

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**MAJOR TRANSACTION AND CONNECTED TRANSACTION
– ESTABLISHMENT OF JOINT VENTURE
FOR THE DEVELOPMENT OF
THE CHENGYA EXPRESSWAY EXPANSION PROJECT**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Cooperation Agreement, particulars of which are set out in the Letter from the Board (the “**Letter from the Board**”) of the circular of the Company dated 25 July 2025 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined under the definition section of the Circular.

According to the Announcement of the Company dated 22 July 2025, the Company entered into the Cooperation Agreement in respect of the establishment of the Project Company for the development of the Chengya Expressway Expansion Project.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Yu Haizong, Madam Bu Danlu, Mr. Zhou Hua and Mr. Jiang Tao, has been formed to advise the Independent Shareholders on the Cooperation Agreement and the transaction contemplated thereunder. We, Octal Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the last two years, we were engaged as the independent financial adviser to the Company (the “**Previous Engagement**”) in respect of the major and connected transaction in relation to acquiring 100% equity interest in the Sichuan Rongcheng Second Ring Expressway Development Co., Ltd. (details of which are set out in the circular of the Company dated 10 March 2023). Under the Previous Engagement, we were required to express our opinion on and give recommendation to the then independent board committee and the then independent shareholders.

As at the Latest Practicable Date, we are not connected with the Group, China Huashi, Transportation Construction Group, Road & Bridge Group, Gaolu IT or where applicable, any of their respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. During the last two years, there has been no other engagement entered into between the Company and us. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders.

Apart from normal professional fees payable to us by the Company in connection with the Previous Engagement and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, China Huashi, Transportation Construction Group, Road & Bridge Group, Gaolu IT or any of their respective subsidiaries or associates that could reasonably be regarded as relevant to our independence. As such, we do not consider that the Previous Engagements would affect our independence to act as the Independent Financial Advisor under the current appointment. Accordingly, we consider that we are independent to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Cooperation Agreement pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Cooperation Agreement, and the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information, among other things, (i) the Cooperation Agreement; (ii) the tender document; (iii) the annual report of the Group for the financial years ended 31 December 2023 and 2024 (respectively the “**2023 Annual Report**” and the “**2024 Annual Report**”); and (iv) other information as set out in the Circular, to reach an informed view and justify our reliance on the accuracy of the information contained in the Circular and

to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Project Company, and any of their respective subsidiaries and their respective associates, nor have we carried out any independent verification of the information supplied to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the Group

The Group is principally engaged in investment, construction, operation and management of expressway projects in the province, green energy investment business and integrated development of resources along the routes.

The revenue of the Group is generated from (i) the expressway segment which comprises the operation of expressways and a high-grade toll bridge in the PRC; (ii) the construction services segment which comprises the provision of construction and upgrade services under the service concession arrangements and construction contracts; (iii) the transportation services segment which comprises the provision of advertising services, the rental of properties along expressways, the operation of gas stations along expressways and the sale of oil products; (iv) the transportation logistics segment which comprises the sale of commodity logistics trade business; (v) the new energy technologies segment which comprises the provision of charging services for electric vehicles and the sale of charge modules; and (vi) other segment mainly refers to financial investments. Details of the major eight expressways operated by and contributing toll income to the Group which are situated in Sichuan Province are set out below:

	Expressway	Origin/ destination	Approximate length (kilometer)	Toll Collection Rights	
				Year of commencement	Year of expiry
1	Chengbei Exit Expressway	Qinglongchang/Baihelin	10	1998	2025
2	Chengyu Expressway	Chengdu/Shangjiapo	226	1997	2027
3	Chengya Expressway	Chengdu/Duiyan	144	2000	2029
4	Chengle Expressway	Qinglongchang/Guliba	86	2000	2029 ^(Note)
5	Chengren Expressway	Jiangjia/Zhichanggou	107	2012	2042

Expressway	Origin/ destination	Approximate length (kilometer)	Toll Collection Rights	
			Year of commencement	Year of expiry
6 Suixi Expressway	Jixiang Town/Taiping Town, Xichong County	68	2016	2046
7 Suiguang Expressway	Jinqiao interchange/ Hongtudi interchange	103	2016	2046
8 Second Ring (Western) Expressway	Yongxing Town/ Mengyang Town	114	2016	2046

Note: According to the 2024 Annual Report, the Chengle Expressway is undergoing an expansion construction project. The Group intends to apply for an extension of toll collection rights following the completion of the construction project.

Tianqiong Expressway is currently under trial operations and not included above.

The table below summarises the major financial information of the Group for the financial years ended 31 December 2022, 2023 and 2024 (“FY2022”, “FY2023” and “FY2024”) extracted from the 2023 Annual Report and 2024 Annual Report.

RMB’ million	FY2022 (audited)	FY2023 (audited)	FY2024 (audited)
Chengya Expressway (<i>Note 1</i>)	891	1,040	1,051
Other revenue from expressway segment	2,874	3,681	3,726
Expressway segment	3,765	4,721	4,777
Construction services segment (<i>Note 2</i>)	4,193	4,116	2,806
Others	2,461	2,744	2,664
Total revenue	10,419	11,581	10,247
Profit before net finance costs and tax	1,783	2,414	2,684
Profit for the year	679	1,267	1,540

Source: 2023 Annual Report and 2024 Annual Report

Note 1: The amounts represent toll income contributed by Chengya Expressway.

