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

If you have sold or transferred all your shares in **Sichuan Expressway Company Limited*** (the “Company”), you should at once hand this circular and the accompanying form of proxy and the reply slip to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



四川成渝高速公路股份有限公司 Sichuan Expressway Company Limited*

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

(Stock Code: 00107)

(1) CONTINUING CONNECTED TRANSACTION AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Advisor
to the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover shall have the same meanings as those defined in the circular.

A letter from the Board is set out on pages 1 to 17 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from Halcyon Capital Limited, the Independent Financial Advisor, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 39 of this circular.

A notice convening the EGM of the Company to be held at 3:00 p.m. on 6 January 2022 (Thursday) at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the People's Republic of China (the “PRC”) is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited and the Company. If you intend to appoint a proxy to attend the EGM, you are required to complete and return the form of proxy enclosed with this circular in accordance with the instructions printed thereon. For the holders of H Shares, the form of proxy should be returned to the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in any event not less than 24 hours before the time appointed for convening the EGM (or any adjournment thereof) or 24 hours before the time appointed for the passing of the resolutions. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

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DEFINITIONS

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

“A Share(s)”	ordinary shares of the Company with a nominal value of RMB1.00 each, which are issued in the PRC, subscribed for in RMB and listed on the Shanghai Stock Exchange (stock code: 601107)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Sichuan Expressway Company Limited* (四川成渝高速公路股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange respectively
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Framework Agreement”	the construction framework agreement entered into between the Company and Shudao Investment on 16 November 2021
“Construction Works”	the construction works contracted by Shudao Investment Group from the Group under the Construction Framework Agreement, details of which are set out in the section of major terms of the Construction Framework Agreement – Content of Transaction
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and approve the Construction Framework Agreement and the transactions contemplated thereunder, the notice of which is set out on pages EGM-1 to EGM-3 of this circular
“Expansion Construction Project”	expansion construction project for Chengdu to Leshan Expressway
“Group”	the Company and its subsidiaries

DEFINITIONS

“H Share(s)”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are issued in Hong Kong, subscribed for in Hong Kong dollars and listed on the main board of the Stock Exchange (stock code: 00107)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Financial Advisor” or “Halcyon Capital”	Halcyon Capital Limited, a licensed corporation under the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial advisor to the Independent Board Committee and the Independent Shareholders in respect of the Construction Framework Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who are not required to abstain from voting on relevant resolutions at the EGM due to their material interests in the Construction Framework Agreement
“Latest Practicable Date”	3 December 2021, being the latest practicable date for ascertaining information referred to in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Construction Framework Agreement”	the construction framework agreement entered into between the Company and STIG on 19 November 2020 in respect of contracting certain construction services from the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Shudao Investment”	Shudao Investment Group Company Limited* (蜀道投資集團有限責任公司), the controlling shareholder of the Company, subject to completion of the share transfer procedures disclosed in the announcement of the Company dated 28 May 2021 by Shudao Investment

DEFINITIONS

“Shudao Investment Group”	Shudao Investment and its subsidiaries (other than the Group)
“STIG”	Sichuan Transportation Investment Group Company Limited* (四川省交通投資集團有限責任公司), the former controlling shareholder of the Company, the rights and obligations of which contained in the Previous Construction Framework Agreement have been undertaken by Shudao Investment from 28 May 2021
“STIG Group”	STIG and its subsidiaries (other than the Group)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	A Shares and H Shares
“Shareholder(s)”	registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisors of the Company
“%”	per cent

* *For identification purposes only*



四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*

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

(Stock Code: 00107)

Executive Directors:

Mr. Gan Yongyi (*Chairman*)
Mr. Li Wenhui (*Vice Chairman*)
Madam Ma Yonghan
Mr. You Zhiming
Mr. He Zhuqing

Legal Address:

252 Wuhouci Da Jie
Chengdu
Sichuan Province
The PRC
Post code: 610041

Non-executive Directors:

Mr. Liu Changsong (*Vice Chairman*)
Mr. Li Chengyong

Independent Non-executive Directors:

Mr. Yu Haizong
Madam Liu Lina
Mr. Yan Qixiang
Madam Bu Danlu

9 December 2021

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

I. INTRODUCTION

References are made to the announcement of the Company dated 16 November 2021 in relation to the Construction Framework Agreement. The purpose of this circular is to provide you with information regarding the resolutions to be proposed at the EGM in relation to (i) further details of the Construction Framework Agreement; (ii) a letter setting out the opinions and recommendations from the Independent Board Committee to the Independent Shareholders regarding the Construction Framework Agreement; (iii) the advice provided by Halcyon Capital to the Independent Board Committee and the Independent Shareholders regarding the Construction Framework Agreement; and (iv) a notice convening the EGM.

II. CONNECTED TRANSACTION – CONSTRUCTION FRAMEWORK AGREEMENT

As the Previous Construction Framework Agreement entered into between the Company and STIG will expire on 31 December 2021 (the rights and obligations contained therein have been undertaken by Shudao Investment from 28 May 2021), the Company and Shudao Investment entered into the Construction Framework Agreement on 16 November 2021, pursuant to which, Shudao Investment Group shall contract certain construction services from the Group for the period from 1 January 2022 to 31 December 2022.

LETTER FROM THE BOARD

The major terms of the Construction Framework Agreement are set out as follows:

Date: 16 November 2021

Term: 1 January 2022 to 31 December 2022

Parties: the Company; and

Shudao Investment

Content of Transaction: Shudao Investment Group shall contract the Construction Works from the Group, including the following construction works:

(A) Contracting and subcontracting of construction works of expressways (including roads, bridges, tunnels, etc.) and ancillary facilities (including auxiliary and supporting water supply and drainage, mechanical and electrical, greening, transportation security, terrace and other facilities for buildings including management offices, toll stations and service areas), which includes:

- (i) construction works of expressways and ancillary facilities (including restructuring and construction extension);
- (ii) daily maintenance works of expressways and ancillary facilities;
- (iii) large and medium scale repair and maintenance works of expressways and ancillary facilities; and
- (iv) emergency or rescue works of expressways and ancillary facilities.

(B) Contracting and subcontracting of municipal construction works, which includes construction works such as urban roads, squares, parks, land consolidation and ancillary facilities (including facilities for buildings, water supply and drainage, mechanical and electrical, greening, transportation security and terrace) and others.

The above construction works include the tender and bidding projects conducted pursuant to the laws of the PRC.

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Pricing policy:

1. For transactions excluding emergency rescue construction works

The final consideration will be determined through procedures for tender and bidding. The procedures for tender and bidding refer to the processes of invitation for tender, bid submission, bid opening, bid evaluation and bid granting implemented by the tenderer and bidder pursuant to the relevant rules and regulations of the PRC, which is subject to the inspection of relevant departments of the PRC government. In relation to the Construction Framework Agreement, the Group shall act as the tenderer via the business department of the responsible construction unit of the Company and its subsidiaries, and the bid evaluation panel (comprised of bid evaluation experts and subject to the supervision of the government administration authorities of PRC) will select the contractor for the construction works (excluding emergency rescue construction works) by conducting a comparison of the prices and service terms offered by all bidders so as to grant the construction works to the bidder who offers the best price and/or the service terms pursuant to the bid evaluation methods publicly published in the tender documents.

If special requirements are made by the tenderer, the tenderer could set out requirements on construction projects, bidders' experience, historical achievements and abilities and other information based on the principle of non-exclusivity pursuant to the relevant regulations in the process of open tender and bidding for all bidders' reference. The Group will not proceed with the transaction if Shudao Investment Group is the only bidder. With reference to the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), if there are less than three bidders, the tenderer shall invite bids again. As such, there shall be three or more units applying for bidding and submitting bidding documents during the process of tender and bidding. Pursuant to the Provisions on Tender and Bidding of Construction Projects (Order 30 of Seven Ministries) (《工程建設項目施工招標投標辦法(七部委30號令)》), if there are still less than three bidders in the rebidding, (i) for construction projects that are subject to examination and approval by the original examination and approval department of the PRC, the tenderer may not need to proceed with tender procedure after obtaining approval; or (ii) for construction projects other than those classified in (i), the tenderer may decide not to proceed with tender procedure at its own discretion.

LETTER FROM THE BOARD

If Shudao Investment Group satisfies all the requirements of the Group (as the tenderer) in relation to the qualifications, experience, strength and track record of the bidders, and participates in the bidding and eventually becomes the successful bidder, the transaction price will be the price for the construction works as specified in the bidding document of Shudao Investment Group. The transaction price is scrutinised and eventually confirmed in accordance with the same objective standard through the tendering mechanism which is also conducted on a non-exclusive basis.

