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Industry View  
In-Line

## China Toll Roads Driven by China's Long-term Economic Growth: In-Line

**Conclusion:** We initiate coverage of China's toll road industry with an In-Line view. We believe the industry is well positioned to benefit from long-term economic growth and rising car consumption in China. Aggressive toll road network expansion by the government might lead to traffic migration away from existing toll roads, in addition to declining IRR, but we actually expect limited impact on the listed companies. Of them, we view Zhejiang Expressway as the largest beneficiary of a potential export recovery in 2010, while Sichuan Expressway will be a good proxy for a strong economy in southwest China, in our view.

### Aggressive road expansion not a major concern:

We hold this non-consensus view for three reasons. 1) The expansion can accelerate local economic growth, introducing higher traffic growth in the long term. 2) Any potential negative effect on the listed companies, which are mostly located in coastal areas, will be limited, as the government will mainly be investing in roads in under-developed inland regions. 3) The rising capex will lead to a significant financial burden for local governments. To address this issue, we believe they will either raise tariffs (20% probability) or inject assets into listed toll road companies in return for cash (80% probability). This would offer a good opportunity for the listed operators to gain quality assets and enlarge their toll road portfolios.

**Traffic growth is the key driver for toll road stocks,** according to our correlation analysis, while export recovery, toll-by-weight billing changes, and asset injections are potential catalysts. We expect Zhejiang Expressway and Sichuan Expressway to outperform, as they are the only two listed operators that could benefit from all three catalysts in 2010-11.

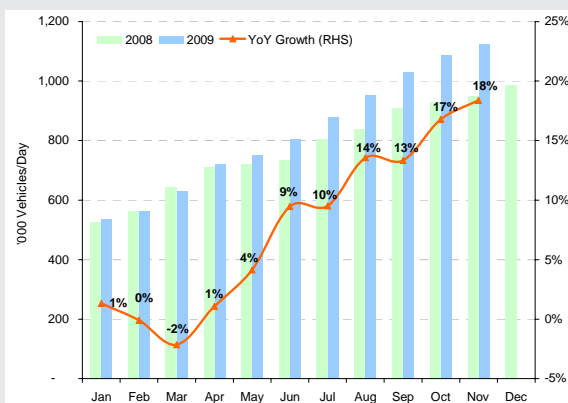
**Key risks to our call:** Downside – significant economic slowdown in China; double-dip in export growth; exogenous risks such as natural disasters. Upside – stronger-than-expected traffic recovery boosted by rapid economic growth.

### Rating & Price Target

Company	Ticker	Rating	Price Target
Zhejiang Exp.	576.HK	Overweight	HKD 8.96
Sichuan Exp.	107.HK	Overweight	HKD 4.96
Jiangsu Exp.	177.HK	Equal-weight	HKD 7.59
Anhui Exp.	995.HK	Equal-weight	HKD 5.87
Shenzhen Exp.	548.HK	Equal-weight	HKD 4.17
HHI	737.HK	Equal-weight	HKD 5.26

Source: Morgan Stanley Research

### Toll Road Traffic Continues to Recover



Data is for average daily traffic (ADT) of major toll roads in Zhejiang, Jiangsu, Shenzhen, Anhui, and Sichuan expressways.

Source: Company data, Morgan Stanley Research

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Initiation

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## Investment Debates Summary

### Debate 1: Is aggressive expansion a major concern for listed companies?

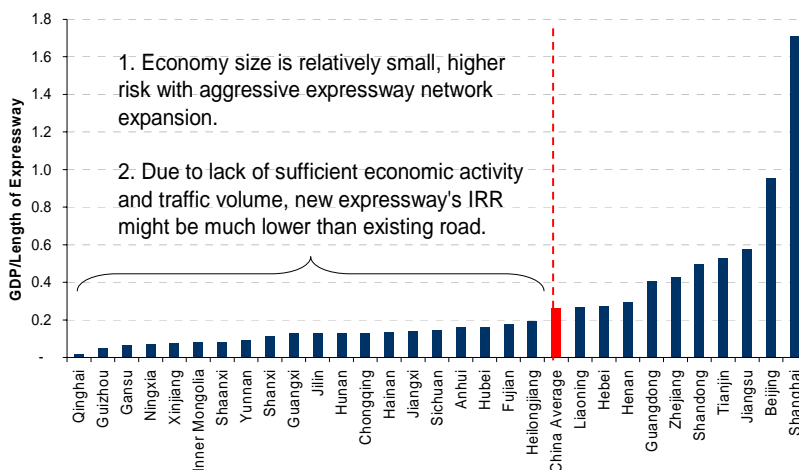
**Market view:** China's aggressive investment in toll road infrastructure is negative for the industry as it will lower traffic flow and the internal rate of return (IRR) of existing toll road operators.

**Our view:** We disagree for the following reasons: 1) road expansion is positive for the economy and could boost traffic growth in the long term; 2) the over-investment risk is skewed to inner regions rather than coastal areas, where most listed toll roads are located; and 3) rising capex will lead to the government either injecting assets in exchange for cash or raising tariffs.

*Where we could be wrong:* There could be significant revision of the current toll road expansion plan.

### Over-investment risk skewed to under-developed provinces

Most conservative investment in Shanghai, Jiangsu, Zhejiang, Guangdong



Source: CEIC, Ministry of Communications, Morgan Stanley Research

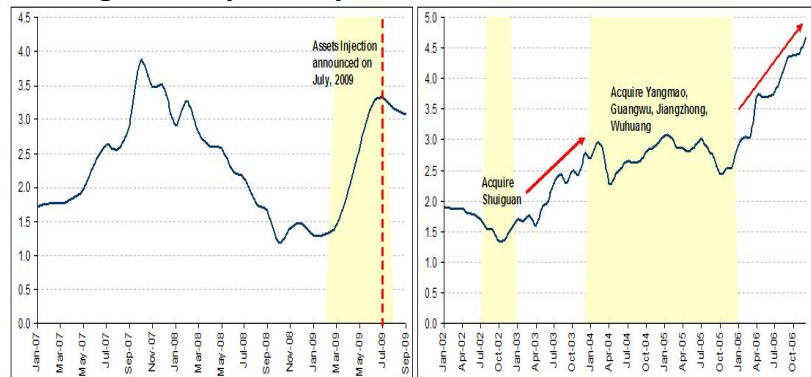
### Debate 2: What drives stock prices?

**Market view:** Traffic growth is the main driver, and there are no catalysts to re-rate the stocks.

**Our view:** In addition to traffic growth, we believe 1) export recovery; 2) implementation of toll-by-weight billing; and 3) asset injections are potential catalysts for toll road stocks.

*Where we could be wrong:* Some asset injections could actually destroy value.

### Re-ratings driven by asset injections



Source: Company data, FactSet, Morgan Stanley Research

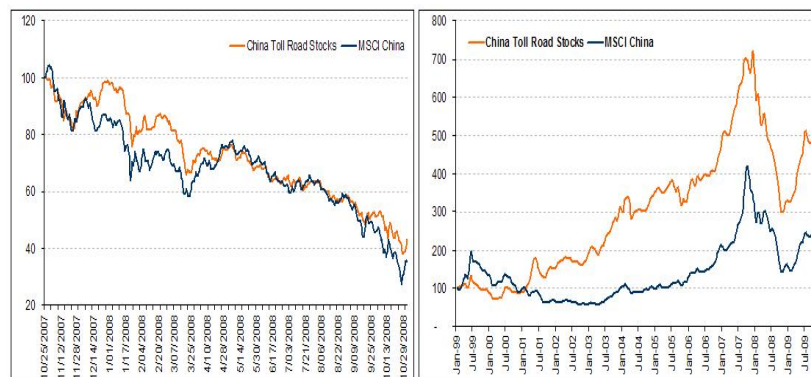
### Debate 3: Are these only bear market stocks?

**Market view:** Toll road stocks are defensive names that usually outperform during bear markets and underperform during bull markets.

**Our view:** We agree that toll road stocks are defensive names. However, they do not necessarily underperform during market re-rating. From 1999 to 2009, China toll road stocks outperformed the MSCI China by 247ppts.

*Where we could be wrong:* If the market continues to re-rate strongly, toll road stocks might underperform on a 6-12-month horizon.

### Stocks do not outperform only in bear markets



Source: Bloomberg, FactSet, Morgan Stanley Research

## Investment Summary

### Key Calls:

- **Initiate coverage on** Sichuan (OW), Anhui (EW) and Shenzhen (EW); company updates on Zhejiang (OW), Jiangsu (EW), and HHI (EW). Also, we reclassify these latter three stocks into our expanded China Toll Roads industry coverage universe.
- **Overweight Zhejiang Expressway** because of the following factors: 1) better economic growth outlook in Zhejiang province; 2) greater export recovery potential in 2010; 3) positive earnings effect from toll-by-weight system in 2010; 4) potential value-creative asset injection by parent group; and 5) limited downside from traffic migration following a decline in volumes in 2H08-2009.
- **Overweight Sichuan Expressway** considering the following factors: 1) strong long-term economic growth in southwest China; 2) surging car sales in Sichuan and Chongqing; 3) 25% tariff hike for commercial vehicles in October 2010; 4) visible asset injection, with Chengnan and Suiyu Expressways to be acquired by 2011.

### Key Factors to Consider:

- **Economic growth:** The GDP CAGRs in Zhejiang and Sichuan provinces were 13.4% and 12.3% in 2003-08, outperforming the national average of 10.7%. So, traffic growth in Zhejiang and Sichuan should remain resilient.
- **Risk of traffic migration:** Zhejiang Expressway should have limited downside, as its traffic has already stabilized after declining following the opening of the Hangzhou Bay Bridge in May 2008. Sichuan Expressway does not have a significant risk of traffic migration in 2010-11.
- **Export recovery:** Zhejiang Expressway, located in an affluent coastal area, is likely to be one of the largest beneficiaries of an expected export recovery in 2010.
- **Toll-by-weight:** Zhejiang Expressway, which will launch toll-by-weight billing in 2010, should be re-rated, we believe. Sichuan Expressway will raise tariffs for commercial vehicles by 25% in October 2010, and this should have a positive earnings effect in 2010 and 2011.
- **Asset injections:** Sichuan Expressway's parent has committed to inject the Chengnan and Suiyu Expressways into its subsidiary by 2011, while Zhejiang Expressway also has potential to obtain substantial quality assets from its parent.

- **Capex risk:** Sichuan Expressway will spend Rmb7.5bn to construct the Chengziluchi Expressway, while Zhejiang Expressway has no large capex planned for 2010-11.
- **Business diversification:** Zhejiang Expressway's securities business exposure is a long-term positive, given the growth potential in the financial services industry. With the potential launch of stock index futures and margin trading, the securities business should benefit further.
- **Balance sheet:** Zhejiang and Sichuan Expressways outperform, with Zhejiang's interest coverage ratio at 41x and Sichuan's assets / equity ratio at 1.4x in 2008, the best among peers. They also lead in terms of net debt / equity ratio.
- **Valuation:** Zhejiang and Sichuan Expressways offer greater upside potential based on our DCF valuation.

### Exhibit 1

#### Key Factors to Consider for China Toll Roads

Ticker	576.HK	177.HK	737.HK	107.HK	995.HK	548.HK
Company	ZJEC	JSEC	HHI	SCEC	AHEC	SZEC
Economy Growth Potential	++	++	+	+++	+++	+
Traffic Migration	-	--	---	-	-	--
Export Recovery	+++	+++	++	+	+	++
Toll-by-Weight	+++	n.a.	+	+	n.a.	+
Assets Injection	+++	n.a.	n.a.	+++	n.a.	n.a.
Capex Risk	n.a.	n.a.	-	-	n.a.	-
Business Diversification	++	+	n.a.	n.a.	n.a.	n.a.
Balance Sheet	+++	++	+	+++	++	-
Valuation	+++	+	+	+++	+	+
Concession Years	19	20	18	18	19	17

+++ Implies most positive followed by ++ and +, --- implies most negative followed by -- and -  
Source: Company data, Morgan Stanley Research

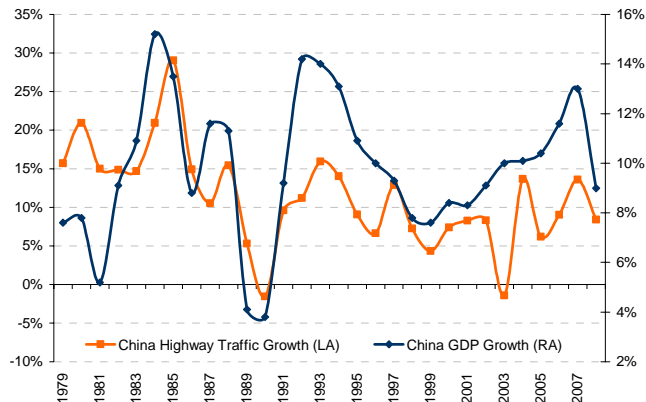
## Investment Positives

### Riding on China's Long-term GDP Growth

We believe China toll road companies are among the greatest beneficiaries of long-term GDP growth in China, as road traffic is driven by economic development. Passengers and freight traveling by highway in China, as measured by passenger kilometers carried and freight carried, rose at CAGRs of 8.1% and 9.4% in 2002-08, compared with a GDP CAGR of 10.7% for the period. Highway traffic growth in China has shown a positive correlation with GDP growth since 1979.

Exhibit 2

### High Correlation between GDP and Traffic Growth



Source: CEIC, Morgan Stanley Research

Morgan Stanley's China economist expects the country to deliver GDP growth of 10% in 2010. In 2011, growth of 8.5% would be among the highest in the world. In light of such a positive macro picture, we expect good traffic volume growth to continue in 2010 and 2011. Listed toll road companies with concession rights for toll roads with the best geographic exposure in each region are likely to be the largest beneficiaries of such growth, in our view.

The six toll road companies under our coverage are located in five different provinces, so their traffic growth potential correlates more with local GDP growth. At the provincial level, we are most positive on the GDP growth potential in Sichuan and Anhui, followed by Zhejiang and Jiangsu. Guangdong province, as the pioneer of economic development in China, has less growth potential from a higher base and will have less growth momentum, in our view (please refer to Appendix 3).

Exhibit 3

### China GDP Growth Outlook

	2008	2009E	2010E	2011E
GDP	9.0	9.0	10.0	8.5
Consumption	8.3	8.5	9.8	10.0
GCF	9.8	15.1	12.1	9.7
Mining	13.0	10.0	12.0	12.0
Manufacturing	12.3	9.0	12.0	10.0
Real estate	11.0	10.0	15.0	10.0
Infrastructure	9.2	50.0	20.0	10.0
Others	4.0	2.0	5.0	8.5
Net exports*	0.8	-1.5	0.0	-0.5
Contribution to growth (percentage points)				
GDP	9.0	9.0	10.0	8.5
Consumption	4.1	4.2	4.8	4.9
GCF	4.1	6.3	5.1	4.1
Mining	0.3	0.2	0.3	0.3
Manufacturing	1.6	1.1	1.5	1.3
Real estate	0.8	0.8	1.1	0.8
Infrastructure	0.7	4.0	1.6	0.8
Others	0.5	0.2	0.6	1.0
Net exports*	0.8	-1.5	0.0	-0.5
Exports (% YoY, US\$ terms)	17	-16	9	12
Imports (% YoY, US\$ terms)	18	-13	10	17
Trade Balance, US\$ bn	297	216	225	197
% of GDP	6.9	4.5	4.0	2.9
CPI (%)	5.9	-0.6	2.5	3.5

E = Morgan Stanley Research estimates. Source: CEIC, Morgan Stanley Research

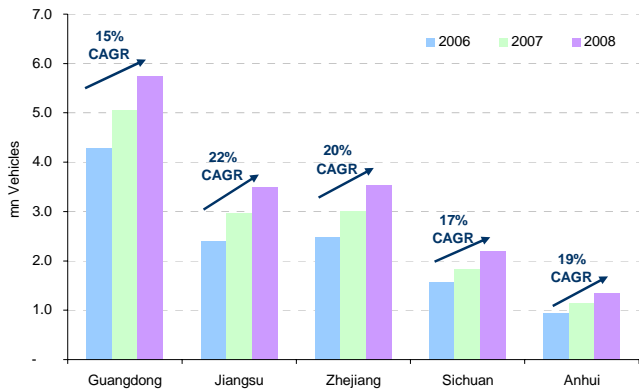
### Beneficiary of Rising Car Consumption in China

In concert with China's fast economic growth, car purchases have increased rapidly. From 1998 to 2008, annual sales of automobiles in China rose increased from 1.6mn units to 9.4mn units, a 19% CAGR. In 2009, thanks to the fiscal stimulus, China's passenger car sales rose 44% to 7.5mn units from January to November, while sales of commercial vehicles advanced 39% to 4.8mn units. Such strong volumes have led to China passing the US as the nation with the largest car consumption in the world.

Although car sales may slow in 2010 and 2011 because of cyclical factors, the number of motor vehicles in use remains on a growth trend. By 2008, over 64mn motor vehicles were in use in China – passenger cars accounted for 38%. From 1998 to 2008, the number of motor vehicles in use rose at a 14% CAGR – the key driver of traffic growth on toll roads. Guangdong province has the greatest number of vehicles in use, followed by Jiangsu, Zhejiang, Sichuan, and Anhui. However, from 2006 to 2008, the increase in the number of vehicles in use was highest in Jiangsu, as shown in Exhibit 4. This profile suggests to us that traffic growth in Zhejiang and Jiangsu might have greater potential than that in Guangdong.

Exhibit 4

## Fast Growth of Vehicles in Use



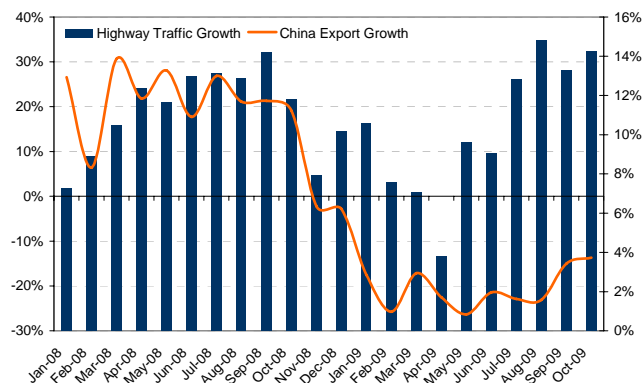
Source: CEIC, Morgan Stanley Research

## Export Recovery to Boost Traffic Volume in Coastal Areas

We believe China's expected export recovery will drive up traffic growth, with more demand for transportation between factories and ports. From January to October 2009, the country's exports gradually stabilized, with the YoY decline narrowing from 20% in 1Q09 to 14% in October 2009. Traffic volume growth also improved, from 8% in 1Q09 to 14% in October.

Exhibit 5

## Export Recovery to Produce Higher Traffic



Source: CEIC, Morgan Stanley Research

However, as China's economic growth in 2009 was mainly driven by domestic demand, such as infrastructure investment and consumption, the weak improvement in exports has not had a substantial effect on traffic flow. Moving into 2010, our economics team forecasts a recovery in export growth to 9%,

and this should become a key driver of traffic growth. Combining this with the positive GDP outlook, we believe traffic volume will recover further. Considering their geographic exposure, we think toll road companies in coastal areas, such as Zhejiang, Jiangsu, and Shenzhen, are more likely to benefit from an export recovery, as more export production bases are located in those areas.

Hopewell Highway Infrastructure (HHI), although located in Guangzhou province, is less likely to benefit from an export recovery, in our view. Its key toll road asset, the Guangzhou-Shenzhen Superhighway (GSS), has reached high utilization with limited upside potential for traffic volume growth. Also, after the opening of the new Riverside Expressway from Guangzhou to Shenzhen in 2010, HHI will face significant risk of traffic migration.

## Toll-by-weight: a Positive Catalyst

We believe toll-by-weight billing is positive for expressways for the following reasons. 1) It will increase toll income with higher charges per vehicle. 2) It will significantly curb over-loading, thereby introducing a better and safer driving environment. 3) It can save repair and maintenance expenses with less damage from over-loading. In the past few years, Jiangsu, Sichuan, and Anhui provinces have launched toll-by-weight billing systems, which had a positive effect in the following 6-12 months, summarized as follows:

- Jiangsu Expressway's toll income rose by more than 5%, although traffic volume declined 8%.
- Sichuan Expressway's toll income rose by over 10%, ahead of the 6% traffic volume growth. Toll revenue on one of its toll road sections, Chengyu Expressway, rose by more than 50% after implementation of the toll-by-weight system, overtaking traffic growth of more than 20%.
- Anhui Expressway's toll income rose 30% on flat traffic volume.

In terms of stock performance, the implementation of toll-by-weight billing was a catalyst, driving up the share prices of Jiangsu, Anhui, and Sichuan Expressways (Exhibits 22-24). In 2010, Zhejiang will launch toll-by-weight billing, with all expressways in the province to implement the new billing system. This will be a catalyst for Zhejiang Expressway's share price, in our view.



## Investment Concerns

### Traffic Migration to Railways

Following China's aggressive investment in its railway network, the combined length of the network is due to rise from 79,687km in 2008 to 100,000km by 2020. Most of the newly added length is dedicated to passenger routes, with trains travelling at over 250km/hour. As the railway will offer faster, safer, and more efficient transportation between cities, traffic may migrate away from toll roads.

However, we believe railways are more suitable for medium-to-long-distance transportation, rather than for short distances. Therefore, in our view, the high-speed railway network will divert traffic from airlines but have a limited negative effect on toll roads. Compared with railways, toll road transportation continues to offer a door-to-door advantage, which cannot be replicated by any other mode of transport.

### Traffic Migration to Newly Constructed Toll Roads

Although newly constructed toll roads might attract traffic flow, we believe the negative effect will be short-term. Two examples support this opinion: 1) Following the opening of the Chengsuiyu Expressway in December 2007, toll revenue on the Chengyu Expressway declined 5% in 2008. However, traffic volume recovered, and grew in 2009. 2) Traffic also migrated away from the Shenzhen-Hangzhou-Ningbo Expressway from May 2008 after the opening of the Hangzhou Bay Bridge. However, after declining in 2008 and 1Q-3Q09, toll income stabilized in 4Q09 and is showing signs of recovery.