Note 2: The segment revenue was recognised mainly in respect of the construction services provided by the Group for the Chengle Expressway Expansion Construction Project and Tianqiong Expressways BOT Project using the input method. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

The Group operates nine expressways with a total mileage of approximately 900 kilometers in Sichuan Province (including the total toll mileage of approximately 858 kilometers and Tianqiong Expressway (approximately 42 kilometers, currently under trial operations)). As shown above, the toll collection rights of Chengbei Exit Expressway and Chengyu Expressway (being 236 kilometers in aggregate and 26.2% of the Group's expressway portfolio) will be expired by 2025 and 2027. Upon expiry of the toll collection rights of Chengya Expressway and Chengle Expressway in 2029, the Group's expressway portfolio will be decreased by another 230 kilometers in aggregate, or 25.6% of the Group's expressway portfolio. The toll collection rights of the abovementioned four expressways with a total length of approximately 466 kilometers (51.8% of the total length) will be expired in or before 2029. Being one of the major revenue sources among the expressways under the Group's operation, toll income from Chengya Expressway contributed 23.7%, 22.0%, 22.0% of the Group's expressway segment in FY2022, FY2023 and FY2024 respectively.

FY2023 vs FY2024

The revenue of the Group decreased from approximately RMB11,581 million in FY2023 to approximately RMB10,247 million in FY2024 by approximately 11.5% which was mainly attributable to the reduction in revenue of construction services segment. The revenue recognition of the construction services segment was based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services. During FY2024, 46.6% of the total revenue was derived from toll income of the expressway segment and the toll revenue maintained stable during FY2023 and FY2024.

The Group recorded the profit after tax of approximately RMB1,540 million in FY2024 as compared to that of approximately RMB1,267 million in FY2023, representing an improvement of approximately RMB273 million or 21.5%. The improvement of profitability was mainly attributable to the increment in operating profit by approximately RMB225 million as well as the reduction in finance cost by approximately RMB86 million. The interest coverage calculated as profit before net finance costs and tax divided by net finance costs in FY2024 was 3.3X.

FY2022 vs FY2023

The revenue of the Group increased from approximately RMB10,419 million in FY2022 to approximately RMB11,581 million in FY2023 by approximately 11.2% which was mainly attributable to the growth in expressway segment revenue. The expressway segment revenue increased from RMB3,765 million to RMB4,721 million, representing a growth of 25.4%. During FY2023, 40.8% of the total revenue was derived from toll income of the expressway segment, while the construction services segment remained relatively stable with a slight decrease of 1.8% from RMB4,193 million to RMB4,116 million.

The Group recorded the profit after tax of approximately RMB1,267 million in FY2023 as compared to that of approximately RMB679 million in FY2022, representing a improvement of approximately RMB588 million or 86.6%. The improvement in profitability was mainly

contributed by strong performance of the expressway segment due to rebound in traffic volume and increased demand for personnel travel during FY2023. The interest coverages calculated by profit before net finance costs and tax divided by net finance costs in FY2022 and FY2023 were 2.1X and 2.9X respectively.

The major items of the audited consolidated financial position of the Company as at 31 December 2023 and 2024 are summarised as below:

	As at 31 December	
	2023	2024
	<i>(audited)</i>	<i>(audited)</i>
RMB' million		
Non-current assets		
Property, plant and equipment	992	1,120
Service concession arrangements	49,646	51,821
Other non-current assets	3,884	3,967
	54,522	56,908
Current assets		
Trade and other receivables	1,016	1,136
Cash and cash equivalents	1,983	2,957
Other current assets	120	31
	3,119	4,124
Total assets	57,641	61,032
Non-current liabilities		
Interest-bearing bank and other borrowings	34,393	35,835
Other non-current liabilities	257	278
	34,650	36,113
Current liabilities		
Trade and other payables	2,819	2,709
Interest-bearing bank and other borrowings	3,388	2,590
Other current liabilities	111	124
	6,318	5,423
Total liabilities	40,968	41,536
Net assets	16,673	19,496
Total interest-bearing bank and other borrowings	37,781	38,425
Gearing ratio (total interest-bearing bank and other borrowings divided by total assets)	65.6%	63.0%

Source: 2023 Annual Report and 2024 Annual Report

As at 31 December 2024, the Group's core assets are the service concession arrangements in relation to the nine expressways operated by the Group of approximately RMB51,821 million, representing approximately 84.9% of the total assets. As at 31 December 2024, the Group recorded approximately RMB2,957 million of cash and cash equivalents.

The Group's liabilities mainly include interest-bearing bank and other borrowings of approximately RMB38,425 million, representing approximately 92.5% of total liabilities as at 31 December 2024. The Group's gearing ratio (as defined above) as at 31 December 2024 was approximately 63.0%, indicating the Group has been indebted. We noted that the amount of net current liabilities of the Group as at 31 December 2024 was decreased as compared to that as at 31 December 2023, indicating an improvement of short-term liquidity.

