Item | Nanjing-Shanghai Expressway | Shenzhen Expressway | Shanxi Road and Bridge | Suxichang Company |
|--|-----------------------------|---------------------|------------------------|-------------------|
| I. Profitability status | | | | |
| Return on net assets (%) | 15.00 | 14.50 | 15.00 | 11.64 |
| Return on total assets (%) | 15.00 | 15.00 | 15.00 | 12.17 |
| Sales (operating) profit margin (%) | 15.00 | 15.00 | 15.00 | 10.50 |
| II. Asset quality status | | | | |
| Total asset turnover ratio (times) | 11.42 | 11.00 | 10.76 | 10.50 |
| Accounts receivable turnover ratio (times) | 4.36 | 3.98 | 4.29 | 5.00 |
| Current asset turnover ratio (times) | 4.51 | 4.27 | 4.73 | 3.93 |
| III. Debt risk situation | | | | |
| Gearing ratio (%) | 4.95 | 4.29 | 4.13 | 4.79 |
| Interest-bearing liabilities ratio (%) | 4.09 | 4.03 | 3.80 | 3.74 |
| IV. Years of earnings | 20.00 | 20.00 | 20.00 | 18.00 |
| Total | <u>94.33</u> | <u>92.06</u> | <u>92.70</u> | <u>80.27</u> |
| Correction coefficient | <u>0.8510</u> | <u>0.8720</u> | <u>0.8659</u> | <u>-</u> |

5. Adjustments to the EV/core assets ratio

| Name | EV/core assets net of liquidity discount | Correction coefficient | Corrected EV/core assets | Average EV/core assets |
|--------------------------------|---|---------------------------|--------------------------------|------------------------------|
| Shanghai-Nanjing Expressway | 1.2387 | 0.8510 | 1.0542 | 1.0363 |
| Shenzhen Expressway | 1.3534 | 0.8720 | 1.1801 | |
| Shanxi Road and Bridge | 1.0100 | 0.8659 | 0.8746 | |

All shareholders' equity interests value of the target enterprise =
(1.0363 × core assets of the appraised entity) + surplus assets + value of
non-operating assets – value of non-operating liabilities – interest-bearing
liabilities

$$=(1.0363*1,394,285.97)+52,726.67+0.59-12,699.60-693,891.25$$

$$=7,910 \text{ million}$$

The difference between the appraisal result of RMB7,910 million using
the market approach and the result of RMB8,001 million using the income
approach is 1.14%, which is relatively small, and both results include all
assets recorded in the books as well as the value of goodwill, and therefore
the results are reasonable.

**The above appraisal results have not been filed with the state-owned assets
supervision and administration department and the figures may be subject to
change.**

(3) The reasons and major considerations for not selecting the asset-based approach for the valuation of this transaction

Reply:

The asset-based approach is a method of valuation that relies on the balance sheet of the appraised entity as of the valuation benchmark date for determining the equity value through aggregating and summarizing subject by reasonably appraising of on and off balance sheet assets and liabilities. The main assets of the target company are fixed assets and intangible assets, specially road toll rights. Fixed assets mainly consist of buildings and three major systems; intangible assets – road toll rights mainly consist of land acquisition costs, roadbed and road construction costs. In the asset-based method, the replacement cost method is mainly adopted for the valuation of this sub-asset. The replacement cost method is based on the construction project information and the completion settlement information in accordance with the volume of the building works, and the full replacement value of the fixed assets/intangible assets is calculated based on the prevailing quota standard, the construction fee and the interest rate of the loans, and the newness rate is determined based on the comprehensive determination of the serviceable life and on-site investigation condition, and the appraised value is then calculated. The basic formula is: appraised value = replacement cost × comprehensive newness rate. The target company was established on 14 March 2017, and immediately promoted the construction of the project road in a comprehensive manner. With the economic development of China, especially Jiangsu, which is an economically developed region in China, there will be certain increase in the labour cost, material cost and land acquisition cost each year. The level of the replacement cost is mainly determined by the increase of the labour cost, material cost and land acquisition cost, while neglecting the depreciating factors of poor future returns or the additional profit factors of good future returns. This approach fails to consider the corrective impact of operational factors on the value. Taking all these factors into consideration, the asset-based approach will not be used for the valuation in this transaction.