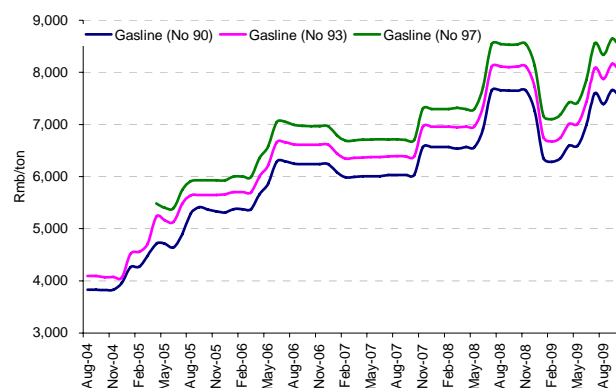
We believe HHI and Jiangsu Expressway are highly likely to suffer from traffic migration. HHI's key revenue contributor, the GSS, will face direct traffic competition from the new Riverside Expressway, which also connects Guangzhou and Shenzhen but by a shorter route and will open in 2010. Traffic on Jiangsu Expressway's main toll road asset, the Nanjing-Shanghai Expressway, is likely to migrate upon the opening of a new expressway connecting Nanjing and Shanghai, construction of which is due to begin in 2010, scheduled for completion section by section from 2012 to 2015.

### Rising Fuel Cost

We believe rising fuel cost will have a negative effect on China's toll road industry, for the following reasons: 1) Higher gasoline costs will mean people will likely drive less frequently on toll roads. This will dilute the positive effect of rising car purchases. 2) To save transportation costs, cargo owners might switch to other transportation methods, including railways or waterways.

Exhibit 6

### Rising Gasoline Price in China



Source: CEIC, Morgan Stanley Research

### Falling IRR

The IRR of China's toll road industry has fallen for the past 10 years as construction costs have risen. In the early 1990s, a lack of capital and cheap construction costs drove IRR for toll road projects from the high-teens to more than 20%. Because of scarce capital, local governments awarded generous subsidies through taxes to encourage toll road investment. However, as supply / demand has become more balanced, this support is waning. With rising construction costs but lagging tariff increases, newly constructed toll roads are recording much lower IRRs than are older toll roads. Based on industry checks, we understand it has been difficult for any new toll road projects to achieve an IRR of over 10% in recent years.

As most listed toll road companies hold older toll road assets, we do not think the falling industry IRR poses a material risk. However, with a lower IRR, it might be difficult for listed companies acquire new assets that have an attractive return. This might prevent the listed companies from enlarging their asset portfolios via asset injections.

## Debate #1: Is Aggressive Road Investment Negative for Listcos?

**Market view:** The significant investment in toll road infrastructure in China is negative for the industry, as it will divert traffic flow and lower the IRR of existing toll road operators.

**Our view:** We disagree. First, road investment might boost local economic growth, which should produce higher traffic volume.

Second, we see a greater over-investment risk in under-developed regions such as Qinghai, Xinjiang, and Inner Mongolia, rather than in coastal areas such as Guangdong, Zhejiang and Jiangsu. As Exhibits 12-13 show, our analysis suggests that toll road network expansion in Guangdong, Zhejiang, and Jiangsu is more conservative and therefore more accommodative to local economic growth.

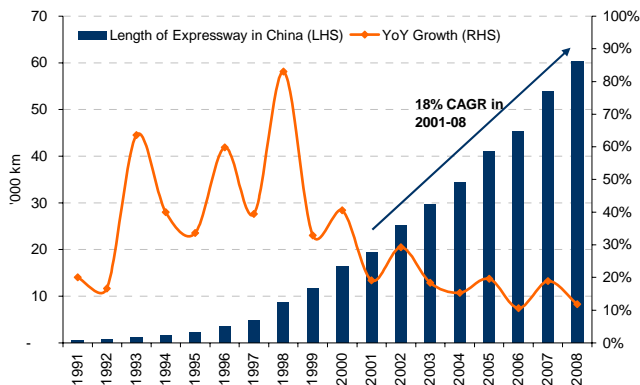
Third, a lower IRR due to over-investment might force the government to inject attractive assets in exchange for cash or raise tariffs to achieve better returns.

### Aggressive Expansion of China's Toll Road Network

Since China built its first expressway in 1988, the network has expanded quickly. Its length increased from 500km in 1990 to over 60,000km by 2008. The pace of growth slowed from 2001 to 2008, but the length still increased at an 18% CAGR.

Exhibit 7

#### Fast Expansion of China's Toll Road Network

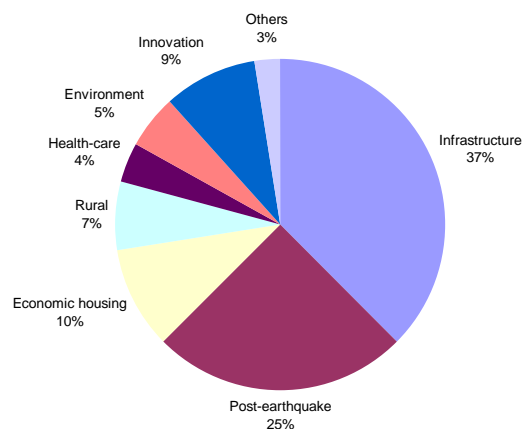


Source: CEIC, Morgan Stanley Research

To prevent a hard economic landing after September 2008, the Chinese government implemented an economic stimulus, including a significant expansion of the toll road network. In 1H09, investment on road construction reached Rmb362.7bn, up 49% YoY; investment in expressways rose 55% to Rmb196bn. China is constructing over 111 expressway projects, with capex of Rmb700bn, implying Rmb58mn/km.

Exhibit 8

#### Allocation of China's Economic Stimulus Package



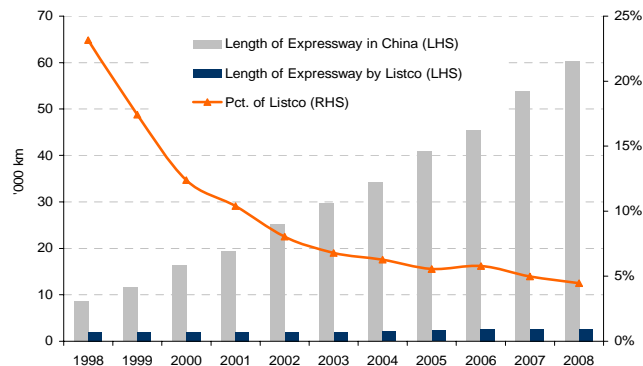
Source: NDRC, Company data, Morgan Stanley Research

### Listed Expressways are Taking a Lower Market Share

Despite the 18% CAGR in toll expressway length in 2001-08, the length of expressway assets belonging to the listed companies increased by only 4% per annum during that period. As a result, the length of expressways owned by the six listed companies was around 2,800km in 2008, only 4% of the total network, compared with 10% in 2001.

Exhibit 9

#### Listed Toll Roads Are Taking a Lower Share



Source: CEIC, Company data, Morgan Stanley Research



Exhibit 10 summarizes the expansion of the six listed toll road companies. From 2001 to 2009, the length of toll roads controlled by the listed companies rose just 889km.

Exhibit 10

### Major Toll Road Network Expansion by Listed Companies Since 2001

Company	Road Section	Length (km)	Year	Total Capex (Rmb mn)
Jiangsu Exp.	SuJiaHang (Jiangsu Section)	100.1	2003	n.a.
HHI	Western Delta Route - I	14.7	2003	n.a.
Sichuan Exp.	Chengle Expressway	86.4	2009	1,098
Anhui Exp.	Ninghuai (Tianchang Section)	14.0	2006	476
Anhui Exp.	Xuanguan (Nanhuan Section)	17.0	2003	399
Anhui Exp.	Lianhuo (Anhui Section)	54.0	2002	1,180
Shenzhen Exp.	Yanpai	15.2	2006	1,144
Shenzhen Exp.	Yanba	28.1	2001	1,943
Shenzhen Exp.	Nanguang	33.1	2008	2,636
Shenzhen Exp.	Shuiguan	20.1	2002	n.a.
Shenzhen Exp.	Shuiguan ext	5.2	2005	n.a.
Shenzhen Exp.	Yangmao	79.7	2004	1,087
Shenzhen Exp.	Guangwu	39.8	2004	597
Shenzhen Exp.	Jiangzhong	37.5	2005	674
Shenzhen Exp.	Guangzhou W Ring II	42.0	2006	1,000
Shenzhen Exp.	Qinglian	215.8	2005	n.a.
Shenzhen Exp.	Wuhuang	70.3	2005	1,188
Shenzhen Exp.	Nanjing Bridge III	15.6	2005	1,080
<b>Total Length (km)</b>		<b>888.6</b>		

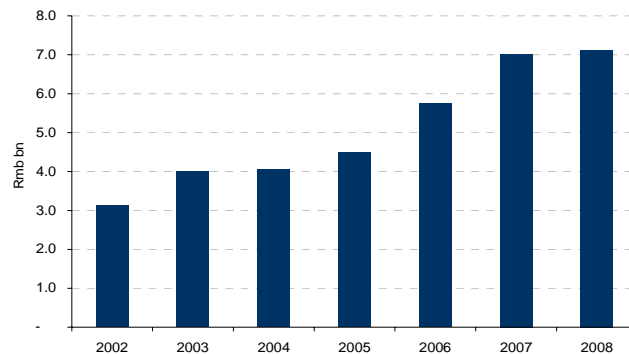
Source: CEIC, Company data, Morgan Stanley Research

### Rising Earnings Contribution in Listed Toll Road

Thanks to superior geographic exposure, conservative network expansion, and marginal traffic migration from newly expanded toll roads, the listed companies have faced limited headwinds in recent years. Aggregate net profits kept rising, at a 15% CAGR in 2002-08. We believe the listed companies will continue to achieve higher net profits, driven by strong economic growth, booming car sales, and potential asset injections. The traffic migration from newly expanded toll roads will have only a limited negative effect, in our view.

Exhibit 11

### Rising Earnings for China's Listed Toll Roads



Note: Aggregate net profit of six listed toll road companies under our coverage  
Source: Company data, Morgan Stanley Research

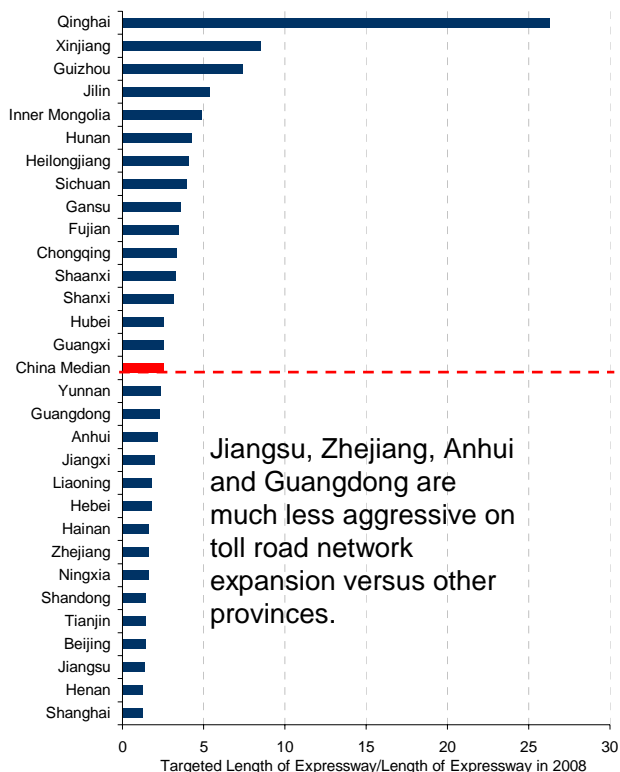
### Over-investment Risk Skewed to Under-Developed Regions

According to the expressway expansion blueprints by province, many inland areas have substantial growth targets over the next two decades: 1) Qinghai aims to expand its network from 215km to over 5,000km by 2030; 2) Gansu intends to increase its expressway length from 1,316km to over 4,500km while 3) Guizhou and Xinjiang plan to expand their networks to over 5,000km from less than 1,000km currently. In contrast, Guangdong province targets an increase from 3,823km to only 8,800km by 2030, Zhejiang from 3,073km to 5,000km, and Jiangsu from 3,725km to 5,250km. Exhibit 12 shows that Jiangsu, Zhejiang, Anhui, and Guangdong, have among the most conservative expressway length growth targets.

Exhibit 13 compares GDP and expressway length to assess which provinces have the greatest over-investment risk. This suggests under-developed regions are more likely to suffer from aggressive network expansion because of the small size of their economies and limited traffic growth potential.

Exhibit 12

## More Conservative Expressway Network Expansion in Coastal Provinces



Source: CECI, MoC, Factiva, Morgan Stanley Research

### Over-investment Might Trigger More Frequent Tariff Hikes

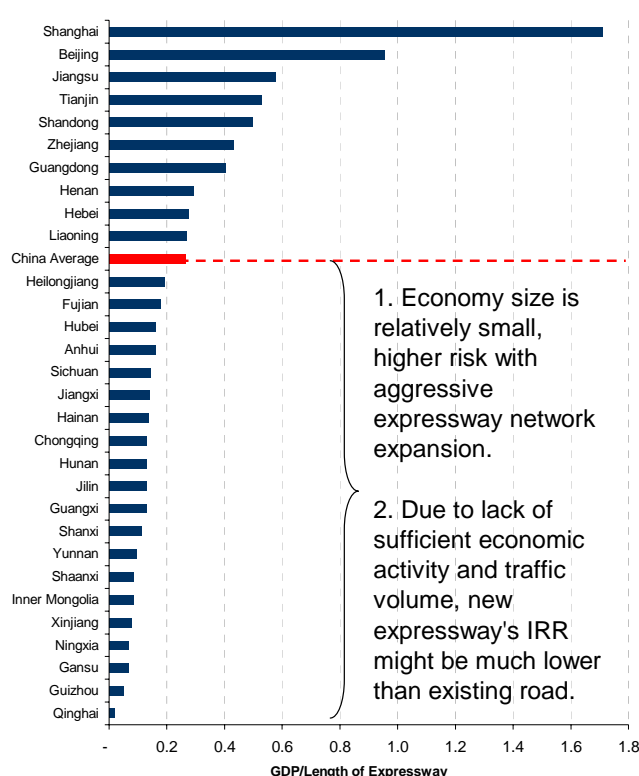
We believe the significant toll road network expansion, if over-invested, will create a larger financial burden on local governments, which then might consider raising toll road tariffs. Listed toll road companies could benefit from such increases.

Several Chinese provinces have raised toll road tariffs in the past several years:

- In January 2004, Jiangsu province raised its tariffs for passenger vehicles by 12.5%.
- In April 2006, Sichuan province increased the tariff for type 1 and type 2 vehicles by around 9% on the Chengyu Expressway.

Exhibit 13

## Over-investment Risk Skewed to Under-developed Regions



Source: CEIC, MoC, Factiva, Morgan Stanley Research

- In October 2006, Hubei province increased the toll income standard by 10%.
- In October 2009, Nanjing raised tariffs for the ring highway by 25% from Rmb12 to Rmb15 per trip.
- In April 2009, Liaoning province raised the tariff by Rmb0.1/km (20-30%) for passenger vehicles with no more than seven seats (class I).

Shenzhen, Sichuan, and Anhui cut tariffs for high-tonnage commercial vehicles in 2005 and 2006, mainly because of the new classification and pricing regulations of the National Development and Reform Commission (NDRC) and the Ministry of Communications (MoC). While we see low risk of a tariff cut in the future, we think the government will be reluctant to raise tariffs, as there might be public resistance to such a move. We therefore attribute a 20% probability to a tariff increase as the solution to financial pressure on local governments.

Even if the toll tariffs are raised, there might be limited positive effect on the listed companies, we believe. In response to public pressure, the government might impose a windfall tax on mature toll roads, the construction costs for which have been mostly recovered. This would offset at least some of the benefit that the listed companies might realize from a tariff increase.

### **Substantial Investment Might Mean Opportunity to Acquire Quality Assets**

If tariffs are not increased, we believe the local governments might need to inject assets into listed companies in exchange for cash because of the following reasons: 1) they will need capital for further infrastructure investment; 2) they have to pay large interest expenses on outstanding loans; and 3) they have

an incentive to improve their balance sheets to obtain new financing from commercial banks. As a result, we assign an 80% probability to this scenario.

We believe asset injections would be positive for existing shareholders, as the majority shareholder – usually the parent group that owns the toll road assets – does not have voting rights on proposals to inject assets. Thus, minority shareholders would be able to vote on any asset injection after evaluating asset quality and acquisition cost. Such a process protects the interests of existing shareholders and makes it more likely that the asset injections would create shareholder value.

January 14, 2010  
China Toll Roads

Exhibit 14

## Summary of Major Listed Toll Roads in China

Location	Total Length (km)	Attributed Length (km)	Lanes	Revenue per day (Rmb 000)	Traffic per day vehicles	Unit revenue (Rmb000 /km)	Toll Systems	Share of Interest	Concession Ending	Time to Concession End (Yr)
<b>Zhejiang Expressway (576.HK)</b>										
Shanghai-Hangzhou Expressway	102.6	97.2		3,123	38,077	30.4				
Hangzhou Section	3.4	3.4	8				Closed	100%	2028	19
Yuhang Section	11.1	5.7	8				Closed	51%	2028	19
Jiaxing Section	88.1	88.1	8				Closed	100%	2028	19
Hangzhou-Ningbo Expressway	145.0	145.0	8	4,427	37,413	30.5	Closed	100%	2027	18
Shangsan Expressway	142.0	105.1	4	2,223	19,692	15.7	Closed	74%	2030	21
<b>Total</b>	<b>389.6</b>	<b>347.2</b>		<b>9,772</b>	<b>95,181</b>	<b>25.1</b>				
<b>Jiangsu Expressway (177.HK)</b>										
Shanghai-Nanjing Expressway	248.0	248.0	8	8,777	46,316	35.4	Closed	100%	2032	23
Xicheng Expressway	35.0	29.8	6	989	36,808	28.2	Closed	85%	2029	20
Guangjing Expressway	17.2	14.6	6	565	34,938	32.8	Closed	85%	2029	20
Suzhou-Jiaxing-Hangzhou Expressway	100.1	33.0	4	1,870	27,137	18.7	Closed	33%	2034	25
Nanjing-Lianyungang Highway	29.8	29.8	4	114	6,017	3.8	Closed	100%	2029	20
Jiangyin Yangtze Bridge	3.1	0.8	6	1,981	39,599	645.3	Closed	26.66%	2029	20
G-312 Highway (Class 1)	282.0	282.0		490	27,933	1.7	Open	100%	2024	15
<b>Total</b>	<b>715.2</b>	<b>638.0</b>		<b>14,785</b>	<b>218,748</b>	<b>20.7</b>				
<b>Shenzhen Expressway (548.HK)</b>										
Meiguan Expressway	19.3	18.3	6	819	52,355	42.5	Closed	95%	2027	18
Jihe West	23.3	23.3	6	918	18,197	39.4	Closed	100%	2027	18
Jihe East	21	11.6	6	1,215	54,392	57.9	Closed	55%	2027	18
Yanba A & B	18.84	18.8	6	181	11,533	9.6	Closed	100%	2031	22
Shuiguan Expressway	20.14	8.1	6	1,119	65,407	55.5	Closed	40%	2025	16
Shuiguan Extension	5.25	2.1	6	179	28,867	34.2	Closed	40%	2025	16
Yanpai Expressway	15.2	15.2	6	408	20,502	26.8	Closed	100%	NA	NA
Nanguang Expressway	33.1	33.1	6	172	6,972	5.2	Closed	100%	NA	NA
Yangmao Expressway	79.76	19.9	4	902	14,359	11.3	Closed	25%	2027	18
Guangwu Expressway	36.5	11.0	4	269	8,239	7.4	Closed	30%	2027	18
Jiangzhong Expressway	38.82	9.7	4	622	23,512	16.0	Closed	25%	2027	18
Wuhuang Expressway	70.3	38.7	4	851	19,106	12.1	Closed	55%	2022	13
Changsha Ring Road	34.52	17.6	4	39	1,963	1.1	Closed	51%	2017	8
Guangzhou W2 Expressway	42.09	10.5	6	436	9,830	10.4	Closed	25%	NA	NA
Nanjing 3rd Bridge	15.6	3.9	6	642	18,837	41.1	Closed	25%	2030	21
Qinglian Highway	215.9	121.5	4	364	16,459	1.7	Open	56.3%	NA	NA
<b>Total</b>	<b>689.6</b>	<b>363.2</b>		<b>9,138</b>	<b>370,530</b>	<b>13.3</b>				
<b>HHI (737.HK)</b>										
Guangzhou-Shenzhen Superhighway	122.8	61.4	6	8,949	114,509	72.9	Closed	50%	2027	18
West Delta Route (Phase I)	14.7	7.4	6	409	10,434	27.9	Closed	50%	2033	24
<b>Total</b>	<b>137.5</b>	<b>68.8</b>		<b>9,358</b>	<b>124,943</b>	<b>68.1</b>				
<b>Anhui Expressway (995.HK)</b>										
Hening Expressway	134.0	134.0	4-6	1,719	13,840	12.8	Closed	100%	2026	17
Gaojie Expressway	110.0	110.0	4	1,272	9,399	11.6	Closed	100%	2029	20
Xuanguang Expressway	84.0	46.6	4	823	10,494	9.8	Closed	55.47%	2028	19
Ninghuai Expressway	14.0	14.0	6	126	11,058	9.0	Closed	100%	NA	NA
Lianhuo Expressway	54.0	54.0	4	565	7,281	10.5	Closed	100%	2028	19
I-205 Highway Tianchang Section	30.0	30.0	4	119	5,979	4.0	Open	100%	2027	18
<b>Total</b>	<b>426.0</b>	<b>388.6</b>		<b>4,625</b>	<b>58,051</b>	<b>10.9</b>				
<b>Sichuan Expressway (107.HK)</b>										
Chengdu-Chongqing Expressway	226	226.0	4	2,312	15,244	10.2	Closed	100%	2027	18
Chengdu-Ya'an Expressway	144	144.0	4-6	1,288	13,178	8.9	Closed	100%	2029	20
Chengdu Northern Exit Expressway	10.42	6.3	6	207	24,255	19.8	Closed	60%	2024	15
Chengle Expressway	86.4	86.4	4	747	15,463	8.6	Closed	100%	2029	20
<b>Total</b>	<b>466.8</b>	<b>462.7</b>		<b>4,553</b>	<b>68,140</b>	<b>9.8</b>				

Source: Company data, Morgan Stanley Research

## Debate #2: What Drives Stock Prices?

**Market view:** Traffic growth is the main driver, and catalysts for a re-rating of toll road stocks are absent.

**Our view:** While we generally agree with this view, our analysis of stock drivers, shown in Exhibits 15-20, suggests changes in traffic volume have had different implications for stock performance over the past few years:

- Traffic growth is a leading indicator for Jiangsu and Shenzhen Expressway.
- Traffic growth is a coincident indicator for Zhejiang and HHI.
- Traffic growth is a lagging indicator for Anhui Expressway.
- We found no clear correlation between traffic growth and share price performance for Sichuan Expressway. We believe this is mainly because of an injection of assets in 2009.