2. Background information of Chengya Expressway

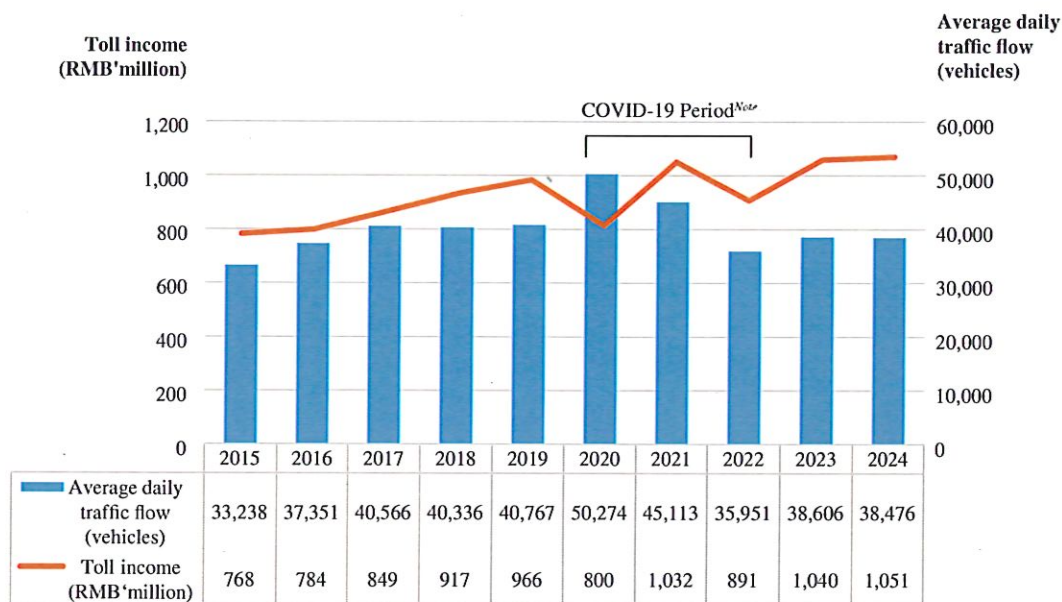
Chengya Expressway is located in Sichuan Province, the PRC. It commences at Yongfeng Interchange in Chengdu Municipality and ends at Duiyan in Ya'an Municipality, passing through Gaoxin District, Shuangliu District, Xinjin District, Qionglai City and Pujiang County in Chengdu Municipality, Pengshan District in Meishan Municipality, and Mingshan District and Yucheng District in Ya'an Municipality. Chengya Expressway forms part of the G5 Jingkun Expressway within China's national expressway network and serves as a major arterial route in the Western Development Initiatives, linking Sichuan Province with Yunnan Province and the Tibet Autonomous Region. It is also a radial route extending from Chengdu within the expressway network of Sichuan Province, serving as a major passageway connecting the three major cities of Chengdu, Meishan and Ya'an. Chengya Expressway holds a critical position within both national and regional road networks.

Chengya Expressway has total length of 144.2 kilometers and is wholly-owned by Sichuan Expressway Company Limited Operation and Management Branch III with an operating period from 1 January 2000 to 31 December 2029.

As one of the main expressway infrastructure for the Western Development initiative, Chengya Expressway not only facilitates regional economic growth but also enhances connectivity between Chengdu and its surrounding areas. Chengya Expressway is particularly significant in Sichuan's expressway network, acting as a vital link radiating from Chengdu, which greatly facilitates transportation and the movement of people.

According to the annual reports of the Company from 2015 to 2024, the average daily traffic flow and toll income of Chengya Expressway in the past 10 years are illustrated below.

Average Traffic Volume and Toll Income



Note: During the period from 2020 to 2022, toll revenue of Chengya Expressway was affected by the regional traffic controls and prevention measures in relation to COVID-19 pandemic.

The toll income of Chengya Expressway shows an increasing trend in the past decade with a record-high of RMB1,051 million in 2024. The average daily traffic volume increased from approximately 33,238 vehicles per day in 2015 to approximately 50,274 vehicles per day in 2020 and then dropped to 38,476 vehicles per day in 2024. The fluctuation of traffic flow is mainly caused by the temporary closure of certain expressway section due to maintenance work or upgrade work. Besides, the toll income shows a general upward trend from RMB768 million in 2015 to RMB1,051 million in 2024, representing a compound annual growth rate of approximately 3.2%. During the years from 2020 to 2022, the toll revenue was fluctuating due to the regional traffic controls in relation to and the prevention measures of COVID-19 pandemic; as well as the toll-free policy during February to May 2020 due to the impact of the COVID-19 pandemic.

3. Background information of Chengya Expressway Expansion Project

The Chengya Expressway Expansion Project covers a total length of 159.115 kilometers, consisting of the expanded section of Chengya Expressway and a newly constructed Lushan branch line (collectively New Chengya Expressway). The entire Chengya Expressway Expansion Project spans nine districts and counties across three cities. The expanded section of the Chengya Expressway along the original route has a total length of 134.748 kilometers which will be expanded to eight-lane dual carriageways. The Lushan branch line originates near Luojiaba in Lushan County, Ya'an Municipality, and connects with the Qionglai-Lushan-Yingjing Expressway, passing through Yucheng District before terminating at Mingshan District, where it connects with Chengya Expressway. The Lushan branch line will be approximately 24.367 kilometers and is four-lane dual carriageways.