Therefore, the aforementioned pricing mechanism will ensure that the price of the transaction arrangement under the Construction Framework Agreement is fair and reasonable, and no less favorable than those provided by any independent third party.

2. For transactions for emergency rescue construction works

Tender may not be carried out pursuant to relevant regulations in the PRC under special circumstances involving national security, emergency rescue and disaster relief, and for projects which are not applicable to tender in accordance with the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulations on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》) (Order of the State Council No. 613) and other rules and regulations. Hence, emergency rescue construction works under the Construction Framework Agreement need not be carried out by tender pursuant to the aforesaid regulations.

For emergency rescue construction works under the Construction Framework Agreement, where the Group is the contract letting party and Shudao Investment Group is the contractor of construction works, the consideration is determined by the relevant business department of the responsible construction unit of the Company and its subsidiaries which should be the same as the most recent bidding prices of similar type of construction works. The bidding prices of recent similar type of construction works refer to the bidding prices of recent similar type of construction works (including but not limited to general condition of construction works, technical standard adopted in the construction, anticipated construction period and engineering quantity, etc.) determined through procedures for tender and bidding held by the Group or an independent third party which Shudao Investment Group participated in.

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In practice, due to the uniqueness of each piece of construction work, it may be difficult to find a recent project which is directly comparable. If the bidding price of similar type of construction works is not available, the consideration shall be determined by the pricing consulting agencies (primarily a public institution or state-owned enterprise, being an independent third party under supervision and administration from the government administrative authorities of PRC and with relevant professional qualification) in accordance with the pricing basis and methods issued by the national or provincial authorities of the PRC.

3. Government Prescribed Price or Guidance Price

Under the Price Law of the People's Republic of China (《中華人民共和國價格法》), the government may implement government prescribed price or guidance price for special goods and services when necessary.

If there is corresponding government prescribed price or guidance price for the target subject of the construction works transaction (such government prescribed price or guidance price will be provided under stipulation of relevant laws and regulations or notice from relevant government administrative authorities as published from time to time), the Company will execute government prescribed price or guidance price in priority.

As at the Latest Practicable Date, none of the construction works transactions signed or executed by the Company is subject to the above government prescribed price or guidance price by government authorities. Parties to the agreement shall execute the prescribed price or guidance price of the government authority in priority if any future prescribed price or guidance price of the government authority is applicable to the relevant transaction.

Payment terms:

The payment terms are determined based on the general condition of the construction site, construction works progress and technical standard of construction works, which are disclosed to all potential bidders (including connected persons and independent third parties) under the tender documents.

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After the winner of the tender is decided, both parties will then determine the specific payment method according to the payment terms set out in the tender documents. Payment terms are determined on normal commercial terms and in a fair and reasonable manner, and shall be the same regardless of whether the winner of the tender is a connected person or an independent third party. Normally, the contract letting party shall pay to the contractor progress payment within 28 days upon receiving the application for bill of progress payment by the supervisor, being an independent third party responsible for the supervision of the construction progress.

According to the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the supervisors of projects involving large-scale infrastructure, public utilities and other projects which are related to public interests and public safety must be recruited through procedures for tender and bidding. Accordingly, the supervisors of the projects under the Construction Framework Agreement would be recruited through procedures for tender and bidding (which are similar to the procedures for tender and bidding adopted in recruiting and engaging contractors for construction works under the Construction Framework Agreement). A bid evaluation panel (comprised of bid evaluation experts and subject to the supervision of the government administrative authorities of the PRC) will select the supervisor for the construction works by conducting a comparison of the prices and service terms offered by all bidders so as to grant the supervision of the construction works to the bidder who offers the best price and/or the service terms pursuant to the bid evaluation methods publicly published in the tender documents.

On the other hand, the Regulations on the Qualifications of Highway or Water Transport Engineering Supervision Enterprises (《公路水運工程監理企業資質管理規定》) have laid down the qualifications which supervision enterprises are required to possess in order to be qualified to act as supervisors of different projects. The qualifications of project supervisors cover different areas of construction works, which include but are not limited to the construction of bridges, tunnels, mechanical and electrical engineering for highways etc. In recruiting and engaging supervisors, the relevant departments of the Group would ensure that the tender documents stipulate the requisite qualifications and that the supervisors engaged possess the relevant qualifications and experience.

LETTER FROM THE BOARD

Conditions precedent: The effectiveness of the agreement is conditional upon, among other things, the Company having complied with the requirements under the listing rules of the Stock Exchange and the Shanghai Stock Exchange in relation to continuing connected transactions, which include but are not limited to reporting, announcement and/or Independent Shareholders' approval requirements.

III. ANNUAL CAP AND BASIS FOR DETERMINING THE ANNUAL CAP

Having considered the following factors and aggregated the estimated annual transaction amounts for the year ending 31 December 2022 for each of the constructions in progress and to be granted over the next year, the Directors propose that the annual cap for the Construction Framework Agreement for the year ending 31 December 2022 shall be as follows:

Annual Cap
RMB ('000)

For the year ending 31 December 2022	3,843,000
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Basis for Determining the Annual Cap

In determining the annual cap for the Construction Framework Agreement, the Directors have considered a number of factors including: (i) the historical transaction amounts under the Previous Construction Framework Agreement; (ii) the construction and maintenance plans for each of the expressways of the Group for the next year; (iii) the business development plan of the Group, including the projects proposed under the strategic cooperation intentions reached between the Group and governments at different levels and other potential projects the Group observed in the market in which it can participate; and (iv) the potential business development of Shudao Investment Group.

Although independent third parties and Shudao Investment Group have equal opportunities in the bidding, in order to ensure the 2022 annual cap remains sufficient, the Directors prudently assumed a 100% success rate of Shudao Investment Group being awarded with the contracts for the year ending 31 December 2022.

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Pursuant to the relevant tendering rules and regulations of the PRC, the interval between the announcement of the bidding results and the entering into of the relevant construction agreement shall not exceed 30 days. Thus, should the annual cap not be based on a 100% success rate of Shudao Investment Group being awarded the contracts, if the annual cap has been fully utilized, Shudao Investment Group will not be able to participate in the remaining tenders announced during the year as it takes time to refresh the annual cap. The procedures required for refreshing the annual cap, including but not limited to obtaining Shareholders' approval (of which the notice period to convene an EGM would require 10 business days or 15 days (whichever is longer)) and other necessary steps to ensure compliance with the Listing Rules, are very likely to take more than 30 days to accomplish. As such, the Directors consider the above 100% success rate assumption is prudent and reasonable.

(1) Basis of estimation

- (a) In estimating the contract sum of expressway and ancillary facilities construction and municipal construction works to be entered into, the Directors have taken into account the contracts on expressways and ancillary facilities and municipal construction works expected to be awarded in the coming year by the Group.
- (b) In estimating the timing and contract sum for upcoming construction contracts to be awarded, the Directors have made reference to the relevant government's development plan for municipal works, the Group's development plan for expressway and ancillary facilities and municipal construction works.
- (c) The Directors have taken into account the latest construction progress of each project and the estimated amount to be recognized.
- (d) In estimating the maintenance work to be taken place during the relevant periods, the Directors have made reference to the historical amounts of maintenance work taken place in the prior year and to the daily maintenance schedule of each of the expressway operated by the Group.

LETTER FROM THE BOARD

(2) *Quantitative estimation*

The Directors have prepared upcoming project participation schedules for the year ending 31 December 2022 which set out (i) the nature of the projects; (ii) the progress revenue recognition estimated by the Directors for each of Group's on-going projects; and (iii) the expected total contract sum with estimated progress revenue recognition estimated by the Directors for each of the project expected to be participated by the Shudao Investment Group. By summing up the schedules, the Directors obtained a quantitative estimation of the annual cap required, details of which are as follows:

- (a) The Directors estimated that the transaction amount for contracted projects to be recognized in 2022 pursuant to the construction plan and the latest construction progress would be RMB2,090.22 million, mainly involving (i) Expansion Construction Project; and (ii) municipal construction.
- (b) The Directors estimated that the amount of upcoming projects to be awarded and recognized during 2022 pursuant to the construction plan and the estimated construction progress would be RMB1,526.76 million, including (i) new road sections of Expansion Construction Project; and (ii) projects which the Group has identified in the market and intends to participate in.
- (c) The Directors estimated that the amount of expressway maintenance work to be carried out during 2022 would be RMB226.47 million.