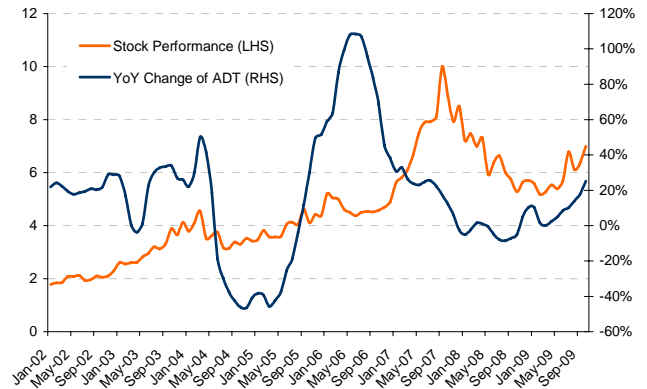
Also, we believe that 1) export recovery, 2) implementation of the toll-by-weight billing system, and 3) potential asset injections are re-rating catalysts for toll road stocks.

### Traffic Growth – Leading or Coincident Indicator

We agree with the market consensus that traffic growth is one of the main value drivers of toll road stocks. With a fixed concession period, standard toll charges by each province and relatively low fluctuation in operating costs, toll road companies' earnings and cash flow are determined largely by traffic growth. However, as noted above and shown in the following exhibits, changes in traffic volume have had different effects on the share prices within the industry.

Exhibit 15

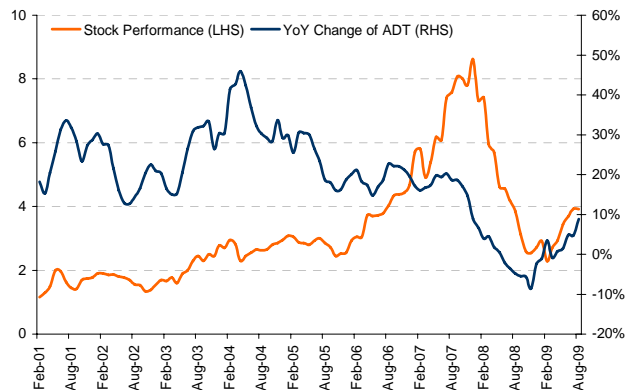
### Jiangsu Expressway: Traffic Growth vs. Stock Price



ADT = Average Daily Traffic (SH-NJ) Source: Company data, Morgan Stanley Research

Exhibit 16

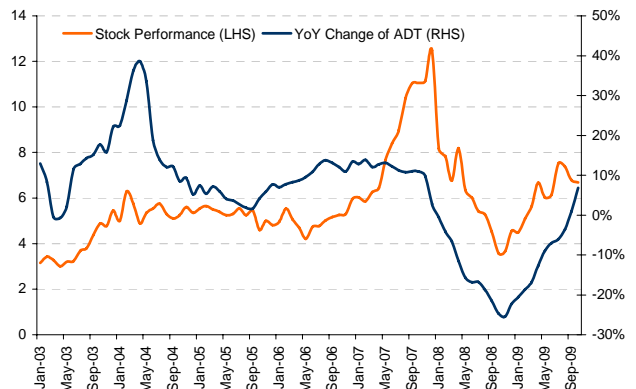
### Shenzhen Exp.: Traffic Growth vs. Stock Price



ADT includes Meiguan, Jihe E, Jihe W. Source: Company data, Morgan Stanley Research

Exhibit 17

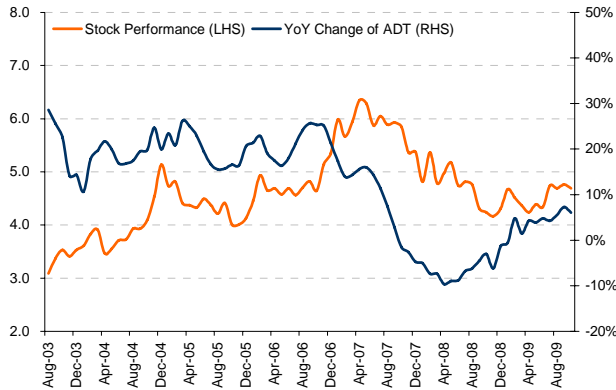
### Zhejiang Expressway: Traffic Growth vs. Stock Price



ADT includes SH-HZ-NB. Source: Company data, Morgan Stanley Research

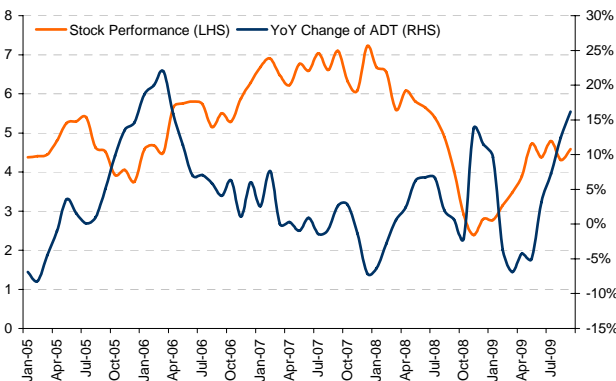
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Exhibit 18  
**HHI: Traffic Growth vs. Stock Price**



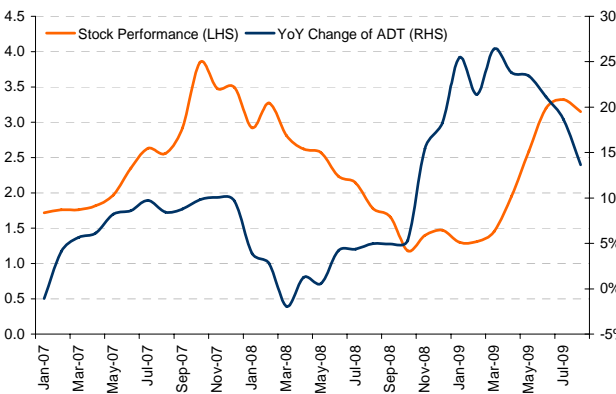
Daily traffic includes GS Superhighway.  
Source: Company data, Morgan Stanley Research

Exhibit 19  
**Anhui Expressway: Traffic Growth vs. Stock Price**



ADT includes Hening, Gaojie, Xuanguan.  
Source: Company data, Morgan Stanley Research

Exhibit 20  
**Sichuan Expressway: Traffic Growth vs. Stock Price**

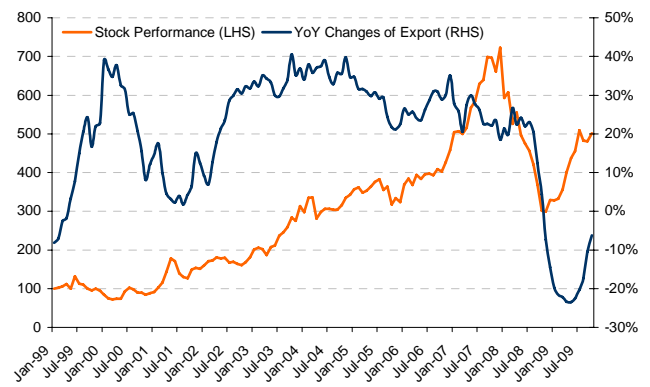


ADT includes Chengyu, Chengle, Chengya.  
Source: Company data, Morgan Stanley Research

**Export Growth is Coincident Indicator**

We think export growth is a coincident indicator for China toll roads stocks. Jiangsu, Zhejiang, and Shenzhen Expressways and HHI are located in coastal areas, where part of the traffic volume depends on export activities. From early 2007 to 4Q08, export growth declined from over 30% to -7%, while the toll road stocks declined 35%. From January 2009 to October 2009, export growth recovered from -20% to -6%, while the toll road stocks rose 53%.

Exhibit 21  
**Exports a Coincident Indicator for Toll Road Stocks**

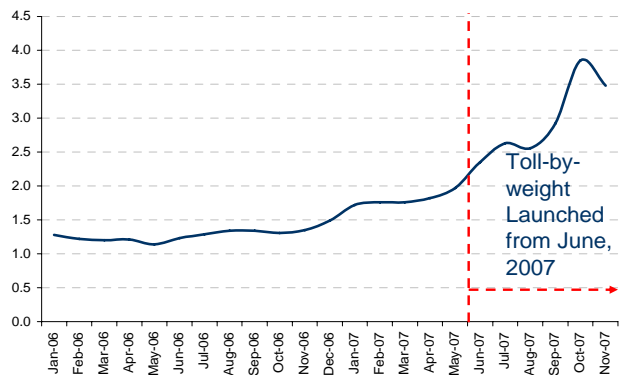


January 1999 = 100, Stock performance equally includes six toll road stocks under our coverage. Source: Company data, Morgan Stanley Research

**Toll-by-weight Changes are a Catalyst**

The application of toll-by-weight billing has been a catalyst for toll road stocks. From 2003 to 2007, Jiangsu, Anhui, and Sichuan Expressways applied toll-by-weight billing, and all three stocks made significant gains in the following months.

Exhibit 22  
**Sichuan Expressway: Re-rating after Toll-by-weight**



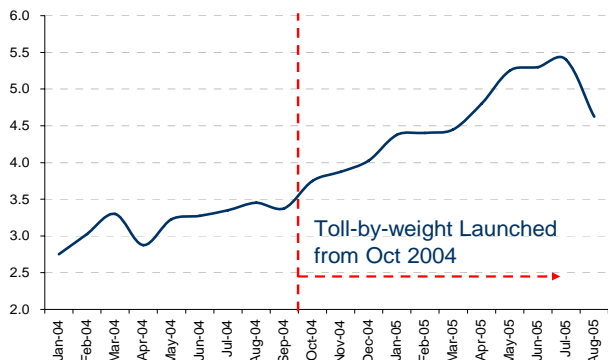
Source: FactSet, company data, Morgan Stanley Research



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Exhibit 23

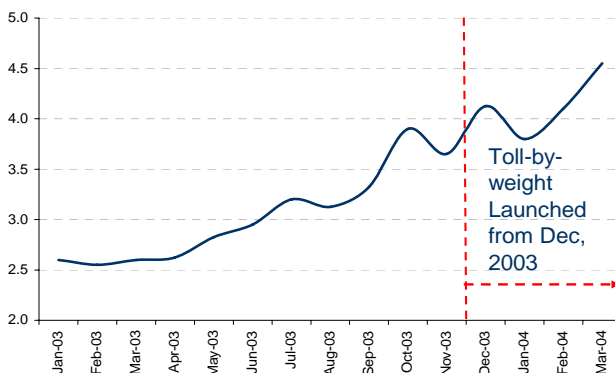
## Anhui Expressway: Re-rating after Toll-by-weight



Source: FactSet, company data, Morgan Stanley Research

Exhibit 24

## Jiangsu Expressway: Re-rating after Toll-by-weight



Source: FactSet, company data, Morgan Stanley Research

Exhibit 25

## Impact of Toll-by-weight Changes

	Time of Implementation	Traffic Volume			Toll Income	
		1 Month After	1 Quarter After	1 Year After	1 Year After	1 Year After
Jiangsu Exp.	December-03	+15%	+22%	-8%	> +5%	
Sichuan Exp.	June-07	+11%	+10%	+6%	> +10%	
Anhui Exp.	October-04	n.a.	n.a.	Flat	> +30%	
Zhejiang Exp.	To be implemented	n.a.	n.a.	n.a.	n.a.	
Shenzhen Exp.	To be implemented	n.a.	n.a.	n.a.	n.a.	
HHI	To be implemented	n.a.	n.a.	n.a.	n.a.	

Source: Company data, Morgan Stanley Research

Fundamentally, the implementation of toll-by-weight billing is positive for expressways, as it increases toll income thanks to higher charges per vehicle. Toll-by-weight billing has been positive for Jiangsu, Sichuan, and Anhui Expressways in terms of toll income versus traffic volume, as Exhibit 25 shows.

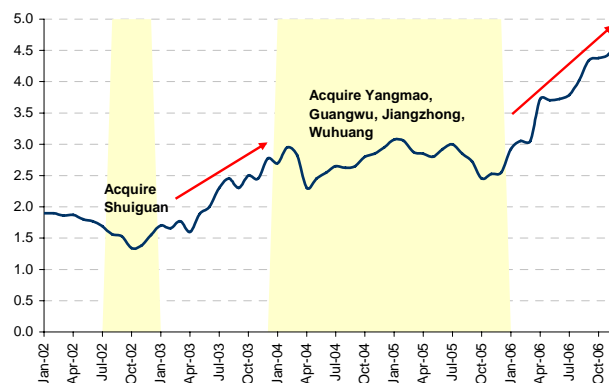
Operationally, the toll-by weight system should significantly curb overloading, creating a better and safer driving environment. With less damage to the road, it might also lower repair and maintenance expenses in the long run.

### Asset Injections Also Positive for Stock Performance

Shenzhen and Sichuan Expressways have had assets injected over the past few years. From 2002 to 2006, Shenzhen Expressway acquired various toll roads, such as the Shuiguan, Yangmao, Guangwu, Jiangzhong, and Wuhuang roads. In July 2009, Sichuan Expressway acquired Chenle Expressway from its parent group. Both stocks advanced thanks, in our view, to the injections or, in Sichuan Expressway's case, anticipation that the injection would occur.

Exhibit 26

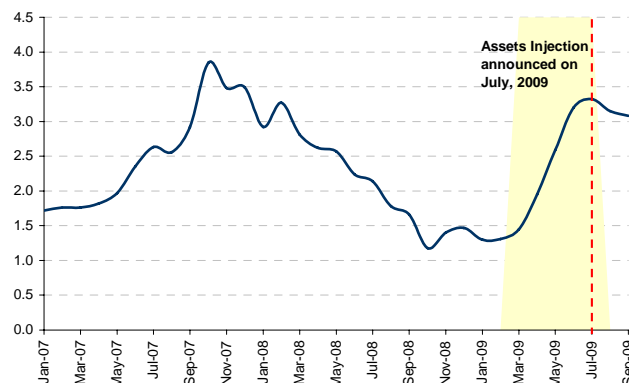
## Shenzhen Expressway: Stock Re-rating after Asset Injections



Source: Company data, Morgan Stanley Research

Exhibit 27

## Sichuan Expressway: Strong Re-rating before Asset Injections



Source: Company data, Morgan Stanley Research

## Debate #3: Are Toll Road Companies Bear Market Stocks?

**Market view:** Toll road stocks are defensive names that usually outperform during bear markets and underperform during bull markets.

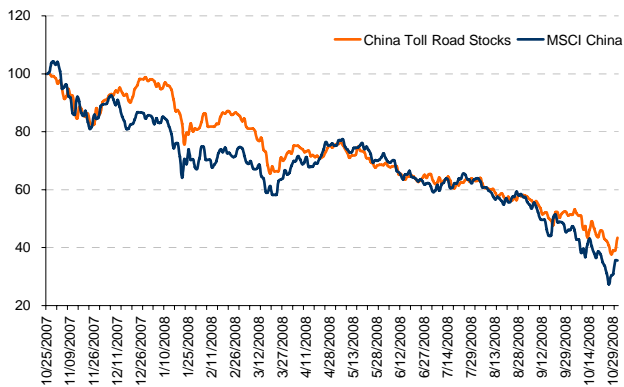
**Our view:** Yes, toll road stocks are defensive during market de-rating. From October 2007 to October 2008, toll road stocks outperformed the MSCI China Index by 8ppts. However, toll road stocks do not necessarily underperform during bull markets. From 1999 to 2009, toll road stocks outperformed the MSCI China by 247ppts; from January 2008 to April 2009, they achieved a similar return as did the MSCI China.

### Toll Road Stock Outperform in Bear Market

The MSCI China declined 65% from October 2007 to October 2008. Being in a defensive industry with stable cash flow and high dividends, toll road stocks outperformed by 8ppts during the market correction. From October 2007 to January 2008, toll roads stocks outperformed the MSCI China by 19ppts, further confirming their defensive character during market corrections.

Exhibit 28

### Toll Road Stocks Outperformed from October 2007 to October, 2008



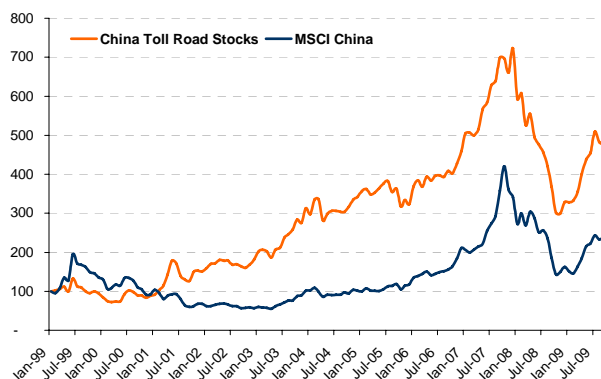
2007/10/25 = 100, China toll road stocks include the six under our coverage  
Source: FactSet, Morgan Stanley Research

### Outperformed Index from 1999 to 2009

Although the consensus is that toll road stocks always underperform amid a positive market re-rating, they have in fact largely outperformed the MSCI China in the past 10 years. From January 1999 to August 2009, they achieved a return of over 400%, while the MSCI China recorded only a 155% gain. Therefore, toll roads stocks do not necessarily underperform the market, especially over a long period.

Exhibit 29

### Toll Road Stocks Outperformed MSCI China from January 1999 to August 2009



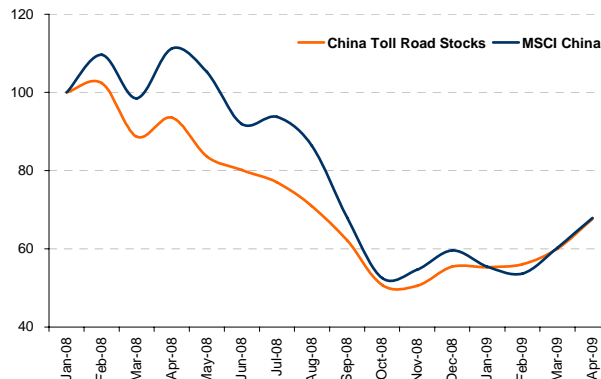
January 1999 = 100, China toll road stocks include the six toll road stocks under our coverage  
Source: FactSet, Morgan Stanley Research

### Similar Return from January 2008 to April 2009

During the most recent market recovery, China toll road stocks gained 33% from October 2008 to April 2009, outperforming MSCI China's 29% rise and suggesting that they can also outperform during a bull market. Even considering a longer time horizon from January 2008 to April 2009, the stocks delivered similar returns as did the MSCI China.

Exhibit 30

### Toll Road Stocks Turned in Similar Performance from January 2008 to April 2009



January 2008 = 100, China toll road stocks include the six toll road stocks under our coverage  
Source: FactSet, Morgan Stanley Research

## Valuation: How to Value Toll Road Stocks

**DCF Valuation:** Our key valuation methodology to derive a price target is our DCF model. On this basis, Zhejiang and Sichuan Expressways have greater upside potential.

**Forward P/E:** Horizontally, Sichuan, Anhui and Shenzhen Expressways have lower forward P/E multiples. Vertically, HHI, Anhui and Sichuan Expressways have lower forward P/Es versus their historical averages.

**P/B versus ROE:** Sichuan Expressway is most attractive on this basis, while Anhui Expressway also offers good value with a decent ROE but a low P/B multiple.

**Forward EV/EBITDA:** Zhejiang, Anhui, and Sichuan Expressways are trading at 7.0-7.4x 2009E EV/EBITDA, which is more attractive than the other three industry peers.

### DCF Valuation

We use a DCF model as the major valuation methodology for toll road companies for the following reasons:

- Toll road companies have predictable future cash flows.
- Toll roads have a definite concession period, giving a fixed valuation horizon.
- Toll roads do not have a terminal value after the concession period, so there is no need to assume a long-term growth rate.

In our DCF model, we assume all the toll road companies enjoy rapid toll income growth from 2009 to 2011 backed by fast economic development. From 2012 to the end of the concession period, we expect toll income gains to decelerate, as economic growth in China should slow gradually. Based on our DCF model, we conclude that Zhejiang and Sichuan Expressway offer greater upside potential than their peers do.

We calculated the WACC for the toll road companies based on a standard capital asset pricing model (Exhibit 32). We assume a long-term risk-free rate of 5%, an equity risk premium of 7% and a beta of 0.83x-1.0x. We use Bloomberg's adjusted beta as a reference and make slight adjustments based on company-specific risk factors.

Exhibit 31

### DCF Valuation Summary

	Zhejiang	Sichuan	Jiangsu	Anhui	Shen zhen	HHI
EBITDA Growth (2009-2011)	10.9%	10.6%	12.2%	7.0%	4.0%	6.4%
EBITDA CAGR (After)	5.7%	1.6%	3.3%	1.4%	0.3%	2.4%
Tax Rate	25%	15%	25%	25%	25%	25%
Intrinsic Value	8.96	4.96	7.59	5.87	4.17	5.26
Latest Price	7.53	4.16	7.07	5.44	4.07	5.03
Upside/Downside	19%	19%	7%	8%	2%	5%

Source: Company data, Morgan Stanley Research

Exhibit 32

### Summary of WACC Assumption for Six Toll Roads

WACC	Zhejiang	Sichuan	Jiangsu	Anhui	Shen Zhen	HHI
Equity beta	0.90	0.90	0.83	0.83	1.00	0.90
Risk free rate	5%	5%	5%	5%	5%	5%
Equity risk premium	7%	7%	7%	7%	7%	7%
<b>Cost of equity</b>	<b>11.3%</b>	<b>11.3%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>12.0%</b>	<b>11.3%</b>
Marginal cost of long-term debt	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Marginal tax rate	25%	15%	25%	25%	25%	25%
<b>Post-tax cost of debt</b>	<b>4.0%</b>	<b>4.5%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>
MVE/(MVD+MVE)	80%	85%	70%	70%	70%	75%
MVD/(MVD+MVE)	20%	15%	30%	30%	30%	25%
<b>WACC</b>	<b>9.8%</b>	<b>10.3%</b>	<b>8.8%</b>	<b>8.8%</b>	<b>9.6%</b>	<b>9.5%</b>

Source: Company data, Morgan Stanley Research

### Comparable Valuations

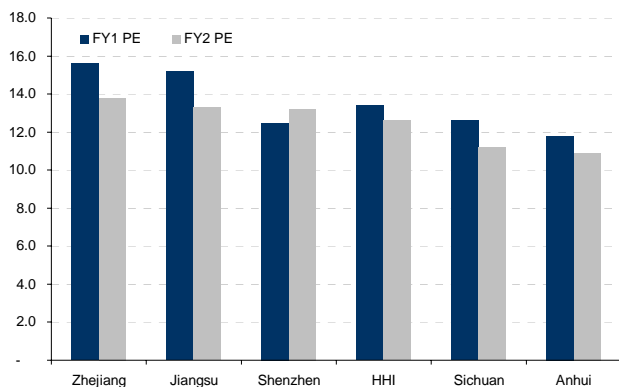
We also apply comparable valuation benchmarks, such as forward P/E, P/B and EV/EBITDA. Zhejiang, Sichuan and Anhui Expressways appear more attractive on these.