The total investment in the Chengya Expressway Expansion Project has been estimated to be approximately RMB28,548 million which will cover all construction investments and expenses from project planning, engineering feasibility studies, survey and design, land acquisition and resettlement, and construction works through to completion acceptance. The said total investment amount was set out in the tender document as determined by the Tenderers. The construction process of the Chengya Express Expansion Project is expected to last for four years.

As advised by the management of the Company, the current road conditions of Chengya Expressway can no longer support the busy traffic pressure. Pursuant to the tender document, the Project Company, upon establishment, will enter into a concession agreement with the Tenderers. In principle, the concession period will not exceed 40 years and will consist of three periods, namely the preparation period, the construction period and the operation period (including the toll collection period). Among these, the operation period (including the toll collection period) will commence on the date of acceptance of completion of the project and end on the expiry date of the toll collection. The toll collection period, which will start from the approved commencement date of toll collection and end on the expiry date of toll collection, will be subject to the statutory limit (the maximum period prescribed by the prevailing national regulations is 30 years). The actual commencement and expiry dates are subject to the approval of the Sichuan Provincial People's Government.

4. Background information of partners of the Project Company

China Huashi

China Huashi is a joint stock company established in the PRC with limited liability. It is principally engaged in general contracting of projects (including housing construction and municipal utilities), real estate development, construction financing and overseas project contracting. As at the Latest Practicable Date, China Huashi is held as to 99.28% by the SHGCL and 0.72% by SHGBM (which is wholly owned by the SHGCL). SHGCL is held as to 90% by the State-owned Assets Supervision and Administration Commission of Sichuan Province (四川省政府國有資產監督管理委員會) and 10% by the Sichuan Provincial Department of Finance (四川省財政廳).

Transportation Construction Group

Transportation Construction Group is a joint stock company established in the PRC with limited liability. It is principally engaged in construction works; highway management and maintenance; construction engineering survey; construction engineering design; specialized equipment design; specialized equipment manufacturing; specialized equipment installation, modification and repair; and specialized equipment inspection and testing.

Road & Bridge Group

Road & Bridge Group is a joint stock company established in the PRC with limited liability. It is principally engaged in construction works; construction engineering design; construction engineering survey; construction engineering quality inspection; highway management and maintenance; specialized construction works; surveying and mapping services; and construction demolition works.

Gaolu IT

Gaolu IT is a joint stock company established in the PRC with limited liability. It is principally engaged in professional contracting for highway engineering (highway electromechanical engineering) and professional contracting for highway engineering (highway safety facilities).

As at the Latest Practicable Date,

- (i) Transportation Construction Group, Road & Bridge Group and Gaolu IT are indirect non-wholly owned subsidiaries of Shudao Investment, where:
 - (a) Transportation Construction Group and Road & Bridge Group are direct wholly-owned subsidiaries of SRB Group;

- (b) SRB Group, a joint stock limited company established under the laws of the PRC, and its shares are listed on the SSE, is mainly owned as to 56.87%, 10.04% and 7.43% by Shudao Investment, SECD and STAE, respectively; and
- (c) SECD and STAE are direct wholly-owned subsidiaries of Shudao Investment.
- (ii) Gaolu IT is owned as to 81.1765%, 10% and 8.8235% by SSITG, SYTE and SCIM, respectively, where:
 - (a) SSITG is an indirect wholly-owned subsidiary of Shudao Investment;
 - (b) SYTE is owned as to 51% and 49% by SSITG and Institute of Transportation Development Strategy and Planning of Sichuan Province (四川省交通運輸發展戰略和規劃科學研究院), respectively; and
 - (c) SCIM is an indirect wholly-owned subsidiary of Shudao Investment.
- (iii) Shudao Investment, the controlling shareholder of the Company, is a wholly-owned subsidiary of Sichuan Development Holding Co., Ltd.* (四川發展(控股)有限責任公司), which is wholly owned by the Sichuan Provincial People's Government.

5. Economic and industry development of Sichuan Province

Chengya Expressway has total length of 144.2 kilometers. Approximately 100 kilometers of Chengya Expressway is a dual four-lane expressway and the remaining approximately 40 kilometers of Chengya Expressway is a dual six-lane expressway. Chengya Expressway serves as a major route connecting Sichuan to Yunnan and Tibet, playing a crucial role in the development of the western region of the PRC. Chengya Expressway is an integral part of the transportation network of Chengdu, which passes through Meishan Municipality and Ya'an Municipality in Sichuan.