Historical Transaction Amount

The recognized construction income received by STIG Group from 1 January 2020 to 27 May 2021 and by Shudao Investment Group from 28 May 2021 for providing the relevant construction works to the Group was as follows:

RMB ('000)

For the period from 1 January 2020 to 31 December 2020	1,359,012
For the six months ended 30 June 2021	204,710

The annual cap for the previous Construction Framework Agreement for the year ended 31 December 2021 was RMB2,985,000,000. The utilization rate of the annual cap for the first half of 2021 was 13.72%. The low utilization rate was mainly due to (i) the delay in several road sections of the Expansion Construction Project due to the waiting for land delivery; and (ii) irregular impact brought by recurring COVID-19 on the Company's maintenance work and Expansion Construction Project.

LETTER FROM THE BOARD

IV. REASONS FOR AND BENEFITS OF THE CONSTRUCTION FRAMEWORK AGREEMENT

Based on the need of its business development, the Group intends to select contractors for its construction works mainly through tender and bidding. Shudao Investment Group may participate in such biddings in accordance with laws. Pursuant to the relevant PRC laws and regulations, construction works are primarily conducted by way of tender and bidding, by which all bidders have to comply with the prescribed time. In order to enable Shudao Investment Group to grasp the opportunities of the tenders organized by the Group from time to time and to ensure the Company's compliance with the relevant requirements under the Listing Rules, Shudao Investment entered into the Construction Framework Agreement with the Company. The Directors (excluding the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee) consider that the Construction Framework Agreement is entered into in the ordinary and usual course of business of the Group and the terms as contained in the Construction Framework Agreement are normal commercial terms, which are arrived at after arm's length negotiations between the parties, and that the annual cap and the terms of the Construction Framework Agreement stated in this circular are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the above, the Directors (including all the independent non-executive Directors) are of the view that the terms of the Construction Framework Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

V. DIRECTORS' OPINION ON INTERNAL CONTROL PROCEDURES RELATING TO TRANSACTIONS TERMS SUCH AS PRICING POLICY AND PAYMENT METHOD OF THE CONTINUING CONNECTED TRANSACTION

The Directors believe that in respect of the Construction Framework Agreement, the Group has implemented complete internal control procedures and steps in practicing the tender procedure and the transaction terms such as pricing policy and payment method of the continuing connected transaction. Particulars are set out as follows:

(i) Internal control measures in relation to tender procedure and pricing policy

(a) For transactions excluding emergency rescue construction works

The final consideration under construction works contracts will be determined through procedures for tender and bidding. The procedures for tender and bidding refer to the processes of invitation for tender, bid submission, bid opening, bid evaluation and bid granting implemented by the tenderer and bidder pursuant to the relevant rules and regulations of the PRC, which is subject to the inspection of relevant departments of the PRC government.

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The Group as the tenderer

In relation to the Construction Framework Agreement, the Group shall act as the tenderer via the relevant business department of the responsible construction unit of the Company and its subsidiaries, and the bid evaluation panel (comprised of bid evaluation experts and subject to the supervision of the government administration authorities of PRC) will select the contractor for the construction works (excluding emergency rescue construction works) by conducting a comparison of the prices and service terms offered by all bidders so as to grant the construction works to the bidder who offers the best price and/or the service terms pursuant to the bid evaluation methods publicly published in the tender documents. As the tenderer, the Group could set out requirements on construction projects, bidders' experience, historical achievements and abilities, and other information based on the principle of non-exclusivity pursuant to the relevant regulations in the process of open tender and bidding for all bidders' reference.

(b) For transactions for emergency rescue construction works

Tender may not be carried out pursuant to relevant regulations in the PRC under special circumstances involving national security, emergency rescue and disaster relief, and for projects which are not applicable to tender in accordance with the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulations on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》) (Order of the State Council No. 613) and other rules and regulations. Hence, emergency rescue construction works under the Construction Framework Agreement need not be carried out by tender pursuant to the aforesaid regulations.

The Group as the contract letting party and Shudao Investment Group as the contractor of emergency rescue construction works

For emergency rescue construction works under the Construction Framework Agreement, where the Group is the contract letting party and Shudao Investment Group is the contractor of construction works, the consideration is determined by the relevant business department under the unit responsible for construction of the Company and its subsidiaries with reference to the recent bidding prices of similar type of construction works. The bidding prices of recent similar type of construction works refer to the bidding prices of the recent similar type of construction works (including but not limited to general condition of construction works, technical standard adopted in the construction, anticipated construction period and engineering quantity, etc.) determined through procedures for tender and bidding held by the Group or an independent third party which Shudao Investment Group participated in.

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If the bidding price of similar type of construction works is not available, the consideration shall be determined by the pricing consulting agencies (primarily a public institution or state-owned enterprise, being an independent third party under supervision and administration from the government administrative authorities of PRC and with relevant professional qualification) in accordance with the pricing basis and methods issued by the national or provincial authorities of the PRC.

(ii) Internal control measures in relation to the payment terms

The payment terms of the Construction Framework Agreement are determined based on the general condition of the construction site, construction works progress and technical standard of construction works, which are disclosed to all potential bidders (including connected persons and independent third parties) under the tender documents. After the winner of the tender is decided, the relevant business department in charge of construction works of the Company and/or its subsidiaries will make sure that both parties will determine the specific payment method according to the payment terms set out in the tender documents. Payment terms are determined on normal commercial terms and in a fair and reasonable manner, and shall be the same regardless the winner of the tender is a connected person or an independent third party.

(iii) Other internal control measures

At the same time, in order to safeguard the interests of the Company and the Shareholders as a whole, the Company has adopted the following measures to monitor the transactions under the Construction Framework Agreement:

- (1) After the Construction Framework Agreement was proposed and reported by the department responsible for connected transactions, the Directors (including independent Directors) conducted investigation on the necessity and reasonableness of the connected transaction and fairness of pricing, and considered that the transaction terms are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. Meanwhile, the Directors recognize the importance of good corporate governance in protection of the Shareholders' interests as well as resolving actual and/or potential conflict of interests between the Company, and its controlling shareholder and Directors. As such, though the Directors (including Directors who are holding directorship and/or under the employment of Shudao Investment Group ("**Interested Directors**")) participate in the abovementioned investigation and would monitor the implementation and execution of the transactions under the Construction

LETTER FROM THE BOARD

Framework Agreement, the Interested Directors have abstained from voting on the Board resolutions approving the Construction Framework Agreement. The Interested Directors holding Shares of the Company would also abstain from voting at the EGM. Further, it has been the established practice of the Company to require Interested Directors to abstain from voting on relevant resolutions in relation to transactions with Shudao Investment in Board meetings and general meetings.

- (2) The Supervisory Committee of the Company has effectively supervised the consideration and voting of the Construction Framework Agreement, and also reviewed and approved such Construction Framework Agreement.
- (3) The Board Office (董事會辦公室) and the Discipline Inspection Unit (紀檢工作部) of the Company will review the transaction under the Construction Framework Agreement on a regular basis, so as to consider (i) the effective implementation of the pricing policy and the payment method as well as the appraisal of the balance of the annual cap; (ii) identify management weakness, and make recommendations for improvement to ensure that the internal control measures in respect of the transactions under the Construction Framework Agreement remain complete and effective and the Company will take measures to address the weakness identified, if any, as soon as practicable.
- (4) The Discipline Inspection Unit of the Company will conduct internal checks at least twice a year to ensure that internal control measures in respect of the transactions under the Construction Framework Agreement remain complete and effective.

VI. ABSTENTION IN BOARD RESOLUTIONS AND AT THE EGM

As Mr. Li Wenhui and Mr. Li Chengyong held positions in Shudao Investment Group, they are regarded as being interested in the Construction Framework Agreement and therefore have abstained from voting on the Board resolutions to approve the said agreement. Saved and except for the aforesaid, none of the Directors has any material interest in the Construction Framework Agreement and was required to abstain from voting on the Board resolutions in relation to the said agreement.

In view of Shudao Investment's interest in the Construction Framework Agreement, Shudao Investment, the controlling shareholder which holds 35.865% equity interest in the Company, and its associates will abstain from voting at the EGM on the resolution in relation to the Construction Framework Agreement.

LETTER FROM THE BOARD

VII. INFORMATION ON THE PARTIES TO CONSTRUCTION FRAMEWORK AGREEMENT

The Company is principally engaged in the investment, construction, operation and management of road infrastructure projects in Sichuan Province, the PRC, as well as the operation of other businesses related to toll roads.

Shudao Investment is a state-owned enterprise established in the PRC. Its business covers four major sectors including road and railway investment, construction, operation, related diversified industries (transportation engineering construction, transportation logistics, transportation services, new urbanization construction along transportation line, engineering design consulting, etc.), smart transportation and industry-finance integration.