## P/E Multiple

The six toll road stocks are trading at 13.5x 2009E P/E and 12.5x 2010E P/E. As shown in Exhibit 33, Zhejiang and Jiangsu Expressways are trading at higher multiples than their peers are. We believe these two companies, with large market value and better liquidity, will continue to enjoy a valuation premium in 2010. Vertically, our historical valuation snapshot (Exhibits 36-41) suggests the toll road stocks have already experienced a re-rating, with a current profile close to the historical average. As we expect the fundamental economic recovery to continue in 2010, we see further upside potential from current levels.

Exhibit 33

### Forward P/E Comparison, 2009-10E



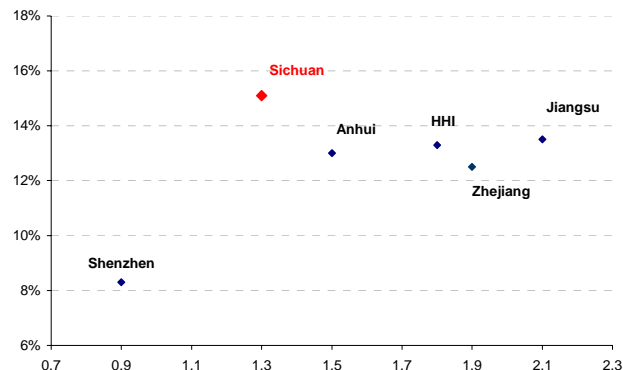
E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

## P/B versus ROE

We also compared P/B multiples and ROE for the six toll road companies in 2009 (Exhibits 34). Sichuan Expressway looks more attractive than do peers on these measures. Anhui Expressway also offers good investment value with a decent ROE but relatively low P/B. HHI has a high ROE but low P/B because, in our view, the company lacks growth potential. Shenzhen Expressway's P/B multiple has been dragged down by low ROE and weaker balance sheet.

Exhibit 34

### P/B versus ROE, 2009E



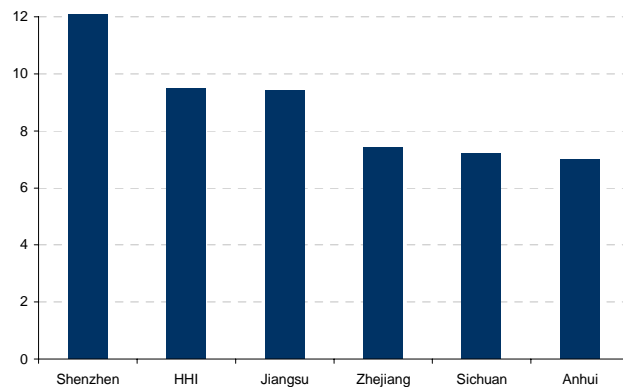
E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

## EV/EBITDA

In terms of EV/EBITDA, Anhui, Sichuan and Zhejiang Expressways are more attractive than are Shenzhen and Jiangsu Expressways and HHI.

Exhibit 35

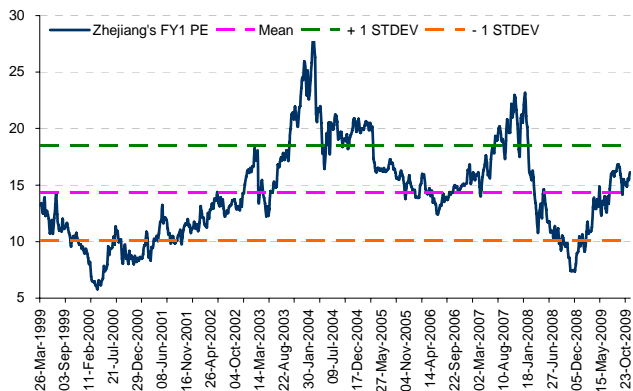
### EV/EBITDA, 2009E



E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

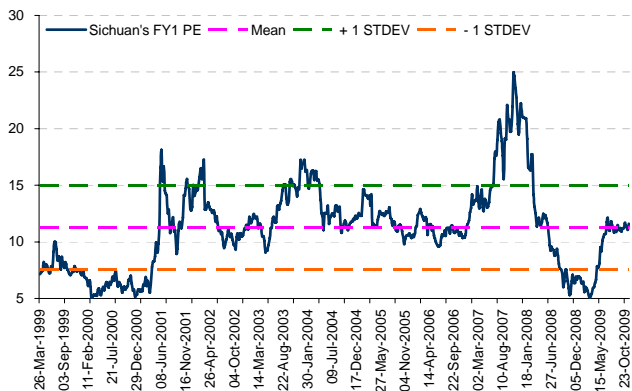
# One-year Forward P/E Snapshot

Exhibit 36  
**Zhejiang Expressway: One-year Forward P/E**



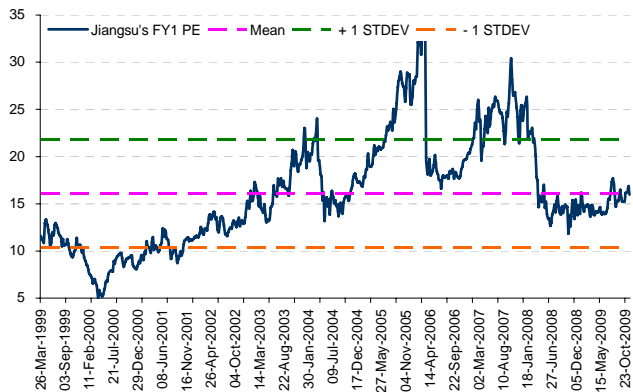
Source: FactSet, Morgan Stanley Research

Exhibit 39  
**Sichuan Expressway: One-year Forward P/E**



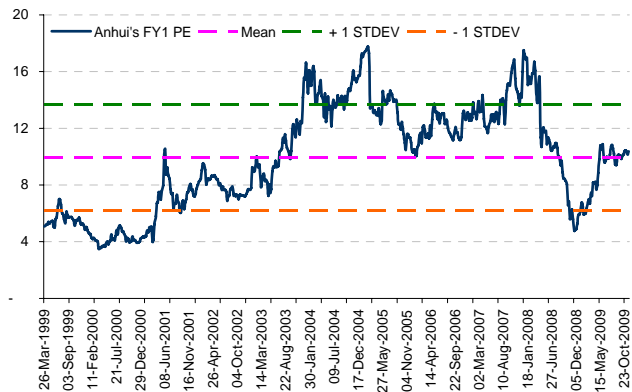
Source: FactSet, Morgan Stanley Research

Exhibit 37  
**Jiangsu Expressway: One-year Forward P/E**



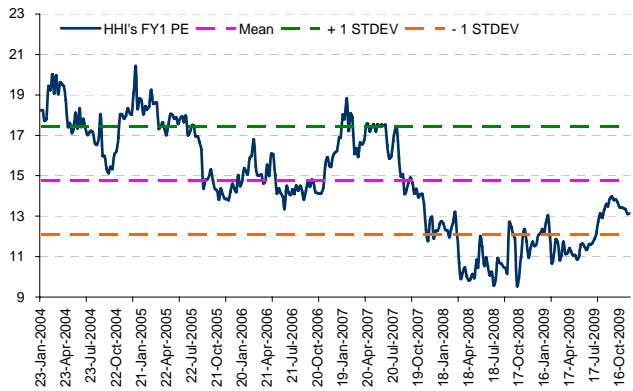
Source: FactSet, Morgan Stanley Research

Exhibit 40  
**Anhui Expressway: One-year Forward P/E**



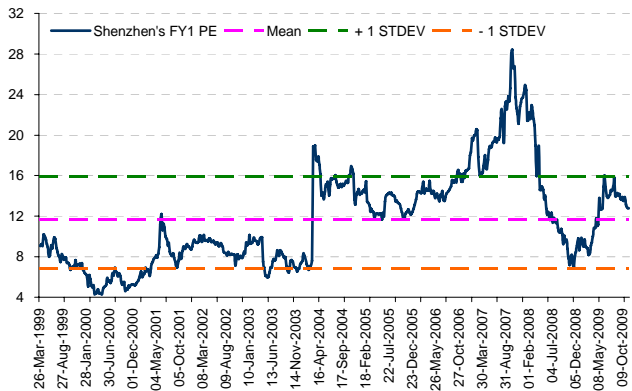
Source: FactSet, Morgan Stanley Research

Exhibit 38  
**HHI: One-year Forward P/E**



Source: FactSet, Morgan Stanley Research

Exhibit 41  
**Shenzhen Expressway: One-year Forward P/E**



Source: FactSet, Morgan Stanley Research





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## Peer Comparison

### Summary of Peer Comparison

From an apples-to-apples comparison of the six toll road companies in our coverage, we conclude the following:

- 1) Sichuan Expressway delivered the highest top-line and bottom-line growth from 2006 to 2008.
- 2) HHI is most concentrated on its GSS, while Shenzhen Expressway has the most diversified portfolio of toll road assets.
- 3) HHI, holding one of the oldest toll road assets in China, achieved higher net margin than peers did in 2008.
- 4) HHI, and Zhejiang and Anhui Expressways realized better returns than the other three peers did in 2008.
- 5) Zhejiang and Sichuan Expressways have higher interest coverage or lower assets/equity ratio and better net debt position than have the other four toll road companies.
- 6) HHI offered highest payout ratio (nearly 100%) in 2008, followed by Jiangsu and Zhejiang Expressways.

### Traffic Migration Risk

In this regard, we believe Zhejiang and Anhui Expressways are better positioned. Zhejiang Expressway has experienced significant migration to the Hangzhou Bay Bridge since May 2008. However, since the negative impact has already been reflected in 2009, we foresee limited downside pressure from this from now on. The widening of Anhui Expressway's Hening Expressway was completed in 2009, and we expect decent traffic growth there.

HHI and Jiangsu Expressway bear relatively high risk of future traffic migration. Once the new Riverside Expressway goes into operation in 2010, HHI's GSS is likely to face significant traffic dilution as the Riverside Expressway offers a shorter connection between Guangzhou and Shenzhen. Jiangsu Expressway, although facing no traffic migration risk in 2010 and 2011, might face pressure from 2012 as construction of another new expressway connecting Shanghai and Nanjing is due to start in 2010.

### Toll Tariff Comparison

The NDRC and the MoC are responsible for setting and regulating highway tolls in China. At the local level, the provincial Development and Reform Commission (DRC) and transportation administration bureaus are responsible for setting the classification of vehicle types and fee structure. Therefore, toll road tariffs vary by province. Exhibits 43 and 44 summarize the fee structure of the six listed toll road companies. HHI and Shenzhen Expressway charge the highest rates, followed by Zhejiang and Jiangsu Expressways. Sichuan and Anhui Expressways are cheaper to use.

Exhibit 43

#### Toll Tariff Structure for Passenger Vehicles

Toll rates	Passenger Vehicles (Rmb/Km)				
	Class 1	Class 2	Class 3	Class 4	Class 5
Zhejiang Expressway	0.45	0.80	1.20	1.60	2.00
Jiangsu Expressway	0.56	0.79	1.01	1.13	1.58
Anhui Expressway	0.40	0.70	1.00	1.20	1.40
Sichuan Expressway	0.35	0.70	1.05	1.40	1.75
Shenzhen Expressway	0.60	1.05	1.50	2.10	2.55
HHI	0.60	1.20	1.80	2.40	3.00

Toll tariff for major toll road assets under listed company, arithmetic average of toll tariff range for Shenzhen Expressway,  
Source: Company data, Morgan Stanley Research

Exhibit 44

#### Toll Tariff Structure for Commercial Vehicles

Toll rates	Commercial Vehicles (Rmb/ton/Km)		
	Class 1	Class 2	Class 3
Zhejiang Expressway	n.a.	n.a.	n.a.
Jiangsu Expressway	0.090	0.040	0.040
Anhui Expressway	0.080	0.062	0.043
Sichuan Expressway	0.075	0.058	0.040
Shenzhen Expressway	n.a.	n.a.	n.a.
HHI	n.a.	n.a.	n.a.

Toll tariff for major toll road assets under listed company, arithmetic average of toll tariff range for Shenzhen Expressway,  
Source: Company data, Morgan Stanley Research

Exhibit 45

## Peer Comparison

	Zhejiang Expressway 576.HK	Jiangsu Expressway 177.HK	Hopewell 737.HK	Sichuan Expressway 107.HK	Anhui Expressway 995.HK	Shenzhen Expressway 548.HK
06-08 Revenue CAGR	15%	14%	11%	15%	1%	11%
06-08 Earnings CAGR	7%	16%	-11%	36%	-17%	-5%
08 Revenue Growth	-10%	1%	5%	3%	0%	-4%
08 Earnings Growth	-22%	-3%	-46%	10%	23%	-19%
09e Revenue Growth	-5%	7%	6%	38%	10%	28%
09e Earnings Growth	-7%	26%	5%	61%	-1%	17%
2008 Revenue Mix	42% - SH-HZ-NB 12% - Shangsang 18% - Zheshang	61% - NJ-SH 23% - Service are	95% - GS Superhighway	59% - Chengyu 33% - Chengya	37% - Hening 28% - Gaojie 18% - Xuanguang	27% - Meiguan 32% - Jihe West 14% - Yanpai
08 OP Margin	46%	50%	73%	53%	61%	52%
08 EBITDA Margin	62%	69%	88%	73%	83%	99%
08 Net Margin	30%	31%	54%	38%	40%	49%
09e OP Margin	50%	55%	74%	57%	56%	56%
09e EBITDA Margin	59%	73%	89%	78%	76%	93%
09e Net Margin	29%	37%	53%	44%	36%	45%
08 ROE	14%	11%	13%	9%	14%	7%
08 ROA	7%	7%	7%	7%	8%	3%
09e ROE	12%	13%	13%	11%	13%	7%
09e ROA	7%	9%	8%	9%	7%	2%
08 Assets/Equity	1.8	1.6	1.7	1.4	1.7	2.6
08 Net Debt/Equity	NC	49%	30%	15%	38%	106%
08 Interest coverage:	41	5	9	6	16	3
08 Payout Ratio	71%	85%	98%	n.m.	57%	52%
09e Dividend Yield	3.9%	5.6%	7.4%	2.4%	5.0%	4.0%
Statutory Tax Rate	25%	25%	25%	15%	25%	25%
Traffic Diversion Risk	Low-Medium	Medium-High	High	Low	Low	Low-Medium
Depreciation Method	Straight-line	Unit-of-Usage	Unit-of-Usage	Unit-of-Usage	Straight-line	Straight-line

NC = Net Cash Position, HHI's data rolling one year forward, e = Morgan Stanley Research estimates, Source: Company data, Morgan Stanley Research

## Scenario Analysis

The key driver of toll road company growth is change in traffic volume, which is itself driven by local GDP growth. For 2010, our economists expect China to deliver stronger, more balanced economic growth with muted inflationary pressure, ie 10% GDP growth and 2.5% CPI inflation. They believe the strong domestic demand from 2009 will be largely sustained in 2010, while the recovery in G3 economies might remain tepid.

Our economists adopt a 'four seasons' framework to characterize potential scenarios in 2010, depending on the mix of outlook for the G3 economies and China's domestic policy stance. Autumn features the Goldilocks scenario, summer shows overheating, spring displays a policy-induced soft-landing and winter features a policy-induced double dip. Since the toll road industry is influenced more by growth than by inflation, we combine the spring and autumn scenarios. Based on such macro assumptions, we derived the following scenario analysis.

**In our base case (autumn/spring, 75% probability):** In our base case, we believe sustainable domestic demand growth and continuous export recovery (driven by G3 economies) will introduce decent traffic growth in the toll road industry. We derive our base case forecasts as follows:

- **GDP Growth:** Our economists forecast a GDP growth of 10% for both the autumn and spring scenarios, so our base case GDP growth assumption is 10% for 2010.
- **Export Growth:** Our economists expects export growth to reach 9% in the autumn scenario and 15% in the spring scenario, so we use export growth of 10% as our base case assumption.
- **Toll revenue growth:** Based on 10% GDP growth and a 10% export recovery, we derived our toll revenue growth assumptions for the six listed toll road companies as illustrated in Exhibit 46.
- **Toll Tariff:** In our base case scenario, we factored in no tariff adjustment in 2010. We believe the financial burden of aggressive road investment will emerge in 2011, after which, local governments might consider raising toll tariffs.

- **Asset injection potential:** Although we expect asset injections for Zhejiang and Sichuan Expressway in 2010 and 2011, we have not factored potential asset injections into our forecast, given considerable uncertainty regarding the size and terms of any such injection.

Exhibit 46

### Toll Income Growth Assumptions in Our Base Case

	2008	2009E	2010E	2011E
Zhejiang Expressway	3,570	3,272	3,519	3,817
YoY Chng	-11%	-8%	8%	8%
Jiangsu Expressway	4,007	4,133	4,634	4,902
YoY Chng	-5%	3%	12%	6%
Sichuan Expressway	1,389	1,947	2,219	2,513
YoY Chng	2%	40%	14%	13%
Shenzhen Expressway	985	1,262	1,684	1,839
YoY Chng	2%	28%	33%	9%
Anhui Expressway	1,610	1,772	1,881	2,021
YoY Chng	-3%	10%	6%	7%
HHI	1,865	1,975	2,121	2,276
YoY Chng	5%	6%	7%	7%

HHI's data rolling one year forward

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

**In our bull case (summer, 15% probability),** our economist assumes growth of 15% for both GDP and exports. In light of the better macro outlook, we believe toll revenue growth will rise 3-8% in 2010 while margins expand another 1-2 ppt. With positive growth momentum, we expect greater potential for asset injections in 2010, although it is difficult to estimate the size and timetable.

**In our bear case (winter, 10% probability),** our economists assume GDP growth of 8% and export growth slowing to 9%. These growth rates are still decent, and we believe toll road revenue will be 2-3% lower than our base case assumption. With smaller traffic volume, toll road companies might see slight margin depreciation in 2010. However, as overall sentiment is turning bearish in this scenario, we believe toll road companies will be less aggressive in terms of asset injection. Sichuan Expressway might delay its acquisition of Chengnan and Chengsuiyu to 2011, as it has announced it will complete the deal by 2011, but not necessarily in 2010.

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***Company Analysis***

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## Zhejiang Expressway

### Beneficiary of Traffic Recovery and Potential Asset Injections

#### Overweight, Price Target HK\$8.96

- Looking for further traffic recovery:** Thanks to a stronger-than-expected domestic economy and bottoming-out of exports, Zhejiang Expressway's average traffic volume rose 5% from 84k vehicles per day in 1Q09 to 88k in 3Q09. YoY, the traffic growth improved from -19% in 1Q09 to 11% in November 2009. In light of the GDP and export outlook in 2010, we expect better traffic recovery for SH-HZ-NB and therefore raise our traffic volume assumption 2% for 2010-11.
- Negative migration largely reflected:** With the opening of the Hangpu Expressway and Hangzhou Bay Bridge in May, 2008, Zhejiang Expressway suffered from traffic diverting to this new route, one of the key reasons for the traffic decline in 2009. However, following a 12% traffic decline in 1Q-3Q09, we believe further downside is limited.
- Toll-by-weight as re-rating catalyst:** We expect Zhejiang Expressway to launch a toll-by-weight billing system in 2010. We expect this to increase toll income in the near term and limit current overloading practices. This could lead to better profitability in the long term as maintenance cycles are extended. We think the actual announcement of the implementation of the scheme could be a positive catalyst for the stock as the resultant benefits become more visible.

#### Large Asset Injection Potential

We expect Zhejiang Expressway to benefit from potential asset injections in the coming two years. The company's current chairman, Mr Chen Jisong, who is also chairman of its parent company, Zhejiang Communications Investment Group, stated in the latter's 2008 annual report that he was actively searching to acquire expressway assets in Zhejiang province. This means Zhejiang Expressway could obtain quality assets from the parent, while the parent could use Zhejiang Expressway as a platform to finance new toll road construction projects.

#### Key Ratios and Statistics

Reuters: 576.HK Bloomberg: 576 HK  
China Transportation

Price target				HK\$8.96
Upside to price target (%)				19
Shr price, close (Jan 12, 2010)				HK\$7.53
52-Week Range				HK\$8.38-4.20
Sh out, dil, curr (mn)				4,344
Mkt cap, curr (mn)				Rmb28,796
Avg daily trading value (mn)				US\$9
<b>Fiscal Year ending</b>	<b>12/08</b>	<b>12/09e</b>	<b>12/10e</b>	<b>12/11e</b>
ModelWare EPS (Rmb)	0.44	0.41	0.48	0.50
Consensus EPS (Rmb)§	0.44	0.40	0.45	0.47
Revenue, net (Rmb mn)	6,323	6,039	6,579	7,253
EBITDA (Rmb mn)	3,898	3,593	4,045	4,219
ModelWare net inc (Rmb mn)	1,893	1,768	2,084	2,152
P/E	9.2	15.6	13.8	13.4
P/BV	1.3	1.9	1.9	1.8
ROE (%)	14.3	12.9	14.8	14.2
EV/EBITDA	4.5	7.4	6.5	5.8
Div yld (%)	7.7	3.9	4.3	6.0
Leverage (EOP) (%)	(17.6)	(27.1)	(38.4)	(48.5)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note.)

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

#### Company Description

Zhejiang Expressway is a leading infrastructure company that invests in, constructs, and manages high-grade roads in Zhejiang province. It has over a 90% stake in the 248km Shanghai-Hangzhou-Ningbo Expressway, which contributed 77% of its toll income in 2008. The company also has a 51.9% stake in Zheshang Securities, the largest securities firm in Zhejiang.

The parent will only consider injecting assets with a hurdle return rate above 8% into the listed company, according to management. Therefore, we believe such injections would be positive for Zhejiang Expressway.

#### Strong Growth Momentum of Securities Business

Zhejiang Expressway has a 52% stake in Zheshang Securities, and has therefore been a major beneficiary of China's fast-growing securities market. The securities business achieved 41% YoY growth in 1Q-3Q09, beating our full-year earnings estimate. Following the better-than-expected momentum, we raise our earnings estimates for Zheshang Securities by 15% in 2009, 23% in 2010, and 27% in 2011. In the long run, we think Zheshang Securities offers decent value, thanks to the substantial growth potential in China's financial services industry. The potential launch of index futures and margin trading in China could be a near-term catalyst to boost Zheshang Securities' performance.