The table below sets out the annual growth rate of the nominal gross domestic product (“Nominal GDP”) and urbanisation rate from 2016 to 2024 of the PRC, Sichuan Province and Chengdu:

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Nominal GDP growth Rate									
PRC	8.4%	11.3%	10.5%	7.5%	2.9%	13.4%	5.1%	4.9%	4.2%
Sichuan Province	9.2%	14.4%	13.2%	8.1%	4.6%	11.5%	4.7%	6.2%	7.6%
Chengdu	11.4%	17.3%	12.7%	8.4%	4.1%	11.9%	4.1%	6.2%	6.5%
Meishan Municipality	5.5%	13.5%	10.5%	7.6%	2.7%	11.0%	5.1%	6.2%	8.8%
Ya'an Municipality	8.3%	8.4%	7.2%	10.7%	4.4%	12.3%	10.4%	7.9%	7.2%

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Urbanisation Rate ^(Note)									
PRC	58.8%	60.2%	61.5%	62.7%	63.9%	64.7%	65.2%	66.2%	67.0%
Sichuan Province	50.0%	51.8%	53.5%	55.4%	56.7%	57.8%	58.3%	59.5%	60.1%
Chengdu	74.0%	75.3%	76.6%	78.0%	78.8%	79.5%	79.9%	80.5%	80.8%
Meishan Municipality	43.5%	45.4%	47.1%	48.9%	50.1%	51.1%	51.6%	52.8%	53.2%
Ya'an Municipality	45.5%	47.4%	49.4%	51.5%	52.8%	53.6%	54.0%	55.2%	56.0%

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

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

Chengdu-Chongqing economic circle, being one of four major economic circles recognised by the PRC government, Chengdu plays a vital role in the development of national transportation network and implementation of the “Belt and Road” initiative of the PRC government. Chengdu is a logistics and railway transportation hub in south western China and also has a well-developed highway network. Chengdu Tianfu International Airport, the second airport in Chengdu, commenced operation since June 2021, which also makes Chengdu being the only city in western China that has two airports.

According to the statistics from the National Bureau of Statistics of China, Sichuan Provincial Bureau of Statistics and Chengdu Bureau of Statistics, the Nominal GDP in the PRC has been increasing at a CAGR of approximately 6.7% between 2016 to 2024, while the Nominal GDP in Sichuan Province and Chengdu have been increasing at CAGR of approximately 7.9% and 8.1% between 2016 to 2024, respectively, exceeding the national growth rate in the past ten years. Sichuan Province is ranked fifth in term of Nominal GDP among different PRC provinces in 2024. Chengdu being the capital city of Sichuan Province recorded a Nominal GDP of approximately RMB2,351 billion in 2024 which was the highest among all the cities in Sichuan Province. Chengdu ranked seventh in the country in PRC by GDP in 2024.

According to the National Bureau of Statistics of the PRC, the urbanisation rate of Sichuan Province reached approximately 60.1% in 2024; and the urbanisation rate of Chengdu reached approximately 80.8% in 2024. The continuous urbanization indicates the growth in population in the well-developed area in Chengdu and will drive the traffic demand in Sichuan Province, therefore stimulating the development of transportation infrastructure in the Sichuan Province.

In January 2022, Department of Transportation of Sichuan Province and Development and Reform Commission of Sichuan Province published Sichuan Provincial Expressway Network Layout Planning (2022-2035) (《四川省高速公路網佈局規劃(2022-2035年)》), in which expressway network of Sichuan Province will be covered by 20 Chengdu radial lines, 13 vertical lines, 13 horizontal lines, 4 circular lines and 44 contact lines in 2035 (the “Expressway Network Plan”). The Expressway Network Plan will have a total length of approximately 20,000 kilometers which has increased by 3,900 kilometers as compared to the

previous expressway network plan initiated in 2019. Chengya Expressway has been included in the Expressway Network Plan as one of the key expressway development project. Chengdu has managed to maintain its pioneer position as a center of southwest China, therefore the transportation infrastructure is a key element to support the continuous economic development in Chengdu.

6. Reasons for and benefits of entering into the Cooperation Agreement

Chengya Expressway's contribution to the Group

The Company has operated and managed Chengya Expressway for over two decades since 2000. Chengya Expressway has been one of the major toll income sources of the Group. During the three years ended 31 December 2024, the toll income of Chengya Expressway accounted for around 10% of the Group's total revenue and accounted for around 23% of the total revenue of the expressway segment. Among the eight expressways owned by and contributing toll income to the Group, Chengya Expressway contributed the highest toll income to the Group in FY2024.

Besides, Chengya Expressway is owned and operated by a wholly-owned subsidiary of the Company, Sichuan Expressway Company Limited Operation and Management Branch III (formerly known as "Sichuan Expressway Company Limited Chengya Branch") ("Branch III"). Branch III is profitable in the past three financial years, generating a net profit after taxation of around RMB467 million, RMB567 million and RMB629 million in FY2022, FY2023 and FY2024, respectively. The Group's expressway segment recorded segment profit of RMB2,038 million, in which around 30.9% of segment profit was contributed by Branch III.

In view of the historical revenue and profit contribution of Chengya Expressway, we consider it is beneficial to the Group to continue its operation role in Chengya Expressway if the existing expressway operation rights could be extended further. Participating in the Chengya Expressway Expansion Project allows the Project Company to renew the toll collection rights of the New Chengya Expressway and prolong the toll income stream of New Chengya Expressway for not more than of 30 years (according to the prevailing national regulations).

We noted that the Company performed internal assessment on the investment payback period in the Chengya Expressway Expansion Project including, inter alias, the traffic volume of the Chengya Expressway after the completion of expansion construction work, comparative advantages against nearby expressways in terms of driving distance and driving duration, an assessment on the construction and operating costs after the said completion and the overall financial impacts.