VIII. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Shudao Investment is a controlling shareholder of the Company which holds approximately 35.865% of the issued Shares of the Company. Therefore, Shudao Investment is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. As one or more applicable percentage ratios (other than the profit ratio) in respect of the Construction Framework Agreement are, on an annual basis, over 5%, the Construction Framework Agreement is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of Shudao Investment's interest in the Construction Framework Agreement, Shudao Investment and its associates will abstain from voting at the EGM on the resolutions in relation to the Construction Framework Agreement.

IX. EGM

The Company proposes to convene the EGM at 3:00 p.m. on 6 January 2022 (Thursday) at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the People's Republic of China (the "PRC").

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying proxy form in accordance with the instructions printed thereon. For the H Shareholders, the proxy forms should be returned to the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by hand or by post not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof.

LETTER FROM THE BOARD

Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish, but in such event the instrument appointing a proxy shall be deemed to be revoked.

If you intend to attend the EGM in person or by proxy, you are required to complete and lodge the reply slip for attending the EGM at the Company's legal address at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC not later than 4:30 p.m. on 4 January 2022 (Tuesday). The reply slip may be delivered to the Company by hand, by post or by fax (fax no.: (8628) 8553 0753).

X. CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The H Shares register of members of the Company will be closed from 3 January 2022 (Monday) to 6 January 2022 (Thursday), both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM, unregistered holders of H Shares shall ensure that all transfer documents of H Shares accompanied by the relevant share certificates and the appropriate transfer documents must be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 31 December 2021 (Friday).

XI. RECOMMENDATION

The Company has appointed Halcyon Capital as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Construction Framework Agreement. The letter of advice from Halcyon Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 39 of this circular. The Independent Board Committee comprising all the independent non-executive Directors has been established to give advice to the Independent Shareholders in respect of the Construction Framework Agreement. The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of the Construction Framework Agreement, is set out on pages 18 to 19 of this circular.

The Directors considers that the Construction Framework Agreement, the transactions contemplated thereunder and the annual cap are in the best interests of the Company and the Shareholders. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions for approving the Construction Framework Agreement (and the respective proposed annual caps thereunder).

LETTER FROM THE BOARD

XII. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this circular or any statement herein misleading.

Yours faithfully,

By order of the Board

Sichuan Expressway Company Limited*

Zhang Yongnian

Company Secretary



四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*

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

(Stock Code: 00107)

9 December 2021

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to give our advice on the Construction Framework Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 9 December 2021 (the “Circular”), of which this letter forms a part. Terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Halcyon Capital has been appointed as the Independent Financial Advisor to advise us on the Construction Framework Agreement and the transactions contemplated thereunder. The letter from Halcyon Capital is set out on pages 20 to 39 of the Circular.

Having considered the terms and conditions of the Construction Framework Agreement, the advice given by Halcyon Capital and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that the terms of the Construction Framework Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and the basis for determining the annual cap for Construction Framework Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution at the EGM to approve the Construction Framework Agreement, the transactions contemplated thereunder and the annual cap.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Yours faithfully,
Independent Board Committee

Mr. Yu Haizong
*Independent Non-
executive Director*

Madam Liu Lina
*Independent Non-
executive Director*

Mr. Yan Qixiang
*Independent Non-
executive Director*

Madam Bu Danlu
*Independent Non-
executive Director*

* *For identification purposes only*

LETTER FROM HALCYON CAPITAL LIMITED

The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.



11/F, 8 Wyndham Street
Central
Hong Kong

9 December 2021

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTION ENTERING INTO OF THE CONSTRUCTION FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the contracting and subcontracting of certain construction works by the Group to the Shudao Investment (the “**Transactions**”). Details of the Construction Framework Agreement and the Annual Cap (the “**Annual Cap**”) of the Transactions are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 9 December 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Circular.

As at the Latest Practicable Date, Shudao Investment is the controlling Shareholder which holds approximately 35.865% of the issued share capital of the Company and hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules. As Shudao Investment is a connected person of the Company, the transactions contemplated under the Construction Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios (other than the profit ratio) in respect of the Construction Framework Agreement are, on an annual basis, over 5%, the Construction Framework Agreement (including the Annual Cap), will be subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Shudao Investment and its associates and any Shareholders who are materially interested in the Construction Framework Agreement shall abstain from voting in relation to the terms of the Construction Framework Agreement and the transactions contemplated thereunder.

LETTER FROM HALCYON CAPITAL LIMITED

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Yu Haizong, Madam Liu Lina, Mr. Yan Qixiang and Madam Bu Danlu has been established to advise the Independent Shareholders as to whether the terms of the Construction Framework Agreement (including the Annual Cap) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole and how to vote on the relevant resolution(s) in the EGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In the last two years from the date of our appointment, except for (i) being appointed as the independent financial adviser to the then Independent Board Committee and Independent Shareholders of the Company (details of which have been set out in the letters from the independent financial adviser contained in the circulars of the Company dated 23 December 2019 and 8 December 2020); and (ii) the engagement in or potential engagement in the provision of independent financial advisory services in certain upcoming transactions, we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid/payable to us in connection with our appointment or arrangement for our upcoming potential independent financial advisory appointments, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence. We are therefore independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transactions.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Company and have assumed that all such information, financial information and facts and any representations made to us or referred to in the announcement of the Company dated 16 November 2021 and the Circular, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the Directors and/or management of the Company. We have been advised by the Directors and/or the management of the Company that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

LETTER FROM HALCYON CAPITAL LIMITED

Our review and analyses were based upon, among others, the information provided by the Company including the Construction Framework Agreement and certain published information from the public domain. We have also discussed with the Directors and/or the management of the Company with respect to the terms of and reasons for the transaction contemplated under the Construction Framework Agreement (including the Annual Cap), and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, legal position, financial position or prospects of the Group, Shudao Investment and each of their respective associates, and the parties involved in the transactions contemplated under Construction Framework Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the transactions contemplated under the Construction Framework Agreement (including the Annual Cap), we have considered the following principal factors and reasons:

1. Background to and reasons for the entering into of the Construction Framework Agreement

The Group is principally engaged in the investment, construction, operation and management of road infrastructure projects in Sichuan Province, the PRC, as well as the operation of other businesses related to toll roads. Currently, the Group mainly owns all or substantially all interests in a number of expressways in Sichuan Province such as Chengyu Expressway, Chengya Expressway, Chengle Expressway and Chengren Expressway, Chengbei Exit Expressway, Suiguang Expressway, Suixi Expressway and Tianqiong Expressway under construction. As at 30 June 2021, the length of expressways of the Group has reached approximately 744km in total, and the length of expressways under construction were approximately 42km.

On 28 May 2021, STIG, the former controlling shareholder of the Company, completed the strategic restructuring with Shudao Investment pursuant to which all the assets, liabilities, business, employees, contracts and qualifications together with all other rights and obligations of STIG, and the subordinate branch entities and equity interest or other interest in the subordinate companies held by STIG shall be vested in Shudao Investment (the “**Restructuring**”). Therefore, the controlling Shareholder became Shudao Investment since completion of the restructuring.

Shudao Investment is a state-owned enterprise established in the PRC with limited liability. After completion of the above-mentioned restructuring, Shudao Investment’s business covers four major sectors including (i) road and railway investment, construction and operation, (ii) related diversified industries (transportation engineering construction, transportation logistics, transportation services, new urbanization construction along transportation line, engineering design consulting, etc.), (iii) smart transportation and (iv) industry-finance integration.

LETTER FROM HALCYON CAPITAL LIMITED

Given prior to the Restructuring, STIG Group had been principally engaged in construction of infrastructure, and had from time to time participated in public tender and bidding and participated in construction and maintenance project of the Group, to govern the on-going participation of public tenders and bidding by members of STIG Group for construction and maintenance projects to be awarded by the Group, STIG and the Company had entered into an annual framework construction agreement from time to time and with the latest annual framework agreement entered with STIG Group on 19 November 2020 expiring on 31 December 2021.

As the Previous Construction Framework Agreement entered into between the Company and STIG will expire on 31 December 2021 (the rights and obligations contained therein have been undertaken by Shudao Investment from 28 May 2021), the Company and Shudao Investment entered into the Construction Framework Agreement on 16 November 2021 to govern the provision of construction and maintenance work by Shudao Investment Group and the on-going participation of public tenders and bidding by Shudao Investment Group for construction and maintenance projects to be awarded by the Group in 2022.

Pursuant to the relevant regulations, business of construction works is primarily conducted by way of public tender and bidding, by which all bidders have to comply with the relevant requirements at the prescribed time. Shudao Investment Group, taking into consideration the Restructuring, has been one of the potential bidders of the Group's construction and maintenance work. In order to (i) meet the tendering and bidding timetable; (ii) prevent Shudao Investment Group from losing the opportunity to participate in the public tenders organized by the Group; and (iii) ensure the Company's compliance with the relevant Listing Rules, the Company entered into the Construction Framework Agreement with Shudao Investment after the Restructuring, on an annual basis to agree on the annual cap for the Group's potential constructions and maintenance project intended to be participated by Shudao Investment Group.