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## ZJEC: Financial Summary

Rmb million; Years Ending December

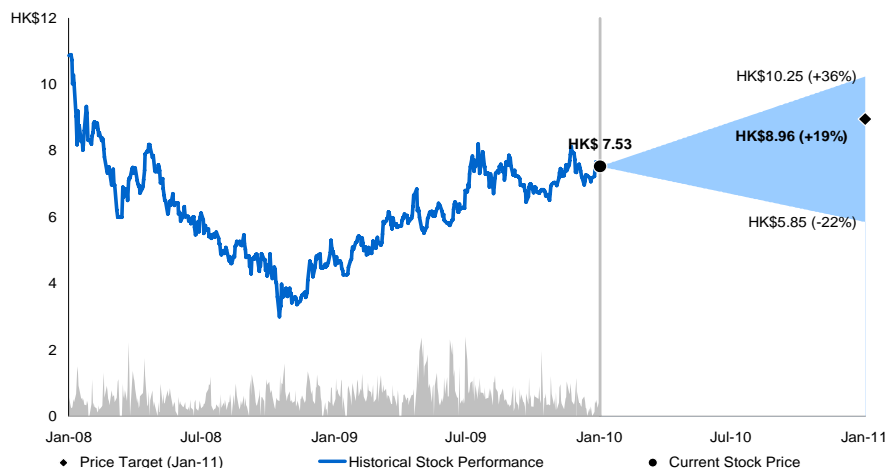
Profit & Loss Statements						Ratio Analysis					
Y/E Dec 31 (Rmb Mn)	2007	2008	2009E	2010E	2011E		2007	2008	2009E	2010E	2011E
<b>Toll road income</b>	<b>4,024</b>	<b>3,570</b>	<b>3,272</b>	<b>3,519</b>	<b>3,817</b>	<b>Growth%</b>					
- SHN Expwy	3,145	2,758	2,519	2,825	3,035	Toll road income	10.4	(11.3)	(8.3)	7.5	8.5
- Shangsans Expwy	879	811	753	693	783	- SHN Expwy	11.9	(12.3)	(8.7)	12.2	7.4
Service area income	1,271	1,680	1,260	1,323	1,521	- Shangsans Expwy	5.4	(7.7)	(7.2)	(8.0)	12.9
Advertising	71	83	91	95	110	Service area income	31.3	32.1	(25.0)	5.0	15.0
Road maintenance	1	4	4	4	4	Advertising	33.1	16.6	10.0	5.0	15.0
Zheshang Securities	1,921	1,174	1,668	1,918	2,110	Road maintenance	(78.4)	211.2	5.0	5.0	5.0
<b>Total Revenue</b>	<b>7,288</b>	<b>6,510</b>	<b>6,294</b>	<b>6,859</b>	<b>7,562</b>	Total Revenue	49.8	(10.7)	(3.3)	9.0	10.3
Less: business tax	(258)	(187)	(256)	(280)	(309)	Net revenue	47.6	(10.1)	(4.5)	9.0	10.2
<b>Net revenue</b>	<b>7,030</b>	<b>6,323</b>	<b>6,039</b>	<b>6,579</b>	<b>7,253</b>	Gross profit	46.7	(19.1)	(4.6)	14.1	5.1
Cost of sales	(3,089)	(3,133)	(2,995)	(3,105)	(3,602)	Operating Profit	57.6	(33.2)	4.8	17.2	5.3
<b>Gross profit</b>	<b>3,941</b>	<b>3,190</b>	<b>3,044</b>	<b>3,474</b>	<b>3,650</b>	Pretax Profit	58.0	(32.3)	1.2	17.3	6.1
Other revenues	549	(200)	160	178	197	Net Profit	46.2	(21.7)	(6.6)	17.9	3.3
Administrative expense	(81)	(70)	(70)	(72)	(79)	Net profit - Ex Zheshang	11.2	(7.1)	(15.7)	14.8	0.4
Other expense	(93)	(39)	(115)	(42)	(42)	EBITDA	38.6	(12.9)	(7.8)	12.6	4.3
<b>Operating profits</b>	<b>4,316</b>	<b>2,881</b>	<b>3,018</b>	<b>3,538</b>	<b>3,726</b>	EPS	46.2	(21.7)	(6.6)	17.9	3.3
Interest income	21	55	52	55	58	<b>Margin%</b>					
Interest expense	(61)	(77)	(89)	(93)	(93)	EBITDA margin	63.6	61.6	59.5	61.5	58.2
Exchange gains, net	40	40	0	20	20	Operating Margin	61.4	45.6	50.0	53.8	51.4
Profit of assoc.	(5)	11	(37)	(37)	(17)	Net Profit Margin	34.4	29.9	29.3	31.7	29.7
Profit of JCE (50% Shida Co)	20	24	25	0	0	<b>Return%</b>					
<b>Profit before tax</b>	<b>4,333</b>	<b>2,934</b>	<b>2,970</b>	<b>3,483</b>	<b>3,694</b>	ROE	18.3	13.8	12.5	13.8	13.4
Tax	(1,192)	(669)	(743)	(871)	(923)	ROA	8.8	7.5	6.8	7.6	7.5
<b>Profit before MI</b>	<b>3,141</b>	<b>2,265</b>	<b>2,228</b>	<b>2,612</b>	<b>2,770</b>	<b>Gearing</b>					
Minority interests	(725)	(372)	(459)	(528)	(618)	Net Debt/Equity (%)	NC	NC	NC	NC	NC
<b>Net profit</b>	<b>2,416</b>	<b>1,893</b>	<b>1,768</b>	<b>2,084</b>	<b>2,152</b>	Interest Coverage (x)	62.5	40.6	32.2	35.8	37.8
<b>Net profit - Ex Zheshang</b>	<b>1,809</b>	<b>1,680</b>	<b>1,417</b>	<b>1,627</b>	<b>1,635</b>						
EBITDA	4,473	3,898	3,593	4,045	4,219						
EPS (Rmb)	0.56	0.44	0.41	0.48	0.50						
<b>Balance Sheet</b>						<b>Operational Analysis</b>					
Y/E Dec 31 (Rmb Mn)	2007	2008	2009E	2010E	2011E		2007	2008	2009E	2010E	2011E
Total fixed assets, net	907	1,031	1,039	1,011	969	<b>Avg traffic (vehicles/day)</b>					
Interests in a JCE (Shida Co 50%)	101	124	0	0	0	- SH-HZ Expwy	47,970	38,077	33,489	37,508	40,508
Interests in assoc.	495	464	427	390	374	- HZ-NB Expwy	39,450	37,413	35,150	39,368	42,124
Others	13,832	13,218	12,596	12,005	11,443	- Shangsans Expwy	21,652	19,692	19,081	17,555	19,135
<b>Total Non-Current Assets</b>	<b>15,335</b>	<b>14,837</b>	<b>14,063</b>	<b>13,406</b>	<b>12,785</b>	<b>Avg toll income (Rmb m/day)</b>					
Cash	2,774	3,737	5,151	7,141	9,114	- SH-HZ Expwy	4.0	3.1	2.8	3.1	3.4
Other current assets	8,734	6,460	6,459	6,460	6,463	- HZ-NB Expwy	4.7	4.4	4.1	4.6	5.0
Prepayments & other receivables	670	253	245	267	294	- Shangsans Expwy	2.4	2.2	2.1	1.9	2.1
<b>Current Assets</b>	<b>12,178</b>	<b>10,450</b>	<b>11,855</b>	<b>13,868</b>	<b>15,871</b>	<b>Growth%</b>					
<b>Current Liabilities</b>	<b>10,023</b>	<b>7,489</b>	<b>7,445</b>	<b>7,488</b>	<b>7,628</b>	<b>Avg traffic (vehicles/day)</b>					
LT debts/bonds	1,334	1,229	1,229	1,229	1,229	- SH-HZ Expwy	13.3	(20.6)	(12.0)	12.0	8.0
Other LT liabilities	392	272	272	272	272	- HZ-NB Expwy	10.1	(5.2)	(6.0)	12.0	7.0
Minority Interests	2,538	2,614	2,867	3,157	3,497	- Shangsans Expwy	9.7	(9.1)	(3.1)	(8.0)	9.0
<b>Net Asset</b>	<b>13,226</b>	<b>13,683</b>	<b>14,105</b>	<b>15,128</b>	<b>16,030</b>	<b>Avg toll income (Rmb m/day)</b>					
<b>Shareholders' Equity</b>	<b>13,226</b>	<b>13,683</b>	<b>14,105</b>	<b>15,128</b>	<b>16,030</b>	- SH-HZ Expwy	14.5	(21.3)	(11.5)	12.0	8.0
						- HZ-NB Expwy	9.6	(4.7)	(7.0)	12.3	7.0
						- Shangsans Expwy	6.1	(7.7)	(7.4)	(8.0)	12.9
<b>Cash Flow Statement</b>						<b>Valuation</b>					
Y/E Dec 31 (Rmb Mn)	2007	2008	2009E	2010E	2011E		2007	2008	2009E	2010E	2011E
Profit from operation	4,316	2,881	3,018	3,538	3,726	P/E	21.0	9.2	15.6	13.8	13.4
Depreciation & Amortisation	689	781	746	723	708	P/BV	3.8	1.3	1.9	1.9	1.8
Other non-cash items	2	(17)	36	18	15	EV/EBITDA	11.4	4.5	7.4	6.5	5.8
Change in Working Capital	186	(171)	(72)	(24)	64	Dividend yield	2.7	7.7	3.9	4.3	6.0
<b>Free Cash Flow</b>	<b>2,788</b>	<b>2,247</b>	<b>2,908</b>	<b>3,207</b>	<b>3,418</b>						
Interest Received/(Paid)	21	55	52	55	58						
Dividend Paid	(1,224)	(1,483)	(1,553)	(1,299)	(1,529)						
<b>Capital Expenditures</b>	<b>(838)</b>	<b>(452)</b>	<b>(133)</b>	<b>(103)</b>	<b>(103)</b>						
New Bank Loan	(183)	27	0	0	0						
Others	(130)	119	7	7	7						
<b>Increase/(Decrease) In Cash</b>	<b>1,271</b>	<b>965</b>	<b>1,414</b>	<b>1,970</b>	<b>1,953</b>						
Beginning Cash	1,504	2,774	3,737	5,151	7,141						
<b>Ending Cash</b>	<b>2,774</b>	<b>3,737</b>	<b>5,151</b>	<b>7,141</b>	<b>9,114</b>						

E = Morgan Stanley Research estimates. Source: FactSet, Company data, Morgan Stanley Research



## Risk-Reward Snapshot: ZJEC (0576.HK, HK\$7.53, Overweight, PT HK\$8.96)

### Risk-Reward View: Favorable Risk-Reward Profile



<b>Price target HK\$8.96</b>		Based on base case SOP valuation
Bull Case	Implied 18.8x 2010E P/E	<b>10% hike in unit toll income</b> in 2010 because of higher toll-by-weight charges. Five-year extension of concession for Shanghai-Hangzhou-Ningbo Expressway; 10% higher traffic volumes in 2010 because of the Shanghai Expo.
Base Case	Implied 16.4x 2010E P/E	<b>Traffic improvements:</b> Traffic growth of 9-12% for SH-HZ and 7-12% for HZ-NB sections of the core Shanghai-Hangzhou-Ningbo Expressway in 2010-11. The toll-by-weight system is introduced in early 2010 and increases unit toll income 5%. Fair value of HK\$1.19 for Zheshang Securities following the strong recovery of the A-share market in 2009 and sustainable growth outlook for 2010-11.
Bear Case	Implied 10.7x 2010E P/E	<b>More severe traffic migration and economic downturn</b> lead to 20% YoY decline in traffic volume over 2010-11.

### Investment Thesis

- Reiterate Overweight rating on better traffic estimates and higher earnings from securities business.
- Continued traffic recovery led by improving macro conditions and diminishing effect from traffic migration.
- We expect further growth in Zheshang Securities' earnings.

### Near-term Catalysts

- Toll-by-weight system to be launched in early 2010.
- Potential extension of concessions.
- Growing asset acquisition potential, as chairman has stated that he is actively searching for expressway assets.
- Evidence of rising traffic volumes from Shanghai Expo.

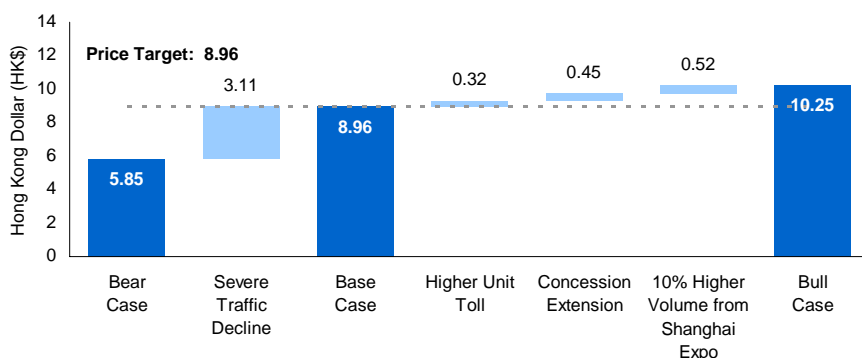
### Key Value Drivers

- Traffic volume.
- Toll income.
- Concession extensions.
- Securities earnings.

### Key Risks

- More severe traffic migrations.
- Prolonged or exacerbated economic downturn.
- Exogenous risks, including disease, and other natural disasters.

### ZJEC: From Bear to Bull



Source: Morgan Stanley, FactSet

## Valuation

### Sum-of-the-Parts Price Target

We raise our price target from HK\$8.34 to HK\$8.96, based on a sum-of-the-parts valuation, comprising two parts; 1) toll road assets; and 2) securities business.

We raise our traffic volume assumptions 1-2% for the Shanghai-Hangzhou-Ningbo Expressway in 2009-11, reflecting the sustainable economic outlook, the positive effect from the Shanghai Expo to be held from May to October 2010, and therefore a stronger traffic volume recovery.

We raise our value of the securities business from HK\$0.92 to HK\$1.19 per share mainly because of higher earnings estimates for 2009-11. We apply 10x 2010E P/E as the valuation benchmark for Zheshang Securities, a conservative 69% to the average for A-share listed securities firms (32x) and a 33% discount to the average of H-share listed securities peers (15x). We believe such a discount fully reflects Zheshang Securities' non-listed status and bears limited downside risk even if the earnings slow cyclically because of macro factors.

### DCF Valuation for Toll Road Assets

In our DCF valuation for the toll road assets, we make the following changes: 1) we roll over the valuation to December 2010 from December 2009, as our price target is for 12 months; 2) we raise our traffic growth assumption to factor in the better growth outlook; and 3) we exclude the Shida Road as the company has sold its stake to the parent group. From our DCF model, we derive an intrinsic value of HK\$7.76 per share, with 40% from the Shanghai-Hangzhou section, 41% from Hangzhou-Ningbo, and 18% from Shangsan Expressway.

We calculate the WACC for Zhejiang Expressway based on the standard capital asset pricing model. We assume the long-term risk free rate at 5%, equity risk premium of 7% (previously 8%), and beta of 0.9.

Exhibit 47

### ZJEC: WACC Calculation

Equity beta	0.90
30-year risk free rate (%)	5.0
Equity risk premium (%)	7.0
<b>Cost of equity (%)</b>	<b>11.3</b>
Marginal cost of long-term debt (%)	5.3
Marginal tax rate (%)	25.0
<b>Post-tax cost of debt (%)</b>	<b>4.0</b>
MVE/(MVD+MVE) (%)	80.0
MVD/(MVD+MVE) (%)	20.0
<b>Weighted average cost of capital (%)</b>	<b>9.8</b>

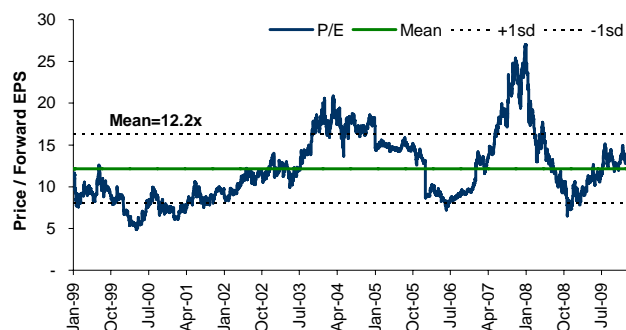
Source: Company data, Morgan Stanley Research

### Forward P/E, EV/EBITDA

The stock is trading at 13.8x 2010E P/E and 6.5x 2010E EV/EBITDA, close to the historical averages of 12.2x and 7.3x. We believe the valuation is very likely to exceed the historical average in 2010, as the traffic volume is on a recovery trend.

Exhibit 48

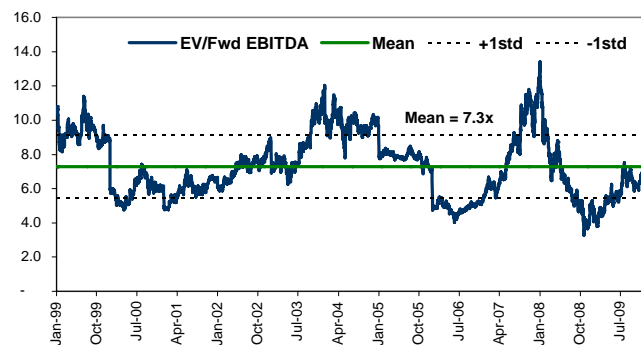
### ZJEC: Price to Forward EPS, Jan-99 to Current



Source: Company data, Bloomberg, Morgan Stanley Research

Exhibit 49

### ZJEC: EV to Forward EBITDA, Jan-99 to Current



Source: Company data, Bloomberg, Morgan Stanley Research

### Downside Risks to Our Price Target

- More serious traffic migrations from the existing Hangpu Expressway and Hangzhou Bay Bridge and the new Zhuyong Expressway.
- Prolonged or exacerbated macro conditions led by a double dip of the global economy followed by a weakening of external demand.
- Exogenous risks, such as natural disasters, which would seriously disrupt traffic volumes.

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Exhibit 50

**ZJEC: Sum-of-the-Parts Valuation**

<i>Unit: HKD mn</i>		Old NAV	New NAV	Change	% of Total NAV	Effective Shareholding
SH-HZ Expwy	DCF	12,758	11,984	-6%	30%	94%
HZ-NB Expwy	DCF	13,929	12,255	-12%	30%	100%
Shangsan Expwy	DCF	4,788	5,438	14%	13%	74%
Shida Expwy	DCF	758	-	n.m.	-	n.m.
Zheshang Securities	10x P/E	3,787	5,189	37%	13%	52%
<b>Total NAV</b>		<b>36,727</b>	<b>40,508</b>	<b>10%</b>		
Number of shares (mn)			4,344			
<b>Per share value (HK\$)</b>						
Toll road assets			7.76			
Zheshang Securities			1.19			
<b>Fair value</b>			<b>8.96</b>			
Latest Stock Price			7.53			
<b>Upside/Downside</b>			<b>19%</b>			

Source: Company Data, Morgan Stanley Research

Exhibit 51

**ZJEC: DCF Valuation for Toll Road Assets**

	Sh-Hz	HZ-Nb	Shangsan	Total
NPV of explicit cashflow forecasts	8,834	12,255	7,386	<b>28,475</b>
Terminal value (growth rate = 0%)	-	-	-	
Enterprise Value	8,834	12,255	7,386	<b>28,475</b>
Net Cash / (Debt)	3,860	-	-	<b>3,860</b>
DCF valuation	12,695	12,255	7,386	<b>32,335</b>
% attributable to Zhejiang Exp.	94%	100%	74%	
DCF valuation attributable to Zhejiang Exp. (Rmb mn)	<b>11,984</b>	<b>12,255</b>	<b>5,438</b>	<b>29,677</b>
% of valuation	40%	41%	18%	100%
Total Equity Value (Rmb m)	<b>29,677</b>			
<b>Shares outstanding</b>	<b>4,344</b>			
Rmb/share	6.83			
<b>HK\$/share</b>	<b>7.76</b>			

Source: Company data, Morgan Stanley Research

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Exhibit 52

## ZJEC: DCF Valuation Breakdown by Road Section

Shanghai-Hangzhou Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	729	816	882	952	1,009	1,070	1,188	1,259	1,335	1,415	1,500	1,647
Less: Cash Tax Payable on EBIT	(157)	(179)	(195)	(213)	(227)	(242)	(271)	(289)	(308)	(328)	(349)	(386)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)
<b>Free Cash Flow</b>	<b>559</b>	<b>625</b>	<b>674</b>	<b>727</b>	<b>770</b>	<b>815</b>	<b>904</b>	<b>957</b>	<b>1,014</b>	<b>1,074</b>	<b>1,138</b>	<b>1,248</b>
YoY Growth	-11%	12%	8%	8%	6%	6%	11%	6%	6%	6%	6%	10%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>614</b>	<b>603</b>	<b>581</b>	<b>560</b>	<b>566</b>	<b>545</b>	<b>526</b>	<b>507</b>	<b>489</b>	<b>488</b>
<b>Shanghai-Hangzhou Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	1,729	1,815	1,888	1,945	2,070	2,090	2,111	2,111	2,111			
Less: Cash Tax Payable on EBIT	(407)	(428)	(446)	(461)	(492)	(497)	(502)	(502)	(502)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)			
<b>Free Cash Flow</b>	<b>1,309</b>	<b>1,374</b>	<b>1,429</b>	<b>1,471</b>	<b>1,565</b>	<b>1,581</b>	<b>1,596</b>	<b>1,596</b>	<b>1,596</b>			
YoY Growth	5%	5%	4%	3%	6%	1%	1%	0%	0%			
<b>NPV of Free Cash Flow</b>	<b>467</b>	<b>446</b>	<b>422</b>	<b>396</b>	<b>383</b>	<b>352</b>	<b>324</b>	<b>295</b>	<b>269</b>			
<b>Total NPV (Sh-Hz Exp.)</b>	<b>8,834</b>											
<b>Hangzhou-Ningbo Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	949	1,100	1,176	1,343	1,424	1,495	1,653	1,736	1,823	1,914	2,010	2,222
Less: Cash Tax Payable on EBIT	(194)	(232)	(251)	(293)	(313)	(331)	(370)	(391)	(413)	(435)	(459)	(512)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)
<b>Free Cash Flow</b>	<b>733</b>	<b>846</b>	<b>904</b>	<b>1,029</b>	<b>1,089</b>	<b>1,143</b>	<b>1,262</b>	<b>1,324</b>	<b>1,389</b>	<b>1,457</b>	<b>1,529</b>	<b>1,688</b>
YoY Growth	-11%	15%	7%	14%	6%	5%	10%	5%	5%	5%	5%	10%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>823</b>	<b>853</b>	<b>822</b>	<b>785</b>	<b>789</b>	<b>754</b>	<b>720</b>	<b>688</b>	<b>657</b>	<b>661</b>
<b>Hangzhou-Ningbo Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	2,333	2,450	2,548	2,650	2,901	3,018	3,078	3,109	3,140			
Less: Cash Tax Payable on EBIT	(540)	(569)	(594)	(619)	(682)	(711)	(726)	(734)	(742)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)			
<b>Free Cash Flow</b>	<b>1,771</b>	<b>1,859</b>	<b>1,932</b>	<b>2,009</b>	<b>2,198</b>	<b>2,285</b>	<b>2,330</b>	<b>2,353</b>	<b>2,376</b>			
YoY Growth	5%	5%	4%	4%	9%	4%	2%	1%	1%			
<b>NPV of Free Cash Flow</b>	<b>631</b>	<b>603</b>	<b>571</b>	<b>540</b>	<b>538</b>	<b>509</b>	<b>473</b>	<b>435</b>	<b>400</b>			
<b>Total NPV (Hz-Nb Exp.)</b>	<b>12,255</b>											
<b>Shangsan Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	565	520	587	640	697	760	872	950	1,035	1,118	1,208	1,346
Less: Cash Tax Payable on EBIT	(109)	(97)	(114)	(127)	(142)	(157)	(185)	(205)	(226)	(247)	(269)	(304)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
<b>Free Cash Flow</b>	<b>440</b>	<b>406</b>	<b>457</b>	<b>496</b>	<b>539</b>	<b>586</b>	<b>670</b>	<b>729</b>	<b>793</b>	<b>855</b>	<b>922</b>	<b>1,026</b>
YoY Growth	-7%	-8%	12%	9%	9%	9%	14%	9%	9%	8%	8%	11%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>416</b>	<b>411</b>	<b>407</b>	<b>403</b>	<b>419</b>	<b>415</b>	<b>411</b>	<b>404</b>	<b>396</b>	<b>402</b>
<b>Shangsan Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	1,427	1,513	1,603	1,700	1,877	1,970	2,049	2,111	2,153	2,286		
Less: Cash Tax Payable on EBIT	(324)	(346)	(368)	(392)	(437)	(460)	(480)	(495)	(506)	(539)		
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-		
Less: Capital Expenditure	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)		
<b>Free Cash Flow</b>	<b>1,087</b>	<b>1,151</b>	<b>1,219</b>	<b>1,291</b>	<b>1,424</b>	<b>1,494</b>	<b>1,553</b>	<b>1,599</b>	<b>1,631</b>	<b>1,731</b>		
YoY Growth	6%	6%	6%	6%	10%	5%	4%	3%	2%	6%		
<b>NPV of Free Cash Flow</b>	<b>387</b>	<b>373</b>	<b>360</b>	<b>347</b>	<b>349</b>	<b>333</b>	<b>315</b>	<b>296</b>	<b>274</b>	<b>265</b>		
<b>Total NPV (Shangsan Exp.)</b>	<b>7,386</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

