

**(A) BUSINESS VALUATION REPORT**

*The following is the text of a report prepared for the purpose of incorporation in this prospectus, received from Jones Lang LaSalle Sallmanns Limited, an independent business valuer, in connection with its valuation as at October 31, 2009 of the fair value of 100% equity interest in Daoyue.*



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Licence No: C-030171

December 11, 2009

The Board of Directors  
Huayu Expressway Group Limited  
Unit No. 1802 on 18/F of West Tower  
Shun Tak Centre  
Nos. 168-200  
Connaught Road Central  
Hong Kong

Dear Sirs,

In accordance with the instructions from Huayu Expressway Group Limited (the “Company”), we have undertaken a valuation exercise to express an independent opinion of the fair value of 100% equity interest in Hunan Daoyue Expressway Industry Co., Ltd. (“Daoyue”) as at October 31, 2009 (the “Valuation Date”). The principal operation of Daoyue is to manage the section of the Suizhou – Yueyang Expressway (“Sui-Yue Expressway”) within Hunan province (“Sui-Yue Expressway (Hunan Section)” or “Hunan Section”), in the PRC.

The purpose of this valuation is to express an independent opinion of the fair value of 100% equity interest in Daoyue as at October 31, 2009, which does not include the fair value of the loan portion of the total investment of Daoyue. Terms used in this report shall have the meanings defined in the prospectus dated December 11, 2009 of the Company.

**Introduction**

Daoyue was principally engaged in the construction and operation of Sui-Yue Expressway (Hunan Section). The length of the Sui-Yue Expressway (Hunan Section) will be 24.08km running from the southern side of the Jing-Yue Yangtze River Highway Bridge (荊岳長江公路大橋) in Daorenji town, which is under construction, to Kunshan (昆山) in Yueyang city in Hunan province. There will be four toll plazas for the Sui-Yue Expressway (Hunan Section), namely Daorenji Main Line Toll Plaza (道仁磯主綫收費站), Daorenji Toll Gate (道仁磯匝道收費站), Yunxi Toll Gate (雲溪匝道收費站) and Kunshan Toll Gate (昆山匝道收費站). The Sui-Yue Expressway (Hunan Section) is a full access-controlled expressway, with dual-3 lanes and a maximum design speed of 120km per hour. The construction work is currently underway and is planned to be completed by late-2011.

The details of Sui-Yue Expressway (Hunan Section) are as follows:

Expressway	Mileage	Capital Investment	Bank Loan	Total Estimated Investment	Concession period
The section from Suizhou to Yueyang Expressway within Hunan province	24.08 km	RMB 601 million	RMB 1.10 billion	RMB 1.717 billion	27 years

*Note:* The total estimated investment of RMB1.717 billion is financed by a bank loan of RMB1.10 billion and capital investment of RMB 601 million. The valuation of 100% equity interest in Daoyue relates to the capital investment of Daoyue only. The Company group currently holds 90% interest in Daoyue.

### **Basis of valuation**

Our valuation was carried out on a fair value basis. Fair value is defined as “*the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.*”

### **Valuation methodology**

Given the unique characteristics of the asset under valuation including the fact that the underlying expressway is still under construction, there are substantial limitations for the market approach and the cost approach for valuing the underlying asset. The market approach requires market transactions of comparable assets as an indication of value. Market transactions on expressway assets tend to have very different transaction prices considering a number of factors including geographical areas, toll rates and traffic, and operational stages and status of the expressway assets. We have not identified any current market transactions which are comparable. The cost approach does not directly incorporate information about the economic benefits contributed by the underlying asset.

In view of the above, we have adopted the income approach for the valuation. The income approach allows for the prospective valuation of future profits and justifications for the present value of expected future cash flows. In this study, the fair value of Daoyue is estimated based on the present worth of future economic benefits to be derived from the projected income, assuming no major change in the local Government policies and regulations. Indications of value have been developed by discounting projected future net cash flows available for payment of shareholders’ interest and the repayment of shareholder’s loans to their present worth at discount rates which in our opinion are appropriate for the risks of the business. In considering the appropriate discount rate to be applied, we have taken into account a number of factors including the current cost of finance and the potential risks inherent in toll road operation.