The Directors considered that the Construction Framework Agreement provides flexibility but not an obligation to the Group to engage Shudao Investment Group in their respective business operation whenever their respective directors consider appropriate.

Having considered that the transactions between the Group and Shudao Investment Group have been carried out in their respective ordinary and usual course of businesses and the continuing business relationship among the Group and Shudao Investment Group, we considered that the entering into of the Construction Framework Agreement is in the ordinary and usual course of business of the Group.

2. Principal terms of the Construction Framework Agreement

Construction Framework Agreement

On 16 November 2021, the Company and Shudao Investment entered into the Construction Framework Agreement, pursuant to which the Shudao Investment Group shall contract the following construction works from the Group:

- Contracting and subcontracting of construction works of expressways (including roads, bridges, tunnels, etc.) and ancillary facilities (including auxiliary and supporting water supply and drainage, mechanical and electrical, greening, transportation security, terrace and other facilities for buildings including management offices, toll stations and service areas), which includes:
 - (i) construction works of expressways and ancillary facilities (including restructuring and construction extension);
 - (ii) daily maintenance works of expressways and ancillary facilities;
 - (iii) large and medium scale repair and maintenance works of expressways and ancillary facilities; and
 - (iv) emergency or rescue works of expressways and ancillary facilities.
- Contracting and subcontracting of municipal construction works, which includes construction works such as urban roads, squares, parks, land consolidation and ancillary facilities (including facilities for buildings, water supply and drainage, mechanical and electrical, greening, transportation security and terrace) and others, (together the “Relevant Works”).

The above construction works include the tender and bidding projects conducted pursuant to the laws of the PRC.

The Construction Framework Agreement is for a term commencing from 1 January 2022 (effective upon the fulfilment of all conditions precedents, whichever is later) to 31 December 2022.

Conditions precedent

The effectiveness of the agreement is conditional upon, among other things, the Company having complied with the requirements under the listing rules of the Stock Exchange and the Shanghai Stock Exchange in relation to continuing connected transactions, which include but are not limited to reporting, announcement and/or Independent Shareholders’ approval requirements.

LETTER FROM HALCYON CAPITAL LIMITED

Payment terms

The payment terms are determined based on the general condition of the construction site, construction works progress and technical standard of construction works, which are disclosed to all potential bidders (including connected persons and independent third parties) under the tender documents.

After the winner of the tender is determined, both parties will then determine the specific payment method according to the payment terms set out in the tender documents. Payment terms are determined on normal commercial terms and in a fair and reasonable manner, and shall be the same regardless of whether the winner of the tender is a connected person or an independent third party. Normally, the contract letting party shall pay to the contractor progress payment within 28 days upon receiving the application for bill of progress payment by the supervisor, being an independent third party responsible for the supervision of the construction progress.

According to the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the supervisors of projects involving large-scale infrastructure, public utilities and other projects which are related to public interests and public safety must be recruited through procedures for tender and bidding. Accordingly, the supervisors of the projects under the Construction Framework Agreement would be recruited through procedures for tender and bidding (which are similar to the procedures for tender and bidding adopted in recruiting and engaging contractors for construction works under the Construction Framework Agreement). A bid evaluation panel (comprised of bid evaluation experts and subject to the supervision of the government administrative authorities of the PRC) will select the supervisor for the construction works by conducting a comparison of the prices and service terms offered by all bidders so as to grant the supervision of the construction works to the bidder who offers the best price and/or the service terms pursuant to the bid evaluation methods publicly published in the tender documents.

On the other hand, the Regulations on the Qualifications of Highway or Water Transport Engineering Supervision Enterprises (《公路水運工程監理企業資質管理規定》) have laid down the qualifications which supervision enterprises are required to possess in order to be qualified to act as supervisors of different projects. The qualifications of project supervisors cover different areas of construction works, which include but are not limited to the construction of bridges, tunnels, mechanical and electrical engineering for highways etc. In recruiting and engaging supervisors, the relevant departments of the Group would ensure that the tender documents stipulate the requisite qualifications and that the supervisors engaged possess the relevant qualifications and experience.

In view of such, given the application for bill of progress payment will be confirmed by the supervisor with qualification as stipulated above, the Directors consider and we concur that with the supervisor's qualification and the relevant contractual arrangement, the progress billing process as stipulated in the Construction Framework Agreement is a fair and reasonable practice.

3. Pricing policies and relevant internal control

(i) For transactions excluding emergency rescue construction work

The final consideration will be determined through procedures for tender and bidding. The procedures for tender and bidding refer to the processes of invitation for tender, bid submission, bid opening, bid evaluation and bid granting implemented by the tenderer and bidder pursuant to the relevant rules and regulations of the PRC, which is subject to the inspection of relevant departments of the PRC government. In relation to the Construction Framework Agreement, the Group shall act as the tenderer via the business department of the responsible construction unit of the Company and its subsidiaries, and the bid evaluation panel (comprised of bid evaluation experts and subject to the supervision of the government administration authorities of PRC) will select the contractor for the construction works (excluding emergency rescue construction works) by conducting a comparison of the prices and service terms offered by all bidders so as to grant the construction works to the bidder who offers the best price and/or the service terms pursuant to the bid evaluation methods publicly published in the tender documents.

If special requirements are made by the tenderer, the tenderer could set out requirements on construction projects, bidders' experience, historical achievements and abilities and other information based on the principle of non-exclusivity pursuant to the relevant regulations in the process of open tender and bidding for all bidders' reference. The Group will not proceed with the transaction if Shudao Investment Group is the only bidder. With reference to the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), if there are less than three bidders, the tenderer shall invite bids again. As such, there shall be three or more units applying for bidding and submitting bidding documents during the process of tender and bidding. Pursuant to the Provisions on Tender and Bidding of Construction Projects (Order 30 of Seven Ministries) (《工程建設項目施工招標投標辦法(七部委30號令)》), if there are still less than three bidders in the rebidding, (i) for construction projects that are subject to examination and approval by the original examination and approval department of the PRC, the tenderer may not need to proceed with tender procedure after obtaining approval; or (ii) for construction projects other than those classified in (i), the tenderer may decide not to proceed with tender procedure at its own discretion.

If Shudao Investment Group satisfies all the requirements of the Group (as the tenderer) in relation to the qualifications, experience, strength and track record of the bidders, and participates in the bidding and eventually becomes the successful bidder, the transaction price will be the price for the construction works as specified in the bidding document of Shudao Investment Group. The transaction price is scrutinised and eventually confirmed in accordance with the same objective standard through the tendering mechanism which is also conducted on a non-exclusive basis.

LETTER FROM HALCYON CAPITAL LIMITED

Therefore, the Directors considered that the aforementioned pricing mechanisms will ensure that the price of the transaction arrangement under the Construction Framework Agreement is fair and reasonable, and no less favorable than those provided by any independent third party.

(ii) *For transactions in relation to emergency rescue construction work*

Tender may not be carried out pursuant to relevant regulations in the PRC under special circumstances involving national security, emergency rescue and disaster relief, and for projects which are not applicable to tender in accordance with the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulations on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》) (Order of the State Council No. 613) and other rules and regulations. Hence, emergency rescue construction works under the Construction Framework Agreement need not be carried out by tender pursuant to the aforesaid regulations.

For emergency rescue construction works under the Construction Framework Agreement, where the Group is the contract letting party and Shudao Investment Group is the contractor of construction works, the consideration is determined by the relevant business department of the responsible construction unit of the Company and its subsidiaries which should be the same as the most recent bidding prices of similar type of construction works. The bidding prices of recent similar type of construction works refer to the bidding prices of recent similar type of construction works (including but not limited to general condition of construction works, technical standard adopted in the construction, anticipated construction period and engineering quantity, etc.) determined through procedures for tender and bidding held by the Group or an independent third party which Shudao Investment Group participated in.

In practice, due to the uniqueness of each piece of construction work, it may be difficult to find a recent project which is directly comparable. If the bidding price of similar type of construction works is not available, the consideration shall be determined by the pricing consulting agencies (primarily a public institution or state-owned enterprise, being an independent third party under supervision and administration from the government administrative authorities of PRC and with relevant professional qualification) in accordance with the pricing basis and methods issued by the national or provincial authorities of the PRC.

(iii) *Government prescribed price or the guidance price*

Under the Price Law of the PRC (《中華人民共和國價格法》), the government may implement government prescribed price or guidance price for special goods and services when necessary.