## Earnings Outlook

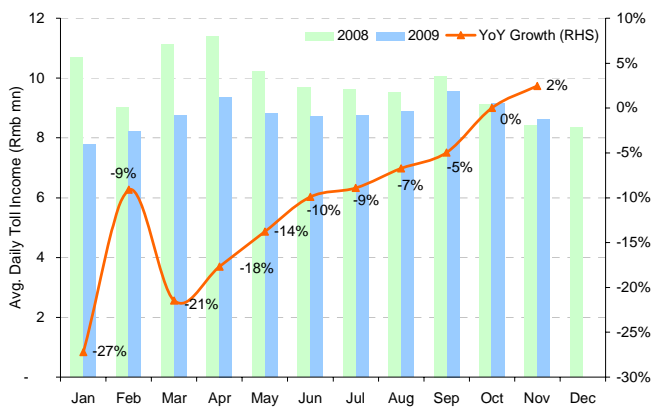
We revise our 2009-11 earnings estimates, as shown in Exhibit 55, mainly based on 1-2% per annum faster traffic growth assumptions for the SH-HZ and HZ-NB sections and 15-27% higher earnings estimates for Zhejiang Securities based on stronger-than-expected growth in 2009.

### Toll Roads: Traffic Volume Recovery

Thanks to the economic recovery since 2Q09, the traffic volume on Zhejiang Expressway's three key toll roads has improved sequentially. Daily average traffic volumes for the SH-HZ section has recovered from 31.8k vehicles in 1Q09 to 32.5k vehicles 3Q09, while traffic on the HZ-NB section has rebounded 10%. As a result, Zhejiang Expressway's daily toll income started to rise YoY in November 2009, continuing the clear trend of sequential improvement since March 2009. In light of such improvements, we believe the toll road income will only have declined 8% in 2009, versus a 17% drop in 1H09.

Exhibit 53

### Daily Toll Income's Recovery on Track



Including SH-HZ-NB and Shangsans, Source: Company data, Morgan Stanley Research

We believe ZJEC will benefit from the Shanghai Expo. The government is forecasting 70mn visitors to this event, implying substantial road traffic to and from Shanghai. Visitors from

across China and the globe might visit tourist spots in Zhejiang and Jiangsu alongside their trips to Shanghai. Such major events, together with ongoing economic recovery, might result in stronger-than-expected traffic volume. Therefore, we raise our volume growth assumption from 10% to 12% for the SH-HZ and HZ-NB sections.

In our base case, we factor in 5% higher unit toll income from the introduction of the toll-by-weight billing system in 2010. However, there could be upside risk to our estimates; for Anhui Expressway and Sichuan Expressway, unit toll income rose 37% and 119% after introduction of such schemes in 2004 and 2007, respectively.

### Securities: Stronger-than-expected Growth

We raise our earnings estimates for Zheshang Securities following the better-than-expected top-line growth in 1Q09-3Q09. However, as a result of network expansion, operating costs also exceeded our expectations, dragging down the operating margin from 71% in 1H08 to 61% in 1H09. Therefore, we lower our operating margin assumption in 2009.

Exhibit 54

### Zheshang Securities: Earnings Estimate Revisions

	2009E			2010E			2011E		
	New Est	Org Est	Diff %	New Est	Org Est	Diff %	New Est	Org Est	Diff %
Net revenues	1,668	1,351	23%	1,918	1,486	29%	2,110	1,634	29%
Operating costs	(717)	(540)	33%	(786)	(594)	32%	(823)	(654)	26%
<b>Operating profit</b>	<b>951</b>	<b>810</b>	<b>17%</b>	<b>1,132</b>	<b>891</b>	<b>27%</b>	<b>1,287</b>	<b>981</b>	<b>31%</b>
Operating margin	57%	60%	-5%	59%	60%	-2%	61%	60%	2%
<b>PBT</b>	<b>902</b>	<b>783</b>	<b>15%</b>	<b>1,174</b>	<b>954</b>	<b>23%</b>	<b>1,329</b>	<b>1,043</b>	<b>27%</b>
PBT margin	54%	58%	-4%	61%	64%	-3%	63%	64%	-1%
Tax	(226)	(196)	15%	(293)	(238)	23%	(332)	(261)	27%
Effective tax rate	-25%	-25%	0%	-25%	-25%	0%	25%	25%	0%
Net profit	677	587	15%	880	715	23%	997	782	27%
<b>Attributable to ZJEC</b>	<b>351</b>	<b>305</b>	<b>15%</b>	<b>457</b>	<b>371</b>	<b>23%</b>	<b>517</b>	<b>406</b>	<b>27%</b>

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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Exhibit 55

**ZJEC: Earnings Estimate Revisions**

	2009E			2010E			2011E		
	New Est	Org Est	Diff %	New Est	Org Est	Diff %	New Est	Org Est	Diff %
<b>Toll income</b>	<b>3,272</b>	<b>3,285</b>	0%	<b>3,519</b>	<b>3,609</b>	-2%	<b>3,817</b>	<b>3,884</b>	-2%
Sh-Hz-Nb Exprwy	2,519	2,530	0%	2,825	2,787	1%	3,035	3,005	1%
Shangsan Exprwy	753	755	0%	693	821	-16%	783	879	-11%
Service area income	1,260	1,260	0%	1,323	1,449	-9%	1,521	1,666	-9%
Advertising	91	91	0%	95	105	-9%	110	120	-9%
Road maintenance income	4	4	0%	4	4	0%	4	4	0%
Zheshang Securities	1,668	1,422	17%	1,918	1,564	23%	2,110	1,720	23%
<b>Gross revenues</b>	<b>6,294</b>	<b>6,061</b>	4%	<b>6,859</b>	<b>6,730</b>	2%	<b>7,562</b>	<b>7,395</b>	2%
Less: revenue tax	(256)	(244)	5%	(280)	(272)	3%	(309)	(300)	3%
Tax rate	4.1%	4.0%	1%	4.1%	4.0%	1%	4.1%	4.1%	1%
<b>Net revenues</b>	<b>6,039</b>	<b>5,817</b>	4%	<b>6,579</b>	<b>6,458</b>	2%	<b>7,253</b>	<b>7,095</b>	2%
YoY Chng	-4.5%	-8.0%		9.0%	11.0%		10.2%	9.9%	
<b>Operating costs</b>	<b>(2,995)</b>	<b>(2,952)</b>	1%	<b>(3,105)</b>	<b>(3,159)</b>	-2%	<b>(3,602)</b>	<b>(3,395)</b>	6%
Depreciation & amortization	(746)	(747)	0%	(723)	(723)	0%	(708)	(708)	0%
Staff costs	(116)	(162)	-29%	(124)	(178)	-31%	(136)	(200)	-32%
Maintenance costs	(143)	(204)	-30%	(163)	(234)	-30%	(218)	(262)	-17%
Operating mgmt costs	(69)	(86)	-20%	(74)	(95)	-22%	(82)	(105)	-22%
Ancillary business costs	(1,203)	(1,213)	-1%	(1,235)	(1,334)	-7%	(1,636)	(1,468)	11%
Zheshang costs	(717)	(540)	33%	(786)	(594)	32%	(823)	(654)	26%
<b>Gross profit</b>	<b>3,044</b>	<b>2,865</b>	6%	<b>3,474</b>	<b>3,300</b>	5%	<b>3,650</b>	<b>3,699</b>	-1%
YoY Chng	-4.6%	-10.2%		14.1%	15.2%		5.1%	12.1%	
Gross margin	50.4%	49.3%		52.8%	51.1%		50.3%	52.1%	
Income/(loss) on investments	40	60	-33%	40	60	-33%	40	60	
<b>Administrative expense</b>	<b>(70)</b>	<b>(76)</b>	-8%	<b>(72)</b>	<b>(84)</b>	-14%	<b>(79)</b>	<b>(92)</b>	-14%
<b>Other expense</b>	<b>(115)</b>	<b>(115)</b>	0%	<b>(42)</b>	<b>(44)</b>	-4%	<b>(42)</b>	<b>(47)</b>	-10%
<b>Operating profits</b>	<b>3,018</b>	<b>2,861</b>	6%	<b>3,538</b>	<b>3,374</b>	5%	<b>3,726</b>	<b>3,781</b>	-1%
YoY Chng	4.8%	-0.7%		17.2%	17.9%		5.3%	12.1%	
Operating margin	50.0%	49.2%		53.8%	52.2%		51.4%	53.3%	
Interest income	52	73	-28%	55	98	-44%	58	129	-55%
Interest expense	(89)	(72)	22%	(93)	(72)	28%	(93)	(72)	28%
Exchange gains, net	0	0	n.m.	20	20	0%	20	20	0%
<b>Profit of assoc.</b>	<b>(37)</b>	<b>(60)</b>	NM	<b>(37)</b>	<b>(37)</b>	NM	<b>(17)</b>	<b>(17)</b>	NM
<b>Profit of JCE (50% Shida Co)</b>	<b>25</b>	<b>25</b>	0%	<b>0</b>	<b>27</b>	-100%	<b>0</b>	<b>30</b>	-100%
<b>Profit before tax</b>	<b>2,970</b>	<b>2,826</b>	5%	<b>3,483</b>	<b>3,409</b>	2%	<b>3,694</b>	<b>3,871</b>	-5%
Tax	(743)	(706)	5%	(871)	(852)	2%	(923)	(968)	-5%
Statutory tax rate	25%	25%		25%	25%		25%	25%	
<b>Profit before MI</b>	<b>2,228</b>	<b>2,119</b>	5%	<b>2,612</b>	<b>2,557</b>	2%	<b>2,770</b>	<b>2,904</b>	-5%
Minority interests	(459)	(445)	3%	(528)	(513)	3%	(618)	(624)	-1%
<b>Net profit</b>	<b>1,768</b>	<b>1,675</b>	6%	<b>2,084</b>	<b>2,044</b>	2%	<b>2,152</b>	<b>2,280</b>	-6%
YoY Chng	-6.6%	-11.5%		17.9%	22.0%		3.3%	11.6%	
Net margin	29.3%	28.8%		31.7%	31.6%		29.7%	32.1%	
<b>Net profit - Ex Zheshang</b>	<b>1,417</b>	<b>1,370</b>	3%	<b>1,627</b>	<b>1,673</b>	-3%	<b>1,635</b>	<b>1,874</b>	-13%
YoY Chng	-15.7%	-18.5%		14.8%	22.1%		0.4%	12.1%	
<b>Operational Analysis</b>									
	2009E			2010E			2011E		
	New Est	Org Est	Diff %	New Est	Org Est	Diff %	New Est	Org Est	Diff %
<b>Avg traffic (vehicles/day)</b>									
- SH-HZ Expwy	33,489	33,489	0%	37,508	36,838	2%	40,508	40,153	1%
- HZ-NB Expwy	35,150	35,150	0%	39,368	38,665	2%	42,124	41,372	2%
- Shangsan Expwy	19,081	18,580	3%	17,555	20,066	-13%	19,135	21,471	-11%
<b>Avg toll income (Rmb m/day)</b>									
- SH-HZ Expwy	2.8	2.8	-1%	3.1	3.1	1%	3.4	3.4	0%
- HZ-NB Expwy	4.1	4.1	0%	4.6	4.6	2%	5.0	4.9	2%
- Shangsan Expwy	2.1	2.1	0%	1.9	2.3	-16%	2.1	2.4	-11%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 56

**ZJEC: Income Statement**

<i>Rmb mn, Year-end December</i>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Turnover						
<b>Toll income</b>	<b>3,644</b>	<b>4,024</b>	<b>3,570</b>	<b>3,272</b>	<b>3,519</b>	<b>3,817</b>
SHN Exprwy	2,810	3,145	2,758	2,519	2,825	3,035
Shangsan Exprwy	834	879	811	753	693	783
Service area income	968	1,271	1,680	1,260	1,323	1,521
Advertising	53	71	83	91	95	110
Road maintenance income	6	1	4	4	4	4
Zheshang Securities	194	1,921	1,174	1,668	1,918	2,110
<b>Gross revenues</b>	<b>4,866</b>	<b>7,288</b>	<b>6,510</b>	<b>6,294</b>	<b>6,859</b>	<b>7,562</b>
Less: revenue tax	(102)	(258)	(187)	(256)	(280)	(309)
Tax rate	2.1%	3.5%	2.9%	4.1%	4.1%	4.1%
<b>Net revenues</b>	<b>4,764</b>	<b>7,030</b>	<b>6,323</b>	<b>6,039</b>	<b>6,579</b>	<b>7,253</b>
YoY Chng	37.8%	47.6%	-10.1%	-4.5%	9.0%	10.2%
<b>Operating costs</b>	<b>(2,077)</b>	<b>(3,089)</b>	<b>(3,133)</b>	<b>(2,995)</b>	<b>(3,105)</b>	<b>(3,602)</b>
Depreciation	(607)	(691)	(782)	(746)	(723)	(708)
Staff costs	(161)	(168)	(150)	(116)	(124)	(136)
Maintenance costs	(219)	(261)	(177)	(143)	(163)	(218)
Operating mgmt costs	(56)	(85)	(80)	(69)	(74)	(82)
Ancillary business costs	(939)	(1,159)	(1,617)	(1,203)	(1,235)	(1,636)
Zheshang costs	(95)	(726)	(327)	(717)	(786)	(823)
<b>Gross profit</b>	<b>2,687</b>	<b>3,941</b>	<b>3,190</b>	<b>3,044</b>	<b>3,474</b>	<b>3,650</b>
YoY Chng	18.8%	46.7%	-19.1%	-4.6%	14.1%	5.1%
Gross margin	56.4%	56.1%	50.5%	50.4%	52.8%	50.3%
Income/(loss) on investments	14	476	(316)	40	40	40
Gain on fair value changes on investments	67	-	-	-	-	-
Rental income	21	32	41	49	64	80
Trailer income	22	19	15	14	14	14
Subsidy income	-	-	-	-	-	-
Other income	32	22	60	57	60	63
<b>Other revenue</b>	<b>155</b>	<b>549</b>	<b>(200)</b>	<b>160</b>	<b>178</b>	<b>197</b>
<b>Administrative expense</b>	<b>(71)</b>	<b>(81)</b>	<b>(70)</b>	<b>(70)</b>	<b>(72)</b>	<b>(79)</b>
<b>Other expense</b>	<b>(33)</b>	<b>(93)</b>	<b>(39)</b>	<b>(115)</b>	<b>(42)</b>	<b>(42)</b>
<b>Operating profits</b>	<b>2,738</b>	<b>4,316</b>	<b>2,881</b>	<b>3,018</b>	<b>3,538</b>	<b>3,726</b>
YoY Chng	19.9%	57.6%	-33.2%	4.8%	17.2%	5.3%
Operating margin	57.5%	61.4%	45.6%	50.0%	53.8%	51.4%
Interest income	26	21	55	52	55	58
Interest expense	(72)	(61)	(77)	(89)	(93)	(93)
Exchange gains, net	22	40	40	0	20	20
<b>Profit of assoc.</b>	<b>4</b>	<b>(5)</b>	<b>11</b>	<b>(37)</b>	<b>(37)</b>	<b>(17)</b>
<b>Profit of JCE (50% Shida Co)</b>	<b>23</b>	<b>20</b>	<b>24</b>	<b>25</b>	<b>0</b>	<b>0</b>
<b>Profit before tax</b>	<b>2,743</b>	<b>4,333</b>	<b>2,934</b>	<b>2,970</b>	<b>3,483</b>	<b>3,694</b>
Tax	(884)	(1,192)	(669)	(743)	(871)	(923)
Effective tax rate	32%	28%	23%	25%	25%	25%
<b>Profit before MI</b>	<b>1,859</b>	<b>3,141</b>	<b>2,265</b>	<b>2,228</b>	<b>2,612</b>	<b>2,770</b>
Minority interests	(206)	(725)	(372)	(459)	(528)	(618)
<b>Net profit</b>	<b>1,653</b>	<b>2,416</b>	<b>1,893</b>	<b>1,768</b>	<b>2,084</b>	<b>2,152</b>
YoY Chng	15.5%	46.2%	-21.7%	-6.6%	17.9%	3.3%
Net margin	34.7%	34.4%	29.9%	29.3%	31.7%	29.7%
<b>Net profit - Ex Zheshang</b>	<b>1,627</b>	<b>1,809</b>	<b>1,680</b>	<b>1,417</b>	<b>1,627</b>	<b>1,635</b>
YoY Chng	13.7%	11.2%	-7.1%	-15.7%	14.8%	0.4%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 57

**ZJEC: Balance Sheet**

<i>Rmb mn, Year-end December</i>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>Non-current assets</b>						
<b>Net fixed assets</b>	13,776	907	1,031	1,039	1,011	969
Prepaid lease payments	391	59	48	48	48	48
Interests in a JCE (Shida Co 50%)	88	101	124	-	-	-
Interests in assoc.	225	495	464	427	390	374
Exprwy operating rights	180	13,523	12,924	12,297	11,701	11,133
Available for sale investments	1	1	1	1	1	1
Goodwill	91	87	87	87	87	87
Deferred tax assets	-	-	-	-	-	-
Other intangible assets	145	162	158	163	169	174
	<b>14,896</b>	<b>15,335</b>	<b>14,837</b>	<b>14,063</b>	<b>13,406</b>	<b>12,785</b>
<b>Current assets</b>						
Investments held for trading	230	621	248	248	248	248
Available for sale investments	-	596	28	28	28	28
Inventories	12	15	16	16	16	19
Account receivable	54	83	76	73	80	88
Other receivables	181	587	177	171	187	206
Loans to an associate	-	-	-	-	-	-
Prepaid lease payments	19	2	1	1	1	1
Cash held on behalf of customers	2,508	7,239	5,643	5,643	5,643	5,643
Assets held for sale	0	-	-	-	-	-
Cash & equivalents	1,670	3,036	4,056	5,470	7,460	9,433
Cash & deposits < 3 mth	1,504	2,774	3,737	5,151	7,141	9,114
Time deposits (>3 mth)	166	262	319	319	319	319
	<b>4,674</b>	<b>12,178</b>	<b>10,450</b>	<b>11,855</b>	<b>13,868</b>	<b>15,871</b>
<b>Current liabilities</b>						
Accounts payable	369	737	415	334	333	427
Profit tax payable	537	995	448	485	529	575
Other tax payable	20	38	33	33	33	33
<b>Other payable &amp; accruals</b>	<b>410</b>	<b>556</b>	<b>538</b>	<b>538</b>	<b>538</b>	<b>538</b>
Accruals	80	52	48	48	48	48
Other liabilities	315	501	490	490	490	490
Amounts due to related parties	12	-	-	-	-	-
Amounts due to the holding co.	3	3	-	-	-	-
Interest bearing loans	397	288	381	381	381	381
Div payable	42	33	33	33	33	33
Payable to customers from security business	2,502	7,211	5,607	5,607	5,607	5,607
Provision	35	164	34	34	34	34
Liabilities held for sale	1	-	-	-	-	-
	<b>4,313</b>	<b>10,023</b>	<b>7,489</b>	<b>7,445</b>	<b>7,488</b>	<b>7,628</b>
<b>Net current (liabilities) assets</b>	<b>361</b>	<b>2,156</b>	<b>2,961</b>	<b>4,410</b>	<b>6,380</b>	<b>8,243</b>
<b>Total assets less current liabilities</b>	<b>15,258</b>	<b>17,490</b>	<b>17,798</b>	<b>18,473</b>	<b>19,787</b>	<b>21,028</b>
<b>Non-current liabilities</b>						
Interest bearing loans	448	334	229	229	229	229
LT bonds	1,000	1,000	1,000	1,000	1,000	1,000
Deferred tax liabilities	457	392	272	272	272	272
Other LT liabilities	-	-	-	-	-	-
	<b>1,905</b>	<b>1,726</b>	<b>1,501</b>	<b>1,501</b>	<b>1,501</b>	<b>1,501</b>
Minority interests	1,459	2,538	2,614	2,867	3,157	3,497
<b>Net Assets</b>	<b>11,893</b>	<b>13,226</b>	<b>13,683</b>	<b>14,105</b>	<b>15,128</b>	<b>16,030</b>
<b>Capital &amp; reserves</b>						
Issue capital	4,343	4,343	4,343	4,343	4,343	4,343
Reserves	6,681	7,841	8,298	9,005	9,839	10,269
Proposed final dividend	869	1,042	1,042	757	946	1,418
<b>Capital Employed</b>	<b>11,893</b>	<b>13,226</b>	<b>13,683</b>	<b>14,105</b>	<b>15,128</b>	<b>16,030</b>