In-line with development strategy of the Group

As disclosed in the 2024 Annual Report, the Company has formulated a business development plan of “integrating industrial resources and consolidating the core business”. This strategy involves two key approaches: enhancing existing assets through improved maintenance quality, security efficiency, and technical capabilities; while expanding the portfolio through strategic acquisitions, asset consolidation, and routine upgrades of road properties. These initiatives aim to promote cross-sector collaboration and drive sustainable growth.

The Group’s expressway network includes nine expressways, covering a total network mileage of approximately 900 kilometers. After the completion of the expansion project, the total network mileage of Chengya Expressway will increase by approximately 24 kilometers, providing a total mileage of approximately 159 kilometers. The Chengya Expressway will continue to connect with Chengle Expressway and Second Ring (Western) Expressway (collectively “**Connected Expressways**”), connecting a number of major cities in Sichuan and leading to Chengdu. The expanded sections of Chengya Expressway will be increased to eight-lanes dual carriageways, increasing the overall traffic capacity of Chengya Expressway to relieve the prolonged congestion issue. The connection of Chengya Expressway with the Connected Expressways could increase the market share and competitive strength of the Company in Sichuan Province. Moreover, the Chengya Expressway and the Connected Expressways will form a hub and interchange which will enhance the efficiency of the Company in coordinating and responding to road emergencies and improve the road access service capacity. It is beneficial for the Group to further constructing additional lanes and building the Lushan branch line.

On the other hand, apart from Chengya Expressway, the toll collection right of Chengbei Exit Expressway and Chengyu Expressway will be expired in 2025 and 2027 respectively. As advised by the management of the Company, the Company is actively striving for the participation of the expansion project and obtaining its toll collection rights for a long term basis (subject to the final approval of the relevant authorities).

Positive market outlook in Sichuan

According to the Sichuan Provincial Strategy and the “Fourteenth Five-Year” Plan on Comprehensive Traffic Transport Development of Sichuan Province (《四川省“十四五”綜合交通運輸發展規劃》), Sichuan Government planned to invest approximately RMB1,200 billion in the construction of the integrated transportation facilities, in which RMB700 billion will be used for highway and waterway. It is expected that the total mileage of high-speed expressways will increase from approximately 8,140 kilometers in 2020 to approximately 11,000 kilometers in 2025. The Sichuan Government will continue to accelerate the construction of expressways and further strengthen the interconnection of the expressways within the Sichuan Province, in order to establish the expressways connection of 152 counties, cities and districts of Sichuan Province. In a long term prospective, as discussed in the section headed “5. Economic and industry development of Sichuan Province”, the Department of Transportation of Sichuan

Province and Development and Reform Commission of Sichuan Province have initiated the Expressway Network Plan which the total length of expressway network of Sichuan Province is planned to reach approximately 20,000 kilometers in 2035.

Given the provincial plan and the continuous improvement of the expressway facilities, the Directors are optimistic of the prospect of the toll road infrastructure in Sichuan and its future tariff volume. Therefore, it is strategically critical for the Group to continue operating Chengya Expressway and its expanded branch line in order to maintain its market leadership position in Sichuan.

We understand that (i) Chengya Expressway is an integral part of the highway network planning in Sichuan Province and Chengdu's integrated traffic and transportation system; (ii) Chengya Expressway not only generated the highest toll income among the nine expressways owned by the Group but was also profit-making in the past three years; (iii) the expansion project is in-line with the business strategy of the Group to focus on its principal expressway business in Sichuan Province; (iv) the Chengya Expressway has been well-established with stable traffic flow and it is more cost-effective and time-saving to continue the operation of Chengya Expressway; and (v) an internal analysis and assessment on the Chengya Expressway Expansion Project by the Group. Having considered the above, we concur with the Directors that there is a commercial justification for the Company to enter into the Cooperation Agreement.

7. Principal terms of the Cooperation Agreement

Major terms of the Cooperation Agreement are summarised as below:

Date: 22 July 2025

Parties:

1. the Company
2. China Huashi
3. Transportation Construction Group
4. Road & Bridge Group
5. Gaolu IT

Establishment of Project Company:

The core business of the Project Company is proposed to be the construction, operation, management and transfer of the Chengya Expressway Expansion Project.

The capital commitment of the Project Company will be RMB5.767 billion (which represents 20.2% of the total investment amount of the Chengya Expressway Expansion Project, as required by the tender document and determined by the parties), of which:

- (i) RMB4.902 billion will be contributed in cash by the Company, representing 85% of the total capital commitment of the Project Company;
- (ii) RMB0.577 billion will be contributed in cash by China Huashi, representing 10% of the total capital commitment of the Project Company;
- (iii) RMB0.173 billion will be contributed in cash by Transportation Construction Group, representing 3% of the total capital commitment of the Project Company;
- (iv) RMB0.058 billion will be contributed in cash by Road & Bridge Group, representing 1% of the total capital commitment of the Project Company; and
- (v) RMB0.058 billion will be contributed in cash by Gaolu IT, representing 1% of the total capital commitment of the Project Company.