LETTER FROM HALCYON CAPITAL LIMITED

If there is corresponding government prescribed price or guidance price of the target subject of the construction works transaction (such government prescribed price or guidance price will be provided under stipulation of relevant laws and regulations or notice from relevant government administrative authorities as published from time to time), the Company will execute government prescribed price or guidance price in priority.

As at the Latest Practicable Date, none of the construction works transactions signed or executed by the Company is subject to the above government prescribed price or guidance price by government authorities. Parties to the agreement shall execute the prescribed price or guidance price of the government authority in priority if any future prescribed price or guidance price of the government authority is applicable to the relevant transaction.

(iv) *Other internal control measures*

In order to safeguard the interests of the Company and the Shareholders as a whole, the Company has also adopted the following measures to monitor the transactions under the Construction Framework Agreement:

- (1) After the Construction Framework Agreement was proposed and reported by the department responsible for connected transactions, the Directors (including independent Directors) conducted investigation on the necessity and reasonableness of the connected transaction and fairness of pricing, and considered that the transaction terms are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. Meanwhile, the Directors recognize the importance of good corporate governance in protection of the Shareholders' interests as well as resolving actual and/or potential conflict of interests between the Company, and its controlling Shareholder and the Directors. As such, though the Directors (including Directors who are holding directorship and/or under the employment of Shudao Investment Group ("Interested Directors")) participate in the abovementioned investigation and would monitor the implementation and execution of the transactions under the Construction Framework Agreement, the Interested Directors have abstained from voting on the Board resolution(s) approving the Construction Framework Agreement. The Interested Directors holding any Shares would also abstain from voting at the EGM. Further, it has been the established practice of the Company to require Interested Directors to abstain from voting on relevant resolutions in relation to transactions with Shudao Investment in Board meetings and general meetings.

LETTER FROM HALCYON CAPITAL LIMITED

- (2) The Supervisory Committee of the Company has effectively supervised the consideration and voting of the Construction Framework Agreement, and also reviewed and approved such Construction Framework Agreement.
- (3) The Board Office (董事會辦公室) and the Discipline Inspection Unit (紀檢工作部) of the Company will review the transactions under the Construction Framework Agreement on a regular basis, so as to consider (i) the effective implementation of the pricing policy and the payment method as well as the appraisal of the balance of the annual cap; and (ii) identify management weakness, and make recommendations for improvement to ensure that the internal control measures in respect of the transactions under the Construction Framework Agreement remain complete and effective. The Company will take measures to address the weakness identified, if any, as soon as practicable.
- (4) The Discipline Inspection Unit of the Company will conduct internal checks at least twice a year to ensure that internal control measures in respect of the transactions under the Construction Framework Agreement remain complete and effective.

As stated in the 2020 Annual Report of the Company for the year ended 31 December 2020, the independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2020 and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of businesses of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Furthermore, Ernst & Young, the Company's auditor, has been engaged to report on the Group's continuing connected transactions for in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

LETTER FROM HALCYON CAPITAL LIMITED

In light of the above, we are of the view that appropriate measures are in place to ensure that the Transactions will be conducted on normal commercial terms and to safeguard the interests of the Independent Shareholders.

4. Comparison of terms with independent third parties

From our understanding with the management of the Group, during the period between 1 January 2021 and up to the Latest Practicable Date, the Group only entered into one construction contract with Shudao Investment Group. We have noted from the selection document regarding the selection of project participant that, (i) the selection of the project participant was based on the winning bid, which the Group had compared among other things, the pricing offered for the construction work; and (ii) the construction price offered by member of Shudao Investment Group (formerly member of STIG Group before completion of the restructuring in May 2021) were more favorable than those offered by independent third party.

During the period between 1 January 2021 and up to the Latest Practicable Date, the Group had entered into two maintenance contracts with member of Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe). We have compared the maintenance contracts entered into between the Group with Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe) against similar contract entered into between the Group and other independent third party during corresponding period. We noted that the respective prices agreed in the maintenance contracts entered into (i) between the Group with Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe); and (ii) between the Group and other independent third party were entered into based on the winning bid prices which were consistent with the relevant pricing mechanism of the Group.

In respect of emergency rescue, from our understanding with the management of the Group, the Group did not engage independent third parties to carry out any emergency rescue since 1 January 2021 up to the Latest Practicable Date, as such no comparison could be carried out. We further understood from the management of the Group that, whenever the Group engages Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe) for emergency rescue services, the pricing mechanism and the relevant internal control as discussed in the section headed “Pricing policies and relevant internal control” above will be consistently applied. We have selected random samples from the emergency rescue records up to October 2021, we noted that the price adopted in pricing the emergency rescue services provided by members of Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe) had been referenced to unit price of each item of construction work from latest successful winning tender documents, which is consistent with the relevant pricing policies.

LETTER FROM HALCYON CAPITAL LIMITED

In view of the pricing policies and relevant internal control as discussed above being in place, we consider that, the services provided will be under normal commercial terms.

5. Basis of the Annual Cap

The transactions contemplated under the Construction Framework Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section headed "Reporting requirements and conditions of the Transactions" below. In particular, the Transactions are also subject to the Annual Cap as discussed below.

In assessing the reasonableness of the Annual Cap, we have discussed with the management of the Group the basis and assumptions underlying the projections for contracting and sub-contracting of the Relevant Works pursuant to the Construction Framework Agreement entered into between the Company and Shudao Investment for the purpose of determining the Annual Cap.

(i) *Review of the historical figures*

Set out below are the historical values of the Transactions entered into between the Group and STIG Group from 1 January 2019 to 27 May 2021 and between the Group and Shudao Investment Group from 28 May 2021 up to 30 June 2021 extracted from the financial records in the relevant financial periods:

	For the year ended 31 December 2019 <i>RMB' in million</i>	For the year ended 31 December 2020 <i>RMB' in million</i>	For the six months ended 30 June 2020 <i>RMB' in million</i>	For the six months ended 30 June 2021 <i>RMB' in million</i>
Actual transaction amount recorded by member of STIG Group/ Shudao Investment Group* for providing the relevant construction services to the Group	1,824.8	1,359.0	254.5	204.7

LETTER FROM HALCYON CAPITAL LIMITED

	For the year ended 31 December 2019 <i>RMB' in million</i>	For the year ended 31 December 2020 <i>RMB' in million</i>	For the six months ended 30 June 2020 <i>RMB' in million</i>	For the six months ended 30 June 2021 <i>RMB' in million</i>
Annual Cap under Construction Framework Agreement and Previous Construction Framework Agreement	5,120.0	4,550.0	2,275.0 <i>(Note)</i>	1,492.5 <i>(Note)</i>
Utilization rate	35.64%	29.87%	11.18%	13.72%

Note: Six months pro-rata of the annual cap for the year ended 31 December 2020 and for the year ending 31 December 2021.

* The member of STIG Group became member of Shudao Investment Group from 28 May 2021.

Historical transaction amount

During the year ended 31 December 2020, the transaction amount recorded by Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe) for providing the relevant construction services to the Group decreased as compared to that of for the year ended 31 December 2019. Such decrease was mainly due to (i) completion of majority construction work of a road project in 2019 of which less construction work had been carried out in 2020 and hence resulted in recognition of less transaction amount in 2020; (ii) the delay in construction work and routine and non-emergency maintenance works due to the outbreak of COVID-19 in 2020. In first half of 2021, the decrease in transaction amount recorded by Shudao Investment Group (or STIG Group before completion of the restructuring in May 2021, as the case maybe) for providing the relevant construction services to the Group was mainly attributable to (i) the delay in several road sections of the Expansion Construction Project due to the waiting for land delivery; and (ii) irregular impact brought by recurring COVID-19 on the Company's maintenance work and Expansion Construction Project.

LETTER FROM HALCYON CAPITAL LIMITED

Utilization rate

The utilization rate of the annual cap for the year ended 31 December 2020 was 29.87%. The low utilization rate was mainly due to (i) the delay in construction work carried out in respect of the Expansion Construction Project due to the outbreak of COVID-19 in December 2020; (ii) the continuous postponement of the Lushan County Project and other projects which were expected to commence construction process in 2020; and (iii) the delay in carrying out routine and non-emergency maintenance work as a result of the outbreak of COVID-19 during 2020.

The annual cap for the Construction Framework Agreement for the year ending 31 December 2021 was RMB2,985,000,000. The utilization rate of the annual cap on a pro-rata basis for the first half of 2021 was 13.72%. The low utilization rate was mainly due to (i) the delay in several road sections of the Expansion Construction Projects due to the waiting for land delivery; and (ii) irregular impact brought by the recurring COVID-19 on the Company's maintenance work and Expansion Construction Project.