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research



Exhibit 58

## ZJEC: Cash Flow Statement

<i>Rmb mn, Year-end December</i>	2006	2007	2008	2009E	2010E	2011E
<b>Operating activities</b>						
<b>Profit before tax</b>	<b>2,743</b>	<b>4,333</b>	<b>2,934</b>	<b>2,970</b>	<b>3,483</b>	<b>3,694</b>
Profit from a JCE	(23)	(20)	(24)	(25)	-	-
Profit from assoc.	(4)	5	(11)	37	37	17
Depreciation	623	105	112	120	126	140
Interest income	(26)	(21)	(60)	(52)	(55)	(58)
Interest expense	72	61	77	89	93	93
Operating lease rental on land use rights	18	-	-	-	-	-
Held for trading investments	(72)	(476)	202	-	-	-
Exchange gains, net	(22)	(40)	(40)	-	(20)	(20)
Loss on disposal of fixed assets	4	4	6	-	-	-
Loss on winding-up of a subsidiary	-	(1)	-	-	-	-
Decrease(Increase) in inventories	(6)	(2)	(2)	1	(1)	(3)
(Increase)/decrease in accounts receivables	(33)	(27)	7	3	(7)	(8)
(increase)/decrease in other receivables/prepayment	17	(37)	(39)	6	(15)	(19)
Decrease (increase) in held-for-trading invst	(100)	90	172	-	-	-
Increase in available-for-sale- invst	-	(365)	223	-	-	-
Increase in bank balances held on behalf of customers	(255)	(4,051)	1,596	-	-	-
Increase in amount due from assoc.	(5)	-	-	-	-	-
Increase in accounts payables	(32)	97	(126)	(81)	(1)	94
Increase/(decrease) in other tax payable	(13)	17	(5)	-	-	-
Increase in other liabilities	-	-	-	-	-	-
Increase in accruals	63	144	(6)	-	-	-
Increase in amount due to a JCE	1	(6)	-	-	-	-
Increase in accounts payable to customers arising from securities dealing business	254	4,064	(1,604)	-	-	-
Interest paid	(88)	(104)	(81)	(89)	(93)	(93)
Profit tax paid	(712)	(861)	(1,278)	(705)	(827)	(877)
<b>Net cash generated from operations</b>	<b>2,414</b>	<b>3,626</b>	<b>2,699</b>	<b>3,042</b>	<b>3,310</b>	<b>3,521</b>
<b>Investing activities</b>						
Interest received	26	21	55	52	55	58
<b>Capex</b>	<b>(1,024)</b>	<b>(838)</b>	<b>(452)</b>	<b>(133)</b>	<b>(103)</b>	<b>(103)</b>
Additions to fixed assets	(686)	(83)	(217)	(130)	(100)	(100)
Acquisition of additional int. in subsidiary	(213)	(52)	-	-	-	-
Advances to third parties	(131)	-	-	-	-	-
Acquisition of assoc.	(1)	(281)	-	-	-	-
Reduction of capital in an associate	5	-	-	-	-	-
Loans to an associate	376	(370)	370	-	-	-
Dividend from a JCE	15	14	-	-	-	-
Dividend received from assoc.	6	7	7	7	7	7
(Increase)/decrease in time deposits	(26)	(96)	(57)	-	-	-
(Increase)/decrease in investments	617	-	-	-	-	-
<b>Net cash used in investing activities</b>	<b>(10)</b>	<b>(1,262)</b>	<b>(278)</b>	<b>(74)</b>	<b>(42)</b>	<b>(39)</b>
<b>Financing activities</b>						
Dividends paid	(955)	(1,171)	(1,343)	(1,346)	(1,061)	(1,250)
Dividends paid to minorities	(101)	(53)	(140)	(207)	(238)	(278)
New loans	800	820	701	-	-	-
Repayment of loans	(1,367)	(1,003)	(674)	-	-	-
Capital injection from minorities	-	315	-	-	-	-
<b>Net cash generated from financing</b>	<b>(1,623)</b>	<b>(1,092)</b>	<b>(1,456)</b>	<b>(1,553)</b>	<b>(1,299)</b>	<b>(1,529)</b>
<b>Net increase (decrease) in cash</b>	<b>781</b>	<b>1,271</b>	<b>965</b>	<b>1,414</b>	<b>1,970</b>	<b>1,953</b>
Cash at beginning of yr	724	1,504	2,774	3,737	5,151	7,141
Effect of foreign exchange rate changes	-	(2)	(2)	-	20	20
<b>Cash at end of yr</b>	<b>1,504</b>	<b>2,774</b>	<b>3,737</b>	<b>5,151</b>	<b>7,141</b>	<b>9,114</b>

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

## Company Profile

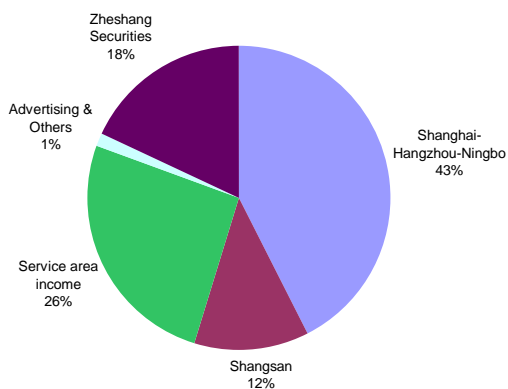
### Company Overview

Zhejiang Expressway was one of the earliest toll road stocks to list in Hong Kong. Its core toll road assets are in Zhejiang, one of the key provinces in the Yangtze River Delta (YRD). In 2001-08, the company recorded CAGRs of 20% in revenue and 14% in net profit, benefiting from the local economic growth (GDP CAGR >12% in Zhejiang).

The company's core asset – the Shanghai-Hangzhou-Ningbo Expressway, goes through Jiaxing, Hangzhou, Shaoxing, and Ningbo, the four strongest economies in the province, which account for a combined 62% of Zhejiang's GDP. Over 90% of Zhejiang's foreign investment is attracted to this area, with a focus on export-oriented processing and manufacturing.

Exhibit 59

### Revenue Breakdown – 2008



Source: Company data, Morgan Stanley Research

### Key Toll Road Assets

In China, toll road/bridges/tunnels are government-owned. Toll road operators can only obtain operating rights on assets for a concession period. Therefore, ZJEC's assets are actually the operating rights on several expressways for a defined period.

**1) Shanghai-Hangzhou-Ningbo Expressway** consists of two main sections, as detailed below.

With the initial operation of some sections in 1992, this was one of the first expressways in China. It was a dual-four lane closed expressway with three pairs of services areas and 20 toll stations. Toll income from this road was Rmb2,758mn in 2008, accounting for 43% of Zhejiang Expressway's gross revenues.

Exhibit 60

### Shanghai-Hangzhou-Ningbo Expressway

Sections	Interest Length		No. of Lanes	Stations	Toll Service Areas		Operation	
	Owned	(km)			Started	Ends		
<b>Sh-Hz Section</b>								
- Jiaxing	100%	88.1	8	6	1	1998	2028	
- Yuhang	51%	11.1	8	2	0	1995-98	2028	
- Hangzhou	100%	3.4	8	0	0	1995	2028	
<b>Total</b>		<b>102.6</b>		<b>8</b>	<b>1</b>			
<b>Hz-Nb Section</b>								
- Hongken/Guzhu	100%	44.0	8	4	1	1995	2027	
- Others	100%	101.0	6-8	8	1	1992-96	2027	
<b>Total</b>		<b>145</b>		<b>12</b>	<b>2</b>			

Source: Company data

**2) Shangsang Expressway** is a major corridor connecting mid-northern with southern Zhejiang. It is a dual four-lane closed expressway from Sanmen in the south to Shangyu in the north. It connects with the Shanghai-Hangzhou-Ningbo Expressway at Guzhu.

Exhibit 61

### Shangsang Expressway

Interest Owned	73.6%
Length (km)	142
No. of Lanes	4
Toll Stations	11
Service Areas	3
Operation Started	2000
Operation Ends	2030

Source: Company data

**3) Jiaxing-Shaoxing Expressway** is a new project in which ZJEC acquired a 35% interest for a consideration of Rmb1,145mn. The route will be a dual eight-lane closed expressway of 69.2km, including a bridge of 12.3km. It will serve as a shortcut between Jiaxing and Shaoxing by cutting the original driving distance by 45%, thus potentially attracting traffic from the Shanghai-Hangzhou-Ningbo Expressway. Management expects to complete the project by 2012. The current estimated construction cost is Rmb9.4bn.

### Securities Business

Zhesang Securities is the only fully-licensed securities firm in Zhejiang. It has over 36 branches all over China and has established a leading franchise in Zhejiang. In 2008, it generated Rmb842mn revenue, 39<sup>th</sup> among domestic brokerage industry. However, its net margin was 49%, ranking it fourth in terms of profitability.

## Advertising

ZJEC owns 35.7% of an advertising subsidiary that has a monopoly on the outdoor advertising business along the Shanghai-Hangzhou-Ningbo Expressway and the Shangsang Expressway. In 2008, advertising income was Rmb83mn.

## Petroleum Company

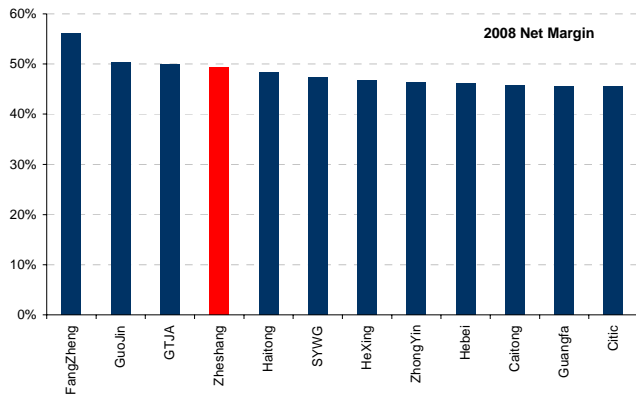
ZJEC has a 50%-owned petroleum company that operates 70 gas stations along the Shanghai-Hangzhou-Ningbo Expressway and the Shangsang Expressway.

## Shareholder Structure

As the largest toll road operator in Zhejiang, ZJEC controls 399km of expressways, 27% of the total in Zhejiang, with the remaining 73% held mainly by its parent.

Exhibit 62

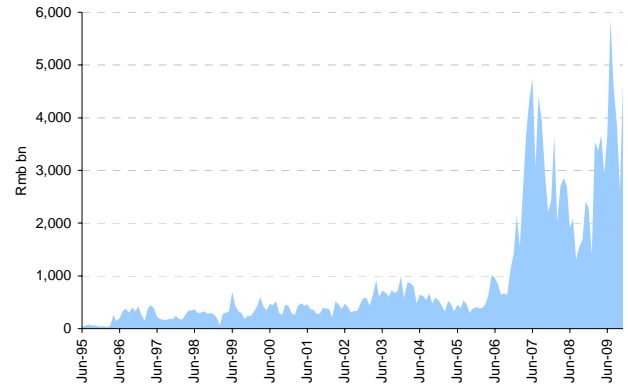
## No. 4 Among Chinese Brokerages by Net Margin



Source: Wind, Morgan Stanley Research

Exhibit 63

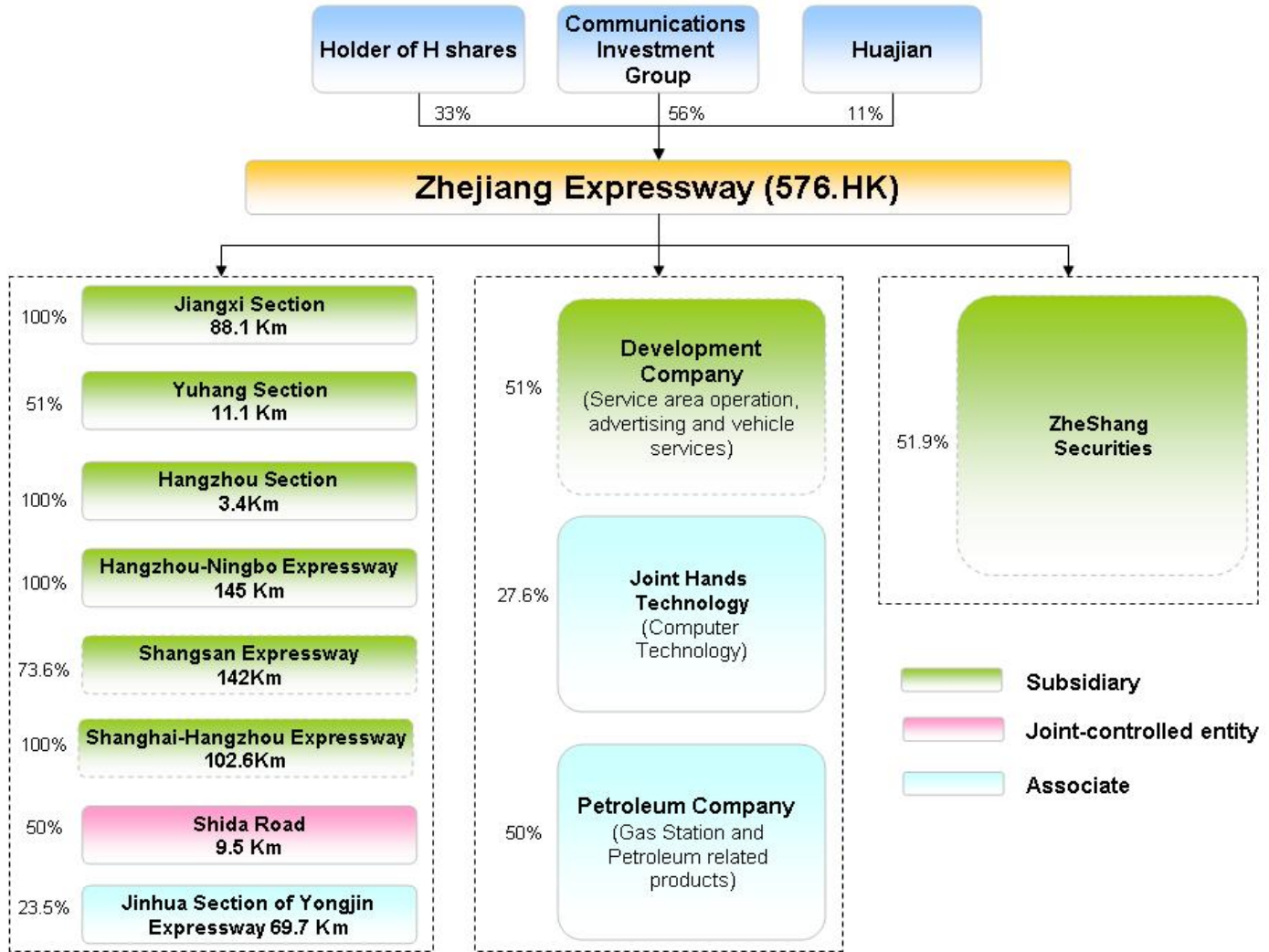
## Surging A-Share Trading Volume



Source: CEIC, Morgan Stanley Research

Exhibit 64

**ZJEC: Corporate and Shareholding Structure**



Based on 2008 annual result, Source: Company data

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## Sichuan Expressway

### Largest Beneficiary of Booming Economy in Southwest China

#### Overweight, Price Target HK\$4.96

- Booming economic growth outlook in Sichuan:** As the most promising economy in southwest China, Sichuan province is well positioned for long-term GDP growth. From 2003 to 2008, the province's GDP CAGR was 12.3%, outperforming the national average of 10.7%. In 1Q-3Q09, GDP growth there was 13.5%, much better than in coastal areas. For the long run, we are bullish on Sichuan's economy, which should enjoy accelerated growth along with the industrialization and urbanization of inner China.
- Stronger car sales in Sichuan and Chongqing:** Thanks to fast economic growth and strong car sales, vehicles in use in these regions increased 19% YoY in 2008, above the industry average of 17%. The high car sales pushed Sichuan Expressway's traffic growth to 24% in 1Q-3Q09, outperforming all the other toll road companies under our coverage.
- Tariff adjustment to boost growth throughout 2010-11:** In October 2010, the company will cancel a 20% discount on its toll tariff, which was launched after the implementation of the toll-by-weight system in June 2007. This will lift tariffs 25% on average, with a positive impact on Sichuan Expressway's earnings throughout 2010-11.

**Low migration risk from new expressway connecting Chengdu and Chongqing:** According to Sichuan province's toll road expansion blueprint, construction began on a new expressway connecting Chengdu and Chongqing, Chenganyu, in late 2009. Once completed, three expressways will connect Chengdu to Chongqing, risking further traffic migration from the Sichuan Expressway. However, we believe the effect will be limited because 1) most direct traffic from Chengdu to Chongqing on the Chengyu Expressway has already migrated to the Chengsuiyu Expressway since December 2007. Thus, the new Chenganyu Expressway will compete for traffic flow with the Chengsuiyu Expressway, rather than the Chengyu Expressway under the listed company; 2) the Chenganyu

#### Key Ratios and Statistics

Reuters:107.HK Bloomberg: 107 HK

#### China Transportation

Price target				HK\$4.96
Upside to price target (%)				19
Shr price, close (Jan 12, 2010)				HK\$4.16
52-Week Range				HK\$4.37-1.20
Sh out, dil, curr (mn)				2,558
Mkt cap, curr (mn)				HK\$10,642
Avg daily trading value (mn)				US\$2.2
<b>Fiscal Year ending</b>	<b>12/08</b>	<b>12/09e</b>	<b>12/10e</b>	<b>12/11e</b>
ModelWare EPS (Rmb)	0.21	0.29	0.33	0.35
Consensus EPS (Rmb)§	0.20	0.30	0.33	0.36
Revenue, net (Rmb mn)	1,431	1,975	2,257	2,563
EBITDA (Rmb mn)	1,050	1,531	1,792	2,055
ModelWare net inc (Rmb mn)	544	878	1,000	1,055
P/E	6.1	12.6	11.2	10.6
P/BV	0.6	1.3	1.2	1.1
ROE (%)	10.4	15.1	12.1	11.6
EV/EBITDA	4.0	7.2	7.8	8.1
Div yld (%)	0.0	2.4	2.7	2.8
Leverage (EOP) (%)	13.3	(1.9)	29.6	53.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note.)

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

#### Company Description

Sichuan Expressway is the only listed toll road company in Southwest China. The company operates Chengyu Expressway (226km), Chengya Expressway (114km), Chenle Expressway (86km) and has a 60% stake in Chengbei Exit Expressway. In 1997, it first listed in Hong Kong, and in July 2009, the company issued A-shares and listed on the Shanghai Stock Exchange.

Expressway, although short (270km) than Chengsuiyu (295km) and Chengyu (340km), is not directly connected to the city centre of Chongqing, therefore is less competitive than Chengsuiyu in terms of convenience; 3) planned capex for Chenganyu is Rmb60-70mn/km, much higher than for Chengyu, so the tariff should be much higher to avoid a loss.

**Further asset acquisition potential:** As indicated during the company's A-share IPO, Sichuan Expressway will acquire the Suiyu Expressway and the Chengnan Expressway from its parent group by 2011. The potential positive effect of these acquisitions could lead to a re-rating of the stock, in our view. Also, should Sichuan Expressway place A shares to fund acquisitions, as it has done in the past, H-share investors might benefit, as the H shares are trading at a 58% discount to the A shares.