The registered capital of the Project Company will be RMB100 million (which represents approximately 1.73% of the total capital commitment as above-mentioned, as determined by the parties), of which:

- (i) RMB85 million will be contributed in cash by the Company, representing 85% of the total registered capital of the Project Company;
- (ii) RMB10 million will be contributed in cash by China Huashi, representing 10% of the total registered capital of the Project Company;
- (iii) RMB3 million will be contributed in cash by Transportation Construction Group, representing 3% of the total registered capital of the Project Company;
- (iv) RMB1 million will be contributed in cash by Road & Bridge Group, representing 1% of the total registered capital of the project Company; and
- (v) RMB1 million will be contributed in cash by Gaolu IT, representing 1% of the total registered capital of the Project Company.

The Project Company will be held as to 85% by the Company, therefore the Project Company will become a non-wholly owned subsidiary of the Company. China Huashi, Transportation Construction Group, Road & Bridge Group and Gaolu IT were introduced by the Company as co-investors and each party's contribution was determined by after arm's length negotiation and taking into account the Company's financial condition.

Pursuant to the Cooperation Agreement, the capital commitment should be fulfilled by parties in installments over four years, with proportions of 20%, 30%, 30%, and 20% respectively. In respect of the future capital commitment constituting the remaining portion of the total investment and further funding requirements of the Chengya Expressway Expansion Project, it is expected that details of which will be determined in the further agreements to be entered into by the Project Company. It is currently anticipated that such commitment could be financed by debt financing by the Project Company. The Company will make further announcements as and when appropriate in accordance with the Listing Rules.

Performance Bond:

A performance bond in RMB170 million was undertaken by the Company in respect of the Chengya Expressway Expansion Project on proportional to the shareholding of the Project Company owned by the Group.

Governance and Management of the Project Company:

1. Governance structure

The Project Company shall set up its shareholders' meetings, board of directors and management in accordance with the laws.

2. Composition of the board of directors and executive management

The board of directors of the Project Company shall consist of 7 members, with 6 of which to be nominated by the Company and 1 by China Huashi. The legal representative of the Project Company shall be the chairman of the board of directors, who shall be nominated by the Company for election by the board of directors.

There shall be one general manager in the Project Company, who shall be nominated by the Company; one chief financial officer, who shall be nominated by the Company; and a number of senior management members, one of which shall be nominated by China Huashi and the remaining by the Company.

The detailed arrangements shall be set out in the articles of association of the Project Company.

Restrictions on Shareholding Changes:

Pursuant to the tender document, no transfer of shareholdings in the Project Company may be effected by any party before acceptance of completion of the Chengya Expressway Expansion Project. Subsequent to acceptance of completion of the Chengya Expressway Expansion Project, shareholdings in the Project Company may be transferred through relevant procedures.

Condition Precedents:

The Cooperation Agreement will be completed upon full completion of all conditions set out below:

1. The notice of winning bid was issued by the Tenderers;
2. The completion of necessary internal approval procedures and execution by seal of the Cooperation Agreement by the Company, China Huashi, Transportation Construction Group, Road & Bridge Group and Gaolu IT respectively; and
3. The compliance by the Company with relevant requirements under the Listing Rules in respect of the Cooperation Agreement and the transaction contemplated thereunder, including but not limited to reporting to the Stock Exchange and SSE, publishing of announcement and obtaining of Independent Shareholders' approval in respect of the Cooperation Agreement.

As at the Latest Practicable Date, save for item 2 above, none of the conditions have been fulfilled.

None of the above conditions may be waived by any party to the Cooperation Agreement.

Proposed term of toll collection rights and concession agreement

Pursuant to the tender document, the Project Company, upon establishment, will enter into a concession agreement with the Tenderers. In principle, the concession period will not exceed 40 years and will consist of three periods, namely the preparation period, the construction period and the operation period (including the toll collection period). Among these, the operation period (including the toll collection period) will commence on the date of acceptance of completion of the project and end on the expiry date of the toll collection. The toll collection period, which will start from the approved commencement date of toll collection and end on the expiry date of toll collection, will be subject to the statutory limit (the maximum period prescribed by the prevailing national regulations is 30 years). The actual commencement and expiry dates are, subject to the approval of the Sichuan Provincial People's Government.

8. Analysis of the principal terms in the Cooperation Agreement

We have set out below our analysis on the fairness and reasonableness of the principal terms in the Cooperation Agreement.

a. Analysis of equity commitment

The Company is committed to contribute RMB4,902 million to the Project Company in total by four instalment during the four years of construction period pursuant to the Cooperation Agreement, with an estimation of approximately RMB980 million in 2025, RMB1,470 million in 2026, RMB1,470 million in 2027 and RMB980 million in 2028. Based on the information from the Company, the Group's unaudited cash balance as at 31 March 2025 amounted to approximately RMB4,513 million which is sufficient to cover the total amount of the first three installments due over the next three years of approximately RMB3,920 million. Additionally, considering the historical net cash flow from operating activities of approximately RMB988 million in FY2024 and assuming the Group could continue to generate similar amount of cash flow, we concur with the Directors that the Group could in general have sufficient internal resources for the Project Company.

b. Board composition of the Project Company

The business of the Project Company is to be managed by the board of the Project Company which comprises seven directors, of which six directors will be appointed by the Company and one director will be appointed by China Huashi. Those six directors nominated by the Company could exercise control on the business decision, operation and financial control of the Project Company and monitor the assets of the Project Company. Therefore, we consider that the board composition is in the interest of the Company.