Assessment of the Annual Cap

When assessing the reasonableness of the Annual Cap, we have discussed with the management the basis and assumptions underlying the projection of the Annual Cap. Set out below is the Annual Cap being proposed for the transactions contemplated under the Construction Framework Agreement for the year ending 31 December 2022:

**For the year ending 31
December 2022**
RMB' in million

Annual Cap in respect of the Construction Framework Agreement	3,843
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In considering the Annual Cap for the Construction Framework Agreement, the Directors have considered a number of factors including: (i) the historical transaction amounts under the Previous Construction Framework Agreement; (ii) the construction and maintenance plans for each of the expressways of the Group for the next year; (iii) the business development plan of the Group, including the projects proposed under the strategic cooperation intentions reached between the Group and governments at different levels and other potential projects the Group observed in the market in which it can participate; and (iv) the potential business development of Shudao Investment Group.

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Annual Cap under the Construction Framework Agreement comprised of estimated transaction amount for (i) expressway and ancillary facilities construction; (ii) expressway maintenance work; and (iii) municipal construction works, for both signed contracts and upcoming projects to be awarded.

In estimating the contract sum of expressway and ancillary facilities construction and municipal construction works to be entered into, the Directors have taken into account the contracts on expressways and ancillary facilities and municipal construction works expected to be awarded in the coming year by the Group. In estimating the timing and contract sum for upcoming construction contracts to be awarded, the Directors have made reference to the relevant government's development plan for municipal works, the Group's development plan for expressway and ancillary facilities and municipal construction works.

In estimating the maintenance work to be taken place during the relevant periods, the Directors have made reference to the historical amounts of maintenance work taken place in the prior year and to the daily maintenance schedule of each of the expressway operated by the Group.

A 100% success rate of Shudao Investment Group being awarded with the contracts for the year ending 31 December 2022 was estimated by the Directors, in case Shudao Investment Group successfully wins all bids, the Annual Cap will still be sufficient. Having considered the business development potential of Shudao Investment Group, the Directors are of the view that Shudao Investment Group would be capable of undertaking all the construction projects awarded to it should its success rate of tenders be 100%.

Furthermore, the Directors have taken into account the latest estimated construction progress of each project and the estimated amount to be recognized which members of Shudao Investment Group are currently participating in.

According to the Directors, with reference to the development plans as mentioned above, the Annual Cap for the year ending 31 December 2022 in accordance with construction progress schedule in aggregate would amount to RMB3,843 million, which represents (a) estimated transaction amount of RMB2,090.22 million for contracted projects to be recognized in 2022 pursuant to the construction plan and the latest construction progress; (b) upcoming projects estimated to be awarded and recognized during 2022 pursuant to the construction plan and the estimated construction progress amounted to RMB1,526.76 million; and (c) the amount of RMB226.47 million of expressway maintenance work to be carried out during 2022.

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In accessing the fair and reasonableness of the Annual Cap for the Construction Framework Agreement, we have reviewed the upcoming project participation schedules prepared by the Directors for the year ending 31 December 2022 which sets out (i) the nature of the projects; (ii) the progress revenue recognition estimated by the Directors for each of the Group on-going projects; and (iii) the expected total contract sum with estimated progress revenue recognition estimated by the Directors for each of the project expected to be participated by Shudao Investment Group. As discussed with the management of the Group, we noted that the expected total contract sum for upcoming projects of the Group estimated by the Directors were based on government discussion and government tendering plan. In regarding the cost to be recognized according the progress of completion, the Directors have made reference to the progress of past experience in similar construction projects and the estimated completion time for each of the upcoming projects.

We have also discussed with the management of the Group regarding the assumed 100% success rate on winning the tendering on the relevant contracts. According to the Directors, given both independent third parties and members of Shudao Investment Group shall have the similar chance to participate in and winning the tender, for prudent purpose, the Directors estimated a 100% success rate for awarding the contract to members of Shudao Investment Group, in case members of Shudao Investment Group is able to win each of the tender which members of Shudao Investment Group participates in, the Annual Cap will still be sufficient.

In respect of the maintenance work, we have discussed with the management of the Group regarding their maintenance, according to the management of the Group, based on the maintenance plan of the Group, the management of the Group expected that the maintenance level for the Group the coming year ending 31 December 2022 will be lower as compared to current year, as a result of the adjustment in the scope of the maintenance work to be carried out with reference to the latest conditions of the relevant expressway and the maintenance schedule.

We noted that 55.74% of the Annual Cap were catered for estimated transaction amount for projects which had been contracted in previous periods. Such amount is estimated based on the construction plan and the latest construction progress of each contracted project. Due to the delay in progress for land demolition resulting in the delays in land delivery, several road sections of the Expansion Construction Projects have been delayed and thus the relevant work would be required to be carried out in 2022.

We understand from the management of the Company that, pursuant to the relevant tendering rules and regulations in the PRC, the processing time between publication of tender result and entering into relevant construction agreement shall be within 30 days. Thus should the Annual Cap does not factor in a 100% success rate of projects estimated to be participated by Shudao Investment Group, if the Annual Cap have been fully utilized, Shudao Investment Group will not be able to participate in the remaining tender announced during the year, due to the timing required for refreshing the annual caps will exceed 30 days as the procedures required for refreshing the annual cap, including

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but not limited to obtaining Shareholder's approval (of which the notice period to convene an extraordinary shareholders' meeting would require 10 business days or 15 days (whichever is longer)) and other necessary steps to ensure compliance with the Listing Rules, will take more than 30 days to accomplish. As such, the Directors consider the above 100% success rate assumption is prudent, reasonable and necessary. In view of such, we concur with the Group's view of adopting an annual cap catering a 100% success rate on projects estimated to be participated by Shudao Investment Group as necessary and appropriate.

Regarding the remaining construction works pursuant to the contract to be carried out subsequent to 2022, it is not feasible and prudent for the Company to predict the estimated transactions amounts for a longer timeframe, as the progress of the construction works is subject to numerous factors, which include but not limited to potential change in government policies and regulations, adjustments regarding the planning of the Expansion Construction Project, climate and environmental factors etc. The implementation of the contract may also be adjusted in view of the aforementioned factors. As such, regarding the remaining construction works, if necessary, the Company will incorporate the remaining estimated transaction amount into the annual caps for upcoming years in respect of the then construction framework agreements to be entered into between the Group and Shudao Investment in order to govern the on-going construction transactions between the parties. The Company will also comply with relevant Listing Rules requirements, which include but not limited to the reporting and announcement requirements, and obtaining independent Shareholders' approval in relation to the obtaining of relevant annual caps. In case the resolution(s) regarding the Construction Framework Agreement (and the 2022 annual cap) and/or any of the subsequent construction framework agreements (and their respective corresponding annual caps) to be entered into between the Company and Shudao Investment are not approved by the Shareholders at the general meetings of the Company, the current intention of the Company is to seek feasible alternative (including but not limited to engaging other construction compan(ies) to continue the construction).

Due to the substantial deviation between the actual transaction amount for the period ended 30 June 2021 and the annual cap amount for the year ending 31 December 2021, we have discussed with the management of the Group regarding the reasons for such deviation, details of which please refer to the section headed "Review of the historical figures" above. According to the management of the Group, the factors leading towards the low utilization rate of the Annual Cap for the year ended 31 December 2020 and for the six months ending 30 June 2021 had been taken into account in determining the proposed Annual Cap for the year ending 31 December 2022 under the Construction Framework Agreement. Despite the factors which contributed to the variance between the actual transaction amount and the Annual Cap for the year ended 31 December 2020 and for the six months ending 30 June 2021 were unpredictable, the Directors have taken into account, among other things, the following to come up with the estimation on the Annual Cap for the year ending

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31 December 2022 including: (i) for new projects estimated to be carried out by the Group, the estimation that Shudao Investment Group will win every projects subject to tender as members of Shudao Investment Group shall have the similar chance to participate in and winning the tender, for prudent purpose, the Directors estimated a 100% success rate for awarding the contract to members of Shudao Investment Group, in case member of Shudao Investment Group is able to win each of the tender which Shudao Investment participates the Annual Cap for the year ending 31 December 2022 will still be sufficient; and (ii) in respect of construction project awarded to STIG Group prior to 2021 (of which rights and obligations of STIG, and the subordinate branch entities and equity interest or other interest in the subordinate companies held by STIG had been vested in Shudao Investment after completion of the restructuring), in particular the delay of the Expansion Construction Project, the Directors have factored in such delay in recognition of transaction amount of the relevant construction work to be recognized in 2022 in estimating the Annual Cap; (iii) the Directors have also factored in all other new projects estimated to be carried out or postponement or cancellation of projects according to their knowledge as at the date of the Announcement and as at Latest Practicable Date and the Directors were not informed of any updates regarding the new projects estimated to be carried out or postponement or cancellation of any other construction projects up to the Latest Practicable Date; and (iv) in respect of maintenance work, as at the date of the Announcement, as discussed with the management of the Group, the Group considered that the maintenance work to be carried out for the year ending 31 December 2022 will be in accordance to the latest maintenance schedule (subject to the then weather condition) and up to the Latest Practicable Date, the Group is not aware of any information which would result in any material changes to be made on the current maintenance schedule.