- (4) Indicate whether the transaction includes performance undertakings that align with the projected revenue. If not, please explain the reasonableness.**

Reply:

The Company did not arrange for performance undertakings matching the revenue forecast in the transaction proposal disclosed on 29 January 2024, mainly in consideration of: firstly, the valuation premium rate is relatively low at only 7.2%; secondly, since the commencement of the operation of the target asset, the Company has been entrusted with the comprehensive operational management of the target asset, and has sufficient understanding of the operating conditions, profitability and development prospects of the target asset, and there is no information asymmetry.

In order to further protect the interests of the minority shareholders of the Company and to enhance investors' confidence, the controlling shareholder of the Company has provided performance undertakings and entered into a supplemental agreement to the Equity Transfer Agreement with the Company to further optimise the terms of payment of the consideration. For details, please refer to the "Announcement on the Progress of Related Party Transaction in relation to the Acquisition of 65% Equity Interests in Jiangsu Suxichang South Expressway Co., Ltd. by the Company" dated 2 March 2024 published by the Company.

Question 4. Regarding the ownership defects of the target asset. The asset appraisal report showed that as of the valuation date, the ownership certificates for the real estate property of the Taihu Bay Service Area held by the target asset and the land use rights occupied by the Suxichang South Expressway have not been obtained. These effects have not been considered in this valuation.

Please disclose the following information:

- (1) The specific situation of the land and properties without ownership certificates, including the area, original book value, book value, actual usage, reasons for not obtaining property rights certificates, and proposed solutions;**

Reply:

According to the documents of the Ministry of Land and Resources, including Guo Tu Zi Han [2018] No. 65 and Guo Tu Zi Han [2018] No. 66, the Changzhou-Wuxi Section of Suxichang South Expressway has been approved for a total of 335.353 hectares of construction land (including 202.6954 hectares in Changzhou section and 132.6576 hectares in Wuxi section), which is provided by the local people's government through allocation.

According to the construction drawing design for the Changzhou-Wuxi Section of Suxichang South Expressway approved by the Jiangsu Provincial Department of Transport in Su Jiao Jian (2017) No. 41, the buildings on the Changzhou-Wuxi Section of Suxichang South Expressway is as follows:

The breakdown of the real estate buildings on the Changzhou-Wuxi Section of Suxichang South Expressway

| Location | Use | Area (m ²) | Note |
|---|-------------------------------|------------------------|---|
| Yun Cun Interchange Toll Station | Administrative Building | 748.50 | |
| | Dormitory Building | 509.86 | |
| | Power Distribution Room | 133.00 | |
| | Water Pump Room | 266.50 | 56.7 m ² above ground and 209.8 m ² underground |
| | Guard Room | 26.40 | |
| | Canteen | 80.23 | |
| | Greenhouse | 939.60 | Projected area |
| Taihu Bay Interchange Toll Station | Administrative Building | 920.00 | |
| | Dormitory Building | 544.40 | |
| | Power Distribution Room | 133.00 | |
| | Water Pump Room | 266.50 | 56.7 m ² above ground and 209.8 m ² underground |
| | Guard Room | 26.40 | |
| | Greenhouse | 939.60 | Projected area |
| | Comprehensive Office Building | 5,586.29 | Excluding the overhead layer of 1,960 m ² |
| Mashan Toll Station and Management Center | Dormitory Building | 2,093.56 | |
| | Guard Room | 22.40 | |
| | Maintenance Garage | 1,683.52 | |
| Junzhang Interchange Toll Station | Administrative Building | 845.70 | |
| | Dormitory Building | 544.40 | |
| | Rescue Garage | 442.56 | |
| | Power Distribution Room | 133.00 | |
| | Water Pump Room | 266.50 | 56.7 m ² above ground and 209.8 m ² underground |
| | Guard Room | 26.40 | |
| | Canteen | 80.23 | |
| | Greenhouse | 939.60 | Projected area |