**Scope of investigation**

Our investigation included a site inspection of Daoyue and the comparable expressway near Sui-Yue Expressway (Hunan Section) which is under construction. Discussions with the management of Daoyue and the Company in relation to the history and nature of business, and review of Daoyue's historical and projected financial information and other relevant documents were also conducted. We have also discussed with Parsons Brinckerhoff (Asia) Limited ("PBA"), the Daoyue's traffic consultant, on the bases and assumptions underlying the traffic projections.

The findings of PBA cover two future forecast scenarios: the "Optimistic" and "Conservative" scenarios. The "Optimistic" scenario assumes a high expectation of economic growth over the entire evaluation period. This scenario considers an optimistic outlook towards the future and assumes a quicker development pace. The "Conservative" scenario assumes a lower development growth potential and a much slower pace of growth than the Optimistic scenario. The forecast traffic volume and toll charges prepared by PBA are used to estimate the revenue stream of the Sui-Yue Expressway (Hunan Section). The base approach, which is derived by taking the averages of the "Optimistic" and "Conservative" scenarios prepared by PBA, has been incorporated to arrive at the toll revenues stream for the subject toll road.

We believe the traffic projections provided by PBA to be reliable and legitimate. We have relied to a considerable extent on such information in arriving at our opinion of value.

**Basis of opinion**

We have conducted our valuation in accordance with international valuation standards issued by International Valuation Standards Committee ("IVSC"). The valuation procedures employed include a review of legal status and economic condition of Daoyue and an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the toll road. All matters essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The assumption that Sui-Yue Expressway (Hunan Section) will be completed as planned;
- The nature of business and history of the operation concerned;
- The financial condition of Daoyue;
- Projected development costs to expand and development time schedules;
- Projected operating costs and management expenses;
- Projected traffic flow, passenger volume and toll rates;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income and the projected future results;

- Consideration and analysis on the micro and macro economy affecting the subject asset;
- Analysis on tactical planning, management standard and synergy of the subject asset; and
- Assessment of the leverage and liquidity of the subject asset.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on Daoyue.

#### **Valuation assumptions**

In determining the value of 100% equity interest in Daoyue, we have made the following key assumptions. These assumptions have, where appropriate, been re-evaluated and validated in order to provide a more accurate and reasonable basis for our assessed value.

- We have assumed that the projected business can be achieved with the effort of the management of Daoyue and the Company;
- In order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that the facilities and systems proposed are sufficient for future expansion;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Daoyue;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;
- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value;
- Natural weather can have an impact on toll roads, including flooding and other types of inclement weather. We have assumed that no extended closure will occur;
- We have assumed the accuracy of the financial and operational information provided to us by Daoyue and the Company and relied to a considerable extent on such information in arriving at our opinion of value;

- We have assumed the capital structure of Daoyue will not change;
- Based on the feasibility report of the Sui-Yue Expressway (Hunan Section) and the management's opinion, the operating and management expenses mainly include staff and welfare costs, water and electricity costs and other operating expenses. The total operating and management expenses will be RMB7,250,000 for the first year and 3% of growth rate is assumed for the remaining years, which is determined after considering the long term inflation rate in China. The total operating and management expenses of RMB7,250,000 are estimated with reference to the operating expenses of Huayu Investment's existing operating toll road projects.
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.
- The traffic volume and toll revenue for Sui-Yue Expressway (Hunan Section) will conform to the level as projected by PBA in the average of conservative and optimistic scenarios; Parsons also prepared a projection for the traffic flow and revenue with respect to the subject toll road covering the respective concession period. Their projection is mainly based on the expected annual GDP growth rate, vehicle types, existing road network and future transportation plan. We believe that the traffic growth rate and the toll charge growth rate projected by Parsons are reasonable and, therefore, we have adopted their findings in developing the Optimistic and Conservative scenarios for Daoyue.
- Sui-Yue Expressway (Hunan Section) under construction would be completed on schedule to the satisfaction of both the design engineer and Daoyue, and that all relevant standards and requirements of the government authorities will be met.