We concur with the Directors' view that, the circumstances mentioned above were considered to be inevitable which construction company will encounter during its daily operation and hence taking into account the above factors, we also concur with the Directors that, by making reference to the relevant the latest construction and maintenance plans for each of the expressways of the Group for the year ending 31 December 2022 as well as the latest construction progress in estimating the Annual Cap, is considered fair and reasonable.

6. Reporting requirements and conditions of the Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and

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- (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company (currently, Ernst & Young) must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to the Board's attention that causes them to believe that the Transactions:
 - (i) have not been received the approval of the Board;
 - (ii) are not in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (iii) have not been entered into in accordance with the relevant agreements governing the Transactions; and
 - (iv) have exceeded the Annual Cap;
- (c) the Company must allow, and ensure that counterparties to the Transactions to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Annual Cap; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the terms of the Transactions and the Annual Cap not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the Transactions and assist to safeguard the interests of the Independent Shareholders.

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RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the terms of the Construction Framework Agreement and the transactions contemplated there under are in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Annual Cap are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) in respect of the Construction Framework Agreement (including the Annual Cap) and the transactions contemplated thereunder at the EGM.

Yours faithfully,

For and on behalf of

HALCYON CAPITAL LIMITED

Terry Chu

Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 20 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them had taken or was deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

(a) Long position in the Company

Name	Capacity	Types of Shares	Nature of interest	Number of Shares held	Percentage of issued share capital of the Company
Mr. Gan Yongyi	Director	A Shares	Beneficial owner	50,000	0.0016%
Mr. Luo Maoquan	Supervisor	A Shares	Beneficial owner	10,000	0.0003%

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Other interests

As at the date of this circular, so far is known to the Directors,

- (i) none of the Directors and Supervisors had any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2020, the date to which the latest published audited financial statement of the Group was made up;
- (ii) except that Mr. Li Chengyong a non-executive Director, is the deputy head of the finance management department in Shudao Investment, no other Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of part XV of the SFO; and
- (iii) none of the Directors and Supervisors of the Company was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which was subsisting and significant in relation to the business of the Group taken as a whole.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, no other person had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name	Type of Shares	Long position/ Short position	Number of the Company's Shares held	Approximate	Approximate	
				percentage in the total shares capital of the Company		
Shudao Investment	A Shares (state-owned shares)	Long position	1,035,915,462	33.875%	47.898%	Beneficial owner
	H Shares	Long position	60,854,200	1.990%	6.797%	Beneficial owner
		Total	1,096,769,662	35.865%		

Name	Type of Shares	Long position/ Short position	Number of the Company's Shares held	Approximate percentage in the total shares capital of the Company	Approximate percentage in A/H Shares	Capacity
China Merchants Expressway Network & Technology Holdings Co., Ltd.	A Shares (legal person shares)	Long position	664,487,376	21.729%	30.724%	Beneficial owner
	H Shares	Long Position	96,458,000	3.154%	10.774%	Interest in controlled corporation ⁽¹⁾
Total			<u>760,945,376</u>	<u>24.883%</u>		

Note:

- (1) Equity interest held by Cornerstone Holdings Limited, a wholly-owned subsidiary of China Merchants Expressway Network & Technology Holdings Co., Ltd. Therefore, China Merchants Expressway Network & Technology Holdings Co., Ltd. is deemed to be interested in the H shares held by Cornerstone Holdings Limited under the SFO.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the Supervisors nor any of their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules.

5. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors or the Supervisors has entered into any service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, to the Directors' best knowledge, there was no litigation or claim of material importance pending or threatened by or against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2020, the date to which the latest published audited financial statement of the Company were made up.

8. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have been named in this circular or have given opinion or advice contained in this circular:

Name	Qualification
Halcyon Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Halcyon Capital was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. Halcyon Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its names in the form and context in which they appear.

The letter and recommendation given by Halcyon Capital is given as at the date of this circular for incorporation herein. As at the Latest Practicable Date, Halcyon Capital has not, or has not had, direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2020, the date to which the latest published audited financial statement of the Group was made up.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.cygs.com>) for a period of 14 days from the date hereof:

- (a) the Construction Framework Agreement;
- (b) the Previous Construction Framework Agreement;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 18 to 19 of this circular;
- (d) the letter from Halcyon Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 20 to 39 of this circular; and
- (e) the letter of consent referred to under the paragraph headed “Experts and Consents” of this appendix.

NOTICE OF EGM



四川成渝高速公路股份有限公司 Sichuan Expressway Company Limited*

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

(Stock Code: 00107)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Sichuan Expressway Company Limited* (the “**Company**”) will be held at 3:00 p.m. on 6 January 2022 (Thursday) at Room 420, 4th Floor, 252 Wuhouci Da Jie, Chengdu, Sichuan, the PRC for the purposes of considering and, if thought fit, passing (with or without modifications) the following resolution.

Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the circular (the “**Circular**”) of the Company dated 9 December 2021 containing the details in relation to the resolution herein below.

ORDINARY RESOLUTION

“**THAT:**

The signing, performance and implementation of the Construction Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby considered, recognized, confirmed and approved; and any one of the Directors of the Company be and are hereby authorized to execute for and on behalf of the Company all such other documents, instruments and agreements and to take all steps necessary or expedient to implement and/or give effect to the Construction Framework Agreement; any member of the Group (including those newly established or invested through equity acquisition or other organizations) be and are hereby approved to, in its absolute discretion deemed appropriate or expedient and in the interests of the Company and the shareholders as a whole and based on the actual work needs, to negotiate, develop, execute, amend, supplement and perform all documents in connection with the Construction Framework Agreement (including but not limited to

NOTICE OF EGM

the specific agreement contemplated under the Construction Framework Agreement) with any member of the Shudao Investment Group (including those newly established or invested through equity acquisition or other organizations) and proceed with all things and actions necessary for executing and implementing the Construction Framework Agreement.”

By order of the Board
Sichuan Expressway Company Limited*
Zhang Yongnian
Company Secretary

Chengdu, Sichuan, the PRC

9 December 2021

Notes:

1. The register of members of H Shares of the Company will be closed from 3 January 2022 (Monday) to 6 January 2022 (Thursday), both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM, unregistered holders of H Shares shall ensure that all transfer documents of H Shares accompanied by the relevant share certificates and the appropriate transfer documents must be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 31 December 2021 (Friday).
2. Any holder of H Shares who has registered on the register of members of H Shares before the close of business on 31 December 2021 (Friday) is entitled to attend the EGM after registration for the meeting. He/she is also entitled to appoint one or more proxies to attend and vote at the EGM on his/her behalf in accordance with the Articles of Association of the Company. A proxy need not be a Shareholder of the Company.
3. In order to be valid, the form of proxy of holders of H Shares and, if such form of proxy is signed by a person under a power of attorney or other authority on behalf of the principal, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM (or any adjournment thereof) or 24 hours before the time appointed for the passing of the resolution(s).
4. Shareholders or their proxies should produce their identity documents when attending the EGM. Should a proxy be appointed, the proxy shall also present the form of proxy.
5. Pursuant to the Articles of Association of the Company and the Listing Rules, the Chairman of the EGM will demand a poll in relation to all the resolution(s) proposed at the EGM.
6. Shareholders who intend to attend the EGM shall complete and lodge the reply slip for attending the EGM at the Company's legal address at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC not later than 4:30 p.m. on 4 January 2022 (Tuesday). The reply slip may be delivered to the Company by hand, by post or by fax (fax no.: (8628) 8553 0753).

NOTICE OF EGM

7. The EGM is expected to last for less than one day. Shareholders or their proxies attending the EGM shall be responsible for their own traveling and accommodation expenses.

As at the date of this notice, the Board comprises Mr. Gan Yongyi (Chairman), Mr. Li Wenhui (Vice Chairman), Madam Ma Yonghan, Mr. You Zhiming and Mr. He Zhuqing as executive Directors, Mr. Liu Changsong (Vice Chairman) and Mr. Li Chengyong as non-executive Directors, Mr. Yu Haizong, Madam Liu Lina, Mr. Yan Qixiang and Madam Bu Danlu as independent non-executive Directors.

* *For identification purposes only*