c. Management of the Project Company

The senior management of the Project Company include a general manager, a chief financial officer and other senior management members. China Huashi will appoint one of the senior management members as its representative. The general manager, chief financial officer and the remaining senior management members will be appointed by the Company, therefore the representatives of the Company will manage the day to day operation of the Project Company and directly monitor the financial position and use of fund of the Project Company. Being the single largest shareholder of the Project Company, it is fair and reasonable for the Company to exert direct control on the operation of Project Company.

d. Comparative advantage to form a consortium with China Huashi, Transportation Construction Group, Road & Bridge Group and Gaolu IT

As disclosed in the Letter from the Board, China Huashi, Transportation Construction Group, Road & Bridge Group and Gaolu IT have core business operations related to construction activities, and possess key qualifications such as general contracting qualification

for construction works, highway management and maintenance and highway electromechanical engineering. Their expertise and competitiveness, particularly in the field of expressway construction, were evidenced by their recent success in winning three similar expressway project tenders in Sichuan Province in 2025. As the Group does not possess such qualifications for highway construction, the involvement of these partners with strong highway construction background, the Group will enhance the likelihood to win the tendering. Establishing the Project Company with them as co-investors will also alleviate the Company's financial pressure associated with the Chengya Expressway Expansion Project while the Company maintains its controlling stakeholder in the Project Company. Leveraging on the industry knowledge and expertise of these partners, the collaborations could allow the Chengya Expressway Expansion Project to run efficiently.

9. Financial effect of the Project Company

Upon completion of the formation of the Project Company, the amount of capital contribution provided by the Company will be recognized in the financial statement of the Project Company and the financial position and financial result of the Project Company will be consolidated in the consolidated financial statement of the Company as a non-wholly-owned subsidiary. It is expected that there will be no material change in the net assets position of the Group as a result of the establishment of the Project Company.

As the Project Company will be newly formed and the capital injection is expected to be funded from the internal resources of the Group, the establishment of the Joint Venture Company and the capital injection by the Company are not expected to have any material impact on the earnings position of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial results and the financial position of the Group will be upon the successful establishment of the Project Company.

10. Risk Factors

There are certain risks and uncertainties involved in the Chengya Expressway Expansion Project, some of which are beyond the Company's control:

a. Financial risk

With reference to the existing level of internal resources available to and the liquidity of the Group, the Chengya Expressway Expansion Project requires substantial capital investment without immediate return during the construction phase, which may further increase the Company's short-term and long-term debt burden. Potential fluctuations in loan interest rates may lead to risks of higher financing costs, which may set off against the incremental toll income from the Chengya Expressway Expansion Project. Furthermore, inefficient fund management could result in construction delays, opportunity costs, and increased construction expenses.

b. Operational risk

The toll income may be affected by various factors, including national macroeconomic trend, regional economic growth, future transportation infrastructure development, road network modifications and projected traffic volume not meeting expectations. Additionally, if construction and operation costs cannot be effectively and reasonably controlled, there could be risk of budget overruns, adjustments to internal rate of return, and impacts on financial net present value. These factors could adversely affect the financial performance of the Chengya Expressway Expansion Project.

c. Engineering and construction risk

The construction period of the Chengya Expressway Expansion Project is expected to span 4 years pursuant to the tender document. The Lushan branch line of the Chengya Expressway Expansion Project traverses terrain with challenging geological conditions, predominantly mountainous and hilly areas. These geological conditions presents significant technical challenges for tunnel and bridge construction and may introduce uncertainty regarding construction time and costs. Moreover, the expansion work on the heavily trafficked New Chengya Expressway poses operational challenges in maintaining traffic flow while ensuring construction safety. Besides, expressway construction projects generally require continued coordination with affected local communities to ensure smooth construction progress.

d. Policy risk

The standard toll rates and toll collection period for the Chengya Expressway Expansion Project are subject to approval from the relevant PRC government authorities. Any future changes in industry policies may create uncertainties in the operations of Chengya Expressway Expansion Project.

OPINION AND RECOMMENDATION

Having balanced the risks associated with the Chengya Expressway Expansion Project (details of which are set out under the section headed “10. Risk Factors”) and the potential benefits of the Chengya Expressway Expansion Project to the Group, in particular:

1. avoiding further potential reduction of the Group’s expressway portfolio given the expected expiry of existing toll collection rights of Chengbei Exit Expressway and Chengyu Expressway by 2025 and 2027 respectively;
2. the Chengya Expressway is the major toll income source of the Company and the Chengya Expressway Expansion Project could extend the toll collection rights beyond 2029, which could guarantee its toll income in long term with the toll collection period pursuant to the tender document of 30 years in maximum as prescribed by the prevailing national regulation; and

3. the entering into Cooperation Agreement is in line with the Group's business strategy to maintain the competitiveness of the expressway portfolio and increase its market share in Sichuan Province,

we are of the opinion that (i) the terms of the Cooperation Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) the entering into the Cooperation Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Cooperation Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited



Wong Wai Leung
Executive Director

Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has experience in corporate finance and investment banking and has completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.