In determining the discount rate for the operation adopted in the valuation, we have taken into account a number of factors including the current market condition and the underlying risks inherent in the business, such as uncertainty risk, etc. These risk factors have been considered in determining the appropriate discount rate for the valuation.

When evaluating the appropriate discount rate for Daoyue, we have used the Capital Assets Pricing Model (the "CAPM"). Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of Daoyue is expected to be affected by factors that are independent of the general market. This variability of the expected rate of return is referred to as the specific risk.

In determining the discount rates for Daoyue, the following parameters have been used:

**Parameters for CAPM**

Risk free rate	3.52%	Yield of 10-year Hong Kong exchange fund bonds
Market return	8.76%	10-year Hang Seng Index Returns
Relevered Beta	0.777	Based on the beta of comparable companies
Country risk premium	0.6%	Spread for country rating over default free government bond rates
Company specific risk	1%	Risk for construction status
<b>CAPM</b>	<b>9.2%</b>	

In determining the beta, we have considered the information of certain listed companies in Hong Kong which are engaged in the business of operating expressways in China. The following table summarizes the betas of these companies as at October 31, 2009:

<b>Certain Hong Kong listed companies in expressway business</b>	<b>5 year weekly beta</b>
Sichuan Expressway Co., Ltd.	0.81
Jiangsu Expressway Co., Ltd.	0.89
Shenzhen Expressway Co., Ltd.	0.94
Zhejiang Expressway Co., Ltd.	0.91
Anhui Expressway Co., Ltd.	0.83
Hopewell Highway Infrastructure Ltd.	0.63
GZI Transport Ltd.	0.59

*Source: Bloomberg*

The 5 year weekly beta was calculated based on the regression analysis on the weekly returns of the relevant shares of the companies against the weekly returns of Hang Seng Index for the period from November 5, 2004 to October 31, 2009.

The Sui-Yue Expressway (Hunan Section) is in its construction stage and is planned to be completed by the end of 2011. Given the current progress of the project (including the fact that preparation stage construction work of the Sui-Yue Expressway (Hunan Section) has been commenced for more than 6 months and all the relevant approvals for construction work have been obtained), the completion risk is not considered high. In light of the expected future traffic flow and stable income stream of Sui-Yui Expressway (Hunan Section), 1% additional risk premium is considered appropriate to reflect the current construction status of the Sui-Yui Expressway (Hunan Section). This represents some 10% of the overall discount rate of 9.6% and is considered adequate for the purpose. Any extra premium is not considered necessary given the not very high completion risk of the Sui-Yue Expressway (Hunan Section).

On top of the discount rate of 9.2% above, a premium for lack of marketability of 0.4% is also applied in the calculation to capture the lower liquidity of the equity of the Daoyue due to its private company nature. Accordingly, the total discount rate adopted is 9.6%.

Three sensitivity analyses were prepared to project the results based on the changes of discount rate, toll rate and the future forecast scenario. The following table summarizes the resulting values of 100% equity interest in Daoyue:

<b>Discount Rate Sensitivity</b>	
<b>Discount Rate (Include marketability discount)</b>	<b>Results (RMB million)</b>
8.6%	1,237
9.6% *	1,050
10.6%	899

<b>Toll Rate Sensitivity</b>	
<b>Toll Rates' Growth Rate</b>	<b>Results (RMB million)</b>
10%	918
15% *	1,050

<b>Operating and Management Expenses Sensitivity</b>	
<b>Operating and Management Expenses Growth Rate</b>	<b>Results (RMB million)</b>
3% *	1,050
10%	991

<b>Scenario Sensitivity</b>	
<b>Scenario</b>	<b>Results (RMB million)</b>
Optimistic	1,244
Conservative	856
Average *	1,050

\* Such rates or scenario are adopted for the valuation in this report.

**Limiting conditions**

The conclusion of value is based on generally accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, as the assumptions and other relevant factors are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Daoyue, the Company and Jones Lang LaSalle Sallmanns Limited.

We do not intend to express any opinion on matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of Daoyue over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

We have not undertaken structural or civil engineering surveys and are not therefore able to confirm Sui-Yue Expressway (Hunan Section) is free from structural defects and would not assume any adverse impact from such matters.