| Location | Use | Area (m ²) | Note |
|--|--|------------------------|--|
| West Taihu Tunnel Hazardous Goods Vehicle Inspection Station | Comprehensive Building for the Road Administration | 835.62 | 56.7 m ² above ground and 209.8 m ² underground |
| | Dormitory Building for Road Administration | 657.44 | |
| | Comprehensive Building for the Traffic Police | 835.62 | |
| | Dormitory Building for the Traffic Police | 657.44 | |
| | Canteen | 80.23 | |
| | Power Distribution Room | 133.00 | |
| | Water Pump Room | 266.50 | |
| East Section of the Taihu Bay Service Area | Administrative Building Comprehensive Office Building | 3,857.00 | |
| | Dormitory Building | 803.00 | |
| | Water Pump Room | 111.00 | |
| | Automobile Repair Room | 133.92 | |
| | Power Distribution Room | 188.48 | |
| | Police Office | 61.78 | |
| | Garbage Room | 28.71 | |
| West Section of the Taihu Bay Service Area | Administrative Building Comprehensive Office Building | 3,475.27 | |
| | Automobile repair room | 133.92 | |
| | Power distribution room | 188.48 | |
| | Garbage room | 28.71 | |
| Mashan Interchange toll station | Comprehensive building for the road administration | 1,056.49 | |
| | Large-sized garage for repair works | 945.50 | |
| | Medium-sized garage for repair works | 450.46 | |
| | Small-scale garage for repair works | 287.56 | |
| East Side of the Yaoxian Mountain Tunnel | Power Distribution Room | 758.58 | First floor above ground: 304.56 m ² , first floor underground: 454.02 m ² |

| Location | Use | Area (m ²) | Note |
|--|--|------------------------|---|
| West Side of the Yaoxian Mountain Tunnel | Power Distribution Room | 233.28 | |
| East Taihu Tunnel | Comprehensive Building for the Road Administration | 835.62 | |
| Hazardous Goods Vehicle Inspection Station | Dormitory Building for Road Administration | 748.85 | |
| | Comprehensive Building for the Traffic Police | 835.62 | |
| | Dormitory Building for the Traffic Police | 748.85 | |
| | Power Distribution Room | 133.00 | |
| | Water Pump Room | 266.50 | 56.7 m ² above ground and 209.8 m ² underground |
| Nanquan Hub Toll Station | Greenhouse | 1,823.00 | Projected area (including the underground passage) |

As of the valuation date, the book value of the above-mentioned assets is as follows: the original value of the houses is RMB133.7547 million, and the net value is RMB181.9142 million; the original value of the buildings is RMB62.7419 million, and the net value is RMB58.1408 million; the original value of the assets formed by the land acquisition expenses is RMB3.1103068 billion, and the net value is RMB3.017241 billion. The detailed book value of the land and real estate buildings will be further refined and divided into specific asset items after the ownership of the relevant assets formed by the land and buildings is handled in combination with the actual management needs.

The different property rights certificates for the allocated land and the constructed buildings mentioned above have not been processed yet. After the final acceptance on 25 January 2024, the target company has begun to collect materials and prepare to submit applications to the relevant departments.

(2) Evaluate the importance of the above-mentioned defects to the production and operation of the underlying assets.

Reply:

The target company has completed the preliminary work such as land acquisition and demolition of above-ground objects, fully paid the compensation for land acquisition and demolition, and has been using the land in a substantial manner. At the same time, it has obtained the approval from the Jiangsu Provincial Government on the toll collection period. There has been no land ownership dispute since the commencement of operation on 30 December 2021. Land used for expressway purposes belongs to the category of special real estate, and the lack of relevant property rights certificates is a common phenomenon in the industry. Not obtaining property rights certificates does not affect the normal use of relevant land and properties by the target company, and will not have a significant adverse impact on the target company's normal production and operation.

By Order of the Board

Yao Yong Jia

Executive Director and Company Secretary

Nanjing, the PRC, 2 March 2024

As at the date of this announcement, the Directors of the Company are:

Chen Yunjiang, Xu Haibei, Wang Yingjian, Wang Feng, Yao Yongjia, Wu Xinhua, Li Xiaoyan, Ma Chung Lai, Lawrence, Zhou Shudong, Liu Xiaoxing*, Yu Mingyuan*, Xu Guanghua*, Ge Yang**

* *Independent Non-executive Directors*