Based on the results of our investigations and analyses, it is our opinion that the fair value of 100% equity interest in Daoyue as at October 31, 2009 is reasonably stated at the amount of **RMB1,050 million (RENMINBI ONE THOUSAND AND FIFTY MILLION)**.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Sallmanns Limited**  
**Simon M.K. Chan**  
*CPA*  
*Director*

*Note: Simon M.K. Chan is a CPA member of the Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation services to numerous listed and private companies in different industries in Mainland China, Hong Kong, Singapore and the United States, including infrastructure companies like power plant companies and toll road companies.*



**(B) REPORT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION**

*The following is a report issued by our reporting accountants, KPMG, Certified Public Accountants, Hong Kong, regarding the discounted future estimated cash flows in connection with the business valuation conducted by Jones Lang LaSalle Sallmanns Limited on the 100% equity interest in Daoyue, prepared for the purpose of incorporation in this prospectus:—*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

11 December 2009

**To the Directors of  
Huayu Expressway Group Limited  
Mizuho Securities Asia Limited**

We have been engaged to report on the arithmetical calculations of the discounted future estimated cash flows on which the business valuation (the “Valuation”) dated 11 December 2009, prepared by Jones Lang LaSalle Sallmanns Limited (“Jones Lang”) in respect of the appraisal of the market value of 100% equity interest in Daoyue, is based. The Valuation is set out in Part A of Appendix III of the prospectus of Huayu Expressway Group Limited (the “Company”) dated 11 December 2009 (the “Prospectus”) in connection with the listing on the Main Board of The Stock Exchange of Hong Kong Limited by way of placing and public offer by the Company. The Valuation which is determined based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 11.17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

**Responsibility for the Discounted Future Estimated Cash Flows**

The directors of the Company and Jones Lang are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and Jones Lang and as set out on page III-4 to III-6 of the Prospectus. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Reporting Accountants' Responsibility**

It is our responsibility to report, as required by Rule 11.17 of the Listing Rules, on the arithmetical calculations of the discounted future estimated cash flows on which the Valuation is based.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the arithmetical calculations are concerned, have been properly compiled in accordance with the bases and assumptions as set out on page III-4 to III-6 of the Prospectus. We re-performed the arithmetical calculations and compared the compilation of the discounted future estimated cash flows with the bases and assumptions.

We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the 100% equity interest in Daoyue, or an expression of an audit or review opinion of the Valuation.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 11.17 of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**Opinion**

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company and Jones Lang as set on page III-4 to III-6 of the Prospectus.

Yours faithfully,  
**KPMG**  
*Certified Public Accountants*  
Hong Kong

**(C) LETTER FROM THE SPONSOR**

*The following is a letter issued by Mizuho Securities Asia Limited, our Sponsor, regarding the business valuation conducted by Jones Lang LaSalle Sallmanns Limited on the 100% equity interest in Daoyue, prepared for the purpose of incorporation in this prospectus:—*

December 11, 2009

The Directors  
Huayu Expressway Group Limited  
Unit No. 1802, on 18th Floor of West Tower  
Shun Tak Centre  
Nos. 168-200  
Connaught Road Central  
Hong Kong

Dear Sirs,

We refer to the report issued by Jones Lang LaSalle Sallmanns Limited (“Jones Lang”), an independent business valuer engaged by Huayu Expressway Group Limited (the “Company”), in connection with the valuation of the fair value of 100% equity interest in Hunan Daoyue Expressway Industry Co., Ltd. (“Daoyue”) as at October 31, 2009 (the “Business Valuation”).

We understand that Jones Lang has conducted the Business Valuation based on a number of underlying bases and assumptions which are subject to its professional judgement. We note that KPMG has issued a letter regarding the arithmetical calculations underlying the Business Valuation, a copy of which is set out on page III-9 to page III-10 of this prospectus.

We have made enquiries and discussed with Jones Lang and the directors of the Company in respect of the underlying bases and assumptions upon which the Business Valuation was based. We are of the opinion that the fair value of Daoyue as appraised by Jones Lang under the Business Valuation has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**MIZUHO SECURITIES ASIA LIMITED**  
**Kelvin S. K. Lau**  
*Managing Director*  
*Capital Markets & Corporate Finance*