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## SCEC: Financial Summary

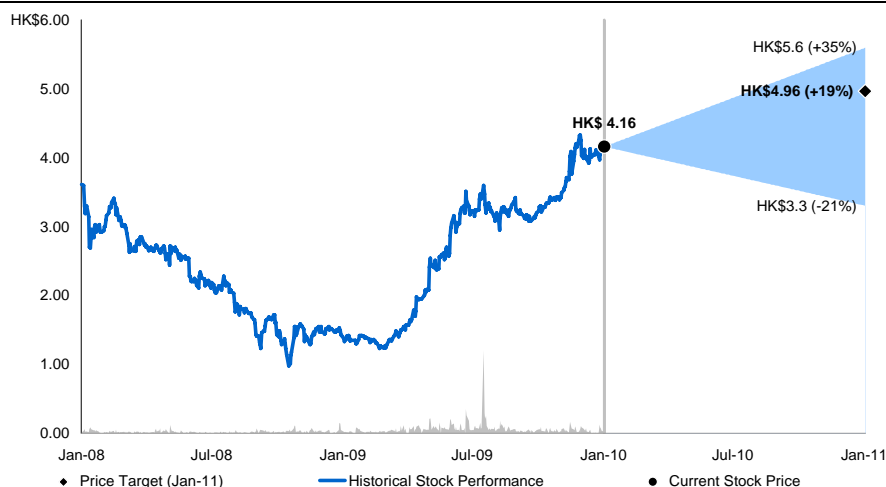
Rmb million; Years Ending December

Profit & Loss Statements						Ratio Analysis					
Y/E Dec 31 (Rmb Mn)	2007	2008	2009E	2010E	2011E		2007	2008	2009E	2010E	2011E
<b>Toll income</b>	<b>1,359</b>	<b>1,389</b>	<b>1,947</b>	<b>2,219</b>	<b>2,513</b>	<b>Growth%</b>					
- Chengyu Expressway	890	844	943	1,061	1,192	Toll income	29.5	2.3	40.1	14.0	13.3
- Chengya Expressway	394	469	550	618	680	Chengyu Expressway	33.8	(5.2)	11.7	12.6	12.3
- Chengle Expressway	-	-	357	424	505	Chengya Expressway	30.0	19.1	17.2	12.3	10.2
- Chengbei Exit Expressway	74	76	97	116	135	Chengle Expressway	n.a.	n.a.	n.a.	18.7	19.2
<b>Less: Revenue taxes</b>	<b>(41)</b>	<b>(42)</b>	<b>(58)</b>	<b>(67)</b>	<b>(75)</b>	Chengbei Exit Expressway	(7.8)	2.4	27.2	19.6	17.3
<b>Net toll income</b>	<b>1,317</b>	<b>1,347</b>	<b>1,888</b>	<b>2,152</b>	<b>2,438</b>	Net toll income	29.6	2.3	40.2	14.0	13.3
Other income and gains	78	84	87	105	126	Other income and gains	20.9	8.1	3.7	20.0	20.0
<b>Net revenue</b>	<b>1,395</b>	<b>1,431</b>	<b>1,975</b>	<b>2,257</b>	<b>2,563</b>	Net revenue	29.1	2.6	38.0	14.2	13.6
Operating expenses	(690)	(666)	(847)	(901)	(992)	Operating profit	61.4	8.5	47.5	20.1	15.9
<b>Operating profit</b>	<b>705</b>	<b>765</b>	<b>1,129</b>	<b>1,356</b>	<b>1,572</b>	Profit before tax	90.4	3.7	61.6	13.8	5.6
Finance costs	(87)	(125)	(91)	(174)	(323)	Net profit	69.1	9.9	61.3	13.8	5.6
Share of P&L of associates	5	6	6	6	6	EBITDA	52.2	7.5	45.9	17.0	14.7
<b>Profit before tax</b>	<b>623</b>	<b>646</b>	<b>1,044</b>	<b>1,188</b>	<b>1,254</b>	EPS	69.1	9.9	34.9	13.8	5.6
Tax	(119)	(96)	(157)	(178)	(188)	<b>Margin%</b>					
<b>Profit before MI</b>	<b>504</b>	<b>550</b>	<b>887</b>	<b>1,010</b>	<b>1,066</b>	EBITDA Margin	70.0	73.3	77.5	79.4	80.2
Minority interests	(8)	(6)	(9)	(10)	(11)	Operating Margin	50.6	53.4	57.1	60.1	61.3
<b>Net profit</b>	<b>495</b>	<b>544</b>	<b>878</b>	<b>1,000</b>	<b>1,055</b>	Net Profit Margin	35.5	38.0	44.5	44.3	41.2
						<b>Return%</b>					
EBITDA	976	1,050	1,531	1,792	2,055	ROE	9.4	9.4	10.6	11.0	10.5
EPS (Rmb)	0.19	0.21	0.29	0.33	0.35	ROA	6.5	6.8	8.7	7.9	6.4
						<b>Gearing</b>					
						Net Debt/Equity (%)	26.2	14.9	NC	30.6	54.4
						Int. Coverage (x)	8.1	6.2	12.5	7.8	4.9
						<b>Operational Analysis</b>					
							<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
						<b>Avg traffic (vehicles/day)</b>					
						Chengyu Expressway	16,211	15,244	18,923	21,193	23,737
						Chengya Expressway	12,778	13,178	14,431	15,585	16,832
						Chengle Expressway	13,346	15,463	20,554	24,254	28,620
						Chengbei Exit Expressway	22,146	24,255	29,759	34,222	39,356
						<b>Avg toll income (Rmb m/day)</b>					
						Chengyu Expressway	150.4	151.7	136.5	137.2	137.5
						Chengya Expressway	84.3	97.7	104.4	108.6	110.7
						Chengle Expressway	43.2	48.3	46.7	47.0	47.4
						Chengbei Exit Expressway	9.2	8.5	8.9	9.2	9.4
						<b>Growth%</b>					
						<b>Avg traffic (vehicles/day)</b>					
						Chengyu Expressway	13.0	(6.0)	24.1	12.0	12.0
						Chengya Expressway	4.6	3.1	9.5	8.0	8.0
						Chengle Expressway	4.2	15.9	32.9	18.0	18.0
						Chengbei Exit Expressway	7.4	9.5	22.7	15.0	15.0
						<b>Avg toll income (Rmb m/day)</b>					
						Chengyu Expressway	18.4	0.8	(10.0)	0.5	0.3
						Chengya Expressway	24.0	16.0	6.8	4.0	2.0
						Chengle Expressway	20.3	11.8	(3.3)	0.6	1.0
						Chengbei Exit Expressway	0.9	(7.0)	4.3	4.0	2.0
						<b>Valuation</b>					
							<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
						P/E	18.9	17.2	12.6	11.2	10.6
						P/BV	1.8	1.6	1.3	1.2	1.1
						EV/EBITDA	11.1	9.8	7.2	7.8	8.1
						Dividend Yield	1.1	-	2.4	2.7	2.8

E = Morgan Stanley Research estimates Source: FactSet, Company data, Morgan Stanley Research

## Risk-Reward Snapshot: SCEC (0107.HK, HK\$4.16, Overweight, PT HK\$4.96)

### Risk-Reward View: More Upside from Traffic Growth & Asset Injections



### Investment Thesis:

- Largest beneficiary of long-term economic growth in southwest China.
- Strong car sales to boost traffic volume.
- Tariff adjustment to boost revenue growth in 2010 and 2011.
- Limited risk of migration to Chenganyu Expressway.
- Further asset acquisition potential by 2011.

### Key Value Drivers

- Traffic volume growth
- Cancellation of tariff discount
- Asset Injections

### Potential Catalysts

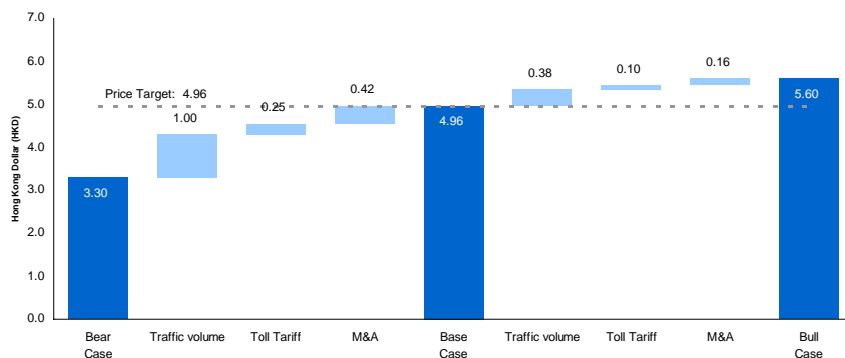
- Stronger-than-expected traffic growth with better-than-expected GDP growth in Sichuan and Chongqing.
- Earlier-than-expected asset acquisition on favorable terms.

### Key Downside Risks

- Larger-than-expected traffic migration to Chenganyu and the railway between Chengdu and Chongqing;
- Expensive pricing of toll road assets during potential asset acquisition.
- Exogenous risks, such as natural disaster or epidemics, which could seriously disrupt traffic growth.

Price target HK\$4.96		Based on base case DCF valuation
Bull Case	Implied 14.9x 2010e P/E	<b>Stronger traffic growth with favorable asset acquisitions:</b> With strong economic growth and low traffic migration, the company's traffic growth exceeds 15% in 2010-2011. Asset acquisition valuation is attractive, generating shareholder value.
Base Case	Implied 13.2x 2010e P/E	<b>Traffic volume up 12-15% in 2010-2011:</b> Thanks to rapid economic growth in Sichuan and Chongqing, traffic rises 12-15% in 2010-11. Asset acquisition valued at a reasonable price.
Bear Case	Implied 8.8x 2010e P/E	<b>Big traffic migration to new Chenganyu Expressway</b> or to the high-speed railway between Chengdu and Chongqing, traffic growth slows to 5-8% in 2010-2011.

### Bear to Bull: Traffic Volume & Asset Acquisitions Are Key Drivers



Source: Morgan Stanley, FactSet

## Valuation

### DCF Valuation for Toll Road Assets

We derive our price target from a DCF valuation of each key toll road section. Our key assumptions are as follows. 1) EBITDA CAGR is 8.9% from 2009 to 2011. 2) EBITDA CAGR is 1.4% for the rest of the concession period. 3) WACC is 10.3%, calculated as shown in Exhibit 65. 4) Capex CAGR is 0.7% during the concession period, given that maintenance costs are much lower than in the initial construction period.

Our DCF model derived an intrinsic value of HK\$4.96/share, with 44% of the value contributed by Chengyu Expressway, 33% by Chengya, 21% by Chengle Expressway and 2% by Chengbei Exit Expressway.

Exhibit 65

### SCEC: WACC Calculation

Equity beta	0.90
30-year risk free rate (%)	5.0
Equity risk premium (%)	7.0
<b>Cost of equity (%)</b>	<b>11.3</b>
Marginal cost of long-term debt (%)	5.3
Marginal tax rate (%)	15.0
<b>Post-tax cost of debt (%)</b>	<b>4.5</b>
MVE/(MVD+MVE) (%)	85.0
MVD/(MVD+MVE) (%)	15.0
<b>Weighted average cost of capital (%)</b>	<b>10.3</b>

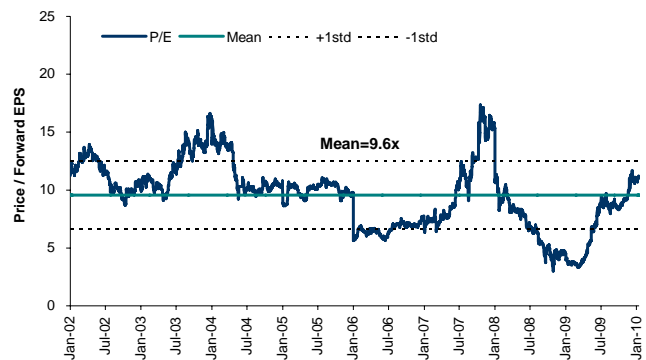
Source: Company data, Morgan Stanley Research

### Forward P/E, EV/EBITDA

The stock is currently trading at 11.2x 2010E P/E, 7.8x 2010E EV/EBITDA, versus historical averages of 9.6x and 7.8x, respectively. In light of the long-term growth potential of the local economy, we are positive on the company's traffic growth potential. We believe the stock will be re-rated further, with the valuation exceeding the historical average in 2010.

Exhibit 66

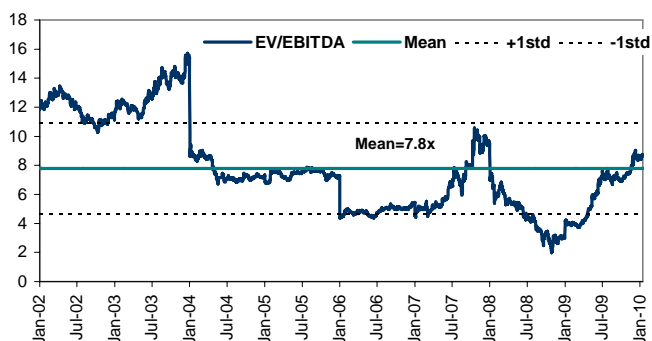
### SCEC: Forward Price/Earnings Trend



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 67

### SCEC: EV/EBITDA Trend



Source: Bloomberg, Company data, Morgan Stanley Research

### Downside/Upside Risks to Our Price Target

- 1) Faster-than-expected construction of Chenganyu Expressway, diverting traffic from Chengyu Expressway.
- 2) Construction cost overrun on the Cheng-Zi-Lu-Chi project, leading to higher capex and larger financial costs.
- 3) Exogenous risks, like natural disasters, wars, and epidemics, which could disrupt volume growth.



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Exhibit 68

## SCEC: DCF Valuation Summary

	Chengyu	Chengya	Chengbei	Chengle	Total
NPV of explicit cash flow forecasts	5,852	4,432	364	3,303	13,951
Terminal value (growth rate = 0%)	-	-	-	-	-
Enterprise Value	5,852	4,432	364	3,303	13,951
Net Cash / (Debt)	32	19	3	(500)	(446)
DCF valuation	5,884	4,450	367	2,803	13,505
% attributable to Sichuan Exp.	100%	100%	60%	100%	
DCF valuation attributable to Sichuan Exp. (Rmb mn)	5,884	4,450	220	2,803	13,358
% of valuation	44%	33%	2%	21%	100%
Total Equity Value (Rmb m)	13,358				
<b>Shares outstanding (mn)</b>	<b>3,058</b>				
Rmb/share	4.37				
<b>HK\$/share</b>	<b>4.96</b>				
Latest Stock Price	4.16				
<b>Upside/Downside</b>	<b>19.3%</b>				

Source: Morgan Stanley Research estimates

Exhibit 69

## SCEC: DCF Valuation Breakdown by Road Section

Chengyu Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	735	828	834	885	930	941	953	964	976	987	999	1,011
Less: Cash Tax Payable on EBIT	(79)	(92)	(93)	(100)	(106)	(108)	(110)	(111)	(113)	(114)	(116)	(118)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(101)	(102)	(103)	(104)	(105)	(106)	(107)	(108)	(109)	(110)	(112)	(113)
<b>Free Cash Flow</b>	<b>555</b>	<b>634</b>	<b>638</b>	<b>681</b>	<b>719</b>	<b>727</b>	<b>736</b>	<b>745</b>	<b>753</b>	<b>762</b>	<b>772</b>	<b>781</b>
YoY Growth	6%	14%	1%	7%	6%	1%	1%	1%	1%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>579</b>	<b>560</b>	<b>536</b>	<b>492</b>	<b>451</b>	<b>414</b>	<b>380</b>	<b>349</b>	<b>320</b>	<b>294</b>
Chengyu Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	1,023	1,036	1,048	1,061	1,073	1,086	1,099					
Less: Cash Tax Payable on EBIT	(119)	(121)	(123)	(125)	(126)	(128)	(130)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(114)	(115)	(116)	(117)	(118)	(120)	(121)					
<b>Free Cash Flow</b>	<b>790</b>	<b>799</b>	<b>809</b>	<b>819</b>	<b>828</b>	<b>838</b>	<b>848</b>					
YoY Growth	1%	1%	1%	1%	1%	1%	1%					
<b>NPV of Free Cash Flow</b>	<b>269</b>	<b>247</b>	<b>227</b>	<b>208</b>	<b>191</b>	<b>175</b>	<b>161</b>					
<b>Total NPV (Chengyu Exp.)</b>	<b>5,852</b>											
Chengya Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	396	445	490	534	524	565	599	635	673	707	742	772
Less: Cash Tax Payable on EBIT	(42)	(49)	(55)	(62)	(60)	(66)	(71)	(76)	(81)	(86)	(91)	(95)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(40)	(41)	(41)	(42)	(42)	(42)	(43)	(43)	(44)	(44)	(45)	(45)
<b>Free Cash Flow</b>	<b>313</b>	<b>355</b>	<b>393</b>	<b>431</b>	<b>422</b>	<b>457</b>	<b>486</b>	<b>516</b>	<b>549</b>	<b>577</b>	<b>607</b>	<b>632</b>
YoY Growth	21%	13%	11%	10%	-2%	8%	6%	6%	6%	5%	5%	4%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>357</b>	<b>355</b>	<b>314</b>	<b>309</b>	<b>298</b>	<b>287</b>	<b>277</b>	<b>264</b>	<b>252</b>	<b>238</b>
Chengya Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	795	811	827	844	861	870	878	887	896			
Less: Cash Tax Payable on EBIT	(98)	(100)	(103)	(105)	(107)	(108)	(110)	(111)	(112)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(46)	(46)	(46)	(47)	(47)	(48)	(48)	(49)	(49)			
<b>Free Cash Flow</b>	<b>652</b>	<b>665</b>	<b>678</b>	<b>692</b>	<b>706</b>	<b>713</b>	<b>720</b>	<b>727</b>	<b>734</b>			
YoY Growth	3%	2%	2%	2%	2%	1%	1%	1%	1%			
<b>NPV of Free Cash Flow</b>	<b>222</b>	<b>206</b>	<b>190</b>	<b>176</b>	<b>163</b>	<b>149</b>	<b>136</b>	<b>125</b>	<b>114</b>			
<b>Total NPV (Chengya Exp.)</b>	<b>4,432</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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Exhibit 70

**SCEC: DCF Valuation Breakdown by Road Section – continued**

<b>Chengle Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	268	318	379	409	426	413	426	438	447	452	456	461
Less: Cash Tax Payable on EBIT	29	36	45	50	52	51	52	54	56	56	57	58
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(81)	(82)	(82)	(83)	(84)	(85)	(86)	(87)	(87)	(88)	(89)	(90)
<b>Free Cash Flow</b>	<b>216</b>	<b>273</b>	<b>342</b>	<b>376</b>	<b>394</b>	<b>379</b>	<b>392</b>	<b>406</b>	<b>415</b>	<b>420</b>	<b>424</b>	<b>428</b>
YoY Growth	n.m.	26%	25%	10%	5%	-4%	4%	4%	2%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>310</b>	<b>309</b>	<b>294</b>	<b>256</b>	<b>241</b>	<b>226</b>	<b>209</b>	<b>192</b>	<b>176</b>	<b>161</b>

<b>Chengle Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	465	470	470	470	470	470	470	470	470			
Less: Cash Tax Payable on EBIT	58	59	59	59	59	59	59	59	59			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(91)	(92)	(93)	(94)	(95)	(96)	(97)	(98)	(99)			
<b>Free Cash Flow</b>	<b>433</b>	<b>437</b>	<b>436</b>	<b>435</b>	<b>434</b>	<b>433</b>	<b>432</b>	<b>431</b>	<b>430</b>			
YoY Growth	1%	1%	0%	0%	0%	0%	0%	0%	0%			
<b>NPV of Free Cash Flow</b>	<b>147</b>	<b>135</b>	<b>122</b>	<b>111</b>	<b>100</b>	<b>91</b>	<b>82</b>	<b>74</b>	<b>67</b>			

**Total NPV (Chengle Exp.) 3,303**

<b>Chengbei Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	48	58	68	75	71	71	71	71	71	71	71	71
Less: Cash Tax Payable on EBIT	(5)	(6)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(12)	(12)	(12)	(12)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(14)
<b>Free Cash Flow</b>	<b>32</b>	<b>40</b>	<b>48</b>	<b>54</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>49</b>
YoY Growth	28%	25%	21%	13%	-7%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>45</b>	<b>38</b>	<b>34</b>	<b>31</b>	<b>28</b>	<b>25</b>	<b>23</b>	<b>21</b>	<b>19</b>

<b>Chengbei Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	71	71	71	71								
Less: Cash Tax Payable on EBIT	(8)	(8)	(8)	(8)								
Plus: Decrease in WC	-	-	-	-								
Less: Capital Expenditure	(14)	(14)	(14)	(14)								
<b>Free Cash Flow</b>	<b>49</b>	<b>49</b>	<b>49</b>	<b>49</b>								
YoY Growth	0%	0%	0%	0%								
<b>NPV of Free Cash Flow</b>	<b>17</b>	<b>15</b>	<b>14</b>	<b>12</b>								

**Total NPV (Chengbei Exp.) 364**

E = Morgan Stanley Research estimate, Source: Company data, Morgan Stanley Research

## Earnings Review and Outlook

We estimate 61% earnings growth in 2009, driven by the changes in toll revenue as shown in Exhibit 71 and consolidation of Chengle Expressway's toll revenue of Rmb357mn after the asset injection in 2H09. Excluding Chengle's contribution, we estimate the YoY earnings growth at around 20%.

The company has announced that it will acquire two other toll road assets by 2011; such potential asset injections would be a trigger for us to review our earnings estimates.

Exhibit 71

### SCEC: Key Growth Assumptions

Rmb mn	2007	2008	2009E	2010E	2011E
Chengyu Expressway	890	844	943	1,061	1,192
YoY Chng	34%	-5%	12%	13%	12%
Chengya Expressway	394	469	550	618	680
YoY Chng	30%	19%	17%	12%	10%
Chengbei Exit Exp.	74	76	97	116	135
YoY Chng	-8%	2%	27%	20%	17%
Chengle Expressway	n.a.	n.a.	357	424	505
YoY Chng	n.a.	n.a.	n.a.	19%	19%
<b>Total Toll income</b>	<b>1,359</b>	<b>1,389</b>	<b>1,947</b>	<b>2,219</b>	<b>2,513</b>
YoY Chng	29%	2%	40%	14%	13%
Operating Margin	51%	53%	57%	60%	61%
PBT Margin	45%	45%	53%	53%	49%
Net Margin	36%	38%	44%	44%	41%
<b>Net profit</b>	<b>495</b>	<b>544</b>	<b>878</b>	<b>1,000</b>	<b>1,055</b>
YoY Chng	69%	10%	61%	14%	6%
Dividend Payout Ratio	21%	n.a.	30%	30%	30%

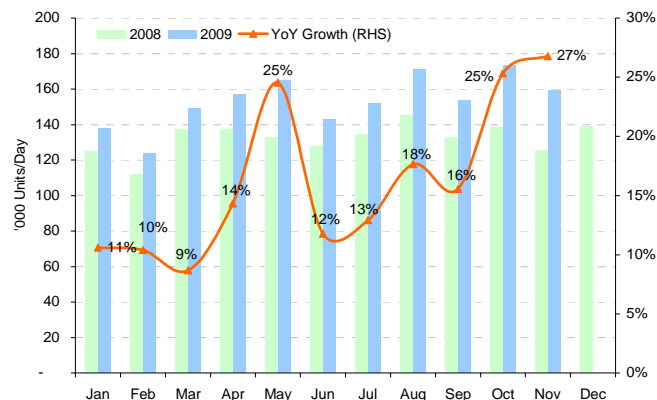
E = Morgan Stanley Research estimates, Source: Company data, Morgan Stanley Research

### Sichuan Expressway: 1Q-3Q earnings recap

The company completed its A-share IPO in July 2009, raising Rmb1.74bn and acquiring 100% of Chengle Expressway.

Exhibit 72

### SCEC: Good Toll Income Growth in 2009



Note: Including toll revenue of Chengyu, Chengya and Chengle. Data represent actual revenue growth through Nov 2009.  
Source: Company data, Morgan Stanley Research

Exhibit 73

### SCEC: 1Q-3Q09 Earnings Recap

RMB mn	1Q-3Q09	1Q-3Q08	Chg
Revenue	1,512	1,276	18%
Cost of goods sold	(577)	(493)	17%
<b>Gross profit</b>	<b>935</b>	<b>783</b>	<b>19%</b>
Other income	9	9	-6%
G&A expenses	(69)	(64)	8%
<b>Operating profit</b>	<b>875</b>	<b>728</b>	<b>20%</b>
Finance costs	(96)	(140)	-31%
Other non-operating income	0	(4)	n.m.
Profit before taxation	779	585	33%
Taxation	(116)	(88)	31%
Profit after taxation	663	496	34%
Minority interests	11	8	39%
<b>Net profit</b>	<b>652</b>	<b>488</b>	<b>33%</b>
<b>Financial Ratio</b>	<b>1Q-3Q09</b>	<b>1Q-3Q08</b>	<b>Chg (bps)</b>
<b>Margins (%)</b>			
Gross	61.9%	61.3%	52
EBIT	57.9%	56.8%	113
Net Profit	43.1%	38.3%	486
G&A expense % of Revenue	4.6%	5.0%	(43)
Effective Tax Rate	14.9%	15.1%	(24)

Source: Company data, Morgan Stanley Research

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Exhibit 74

**SCEC: Income Statement**

Rmb mn	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<b>Toll Revenue</b>	<b>840</b>	<b>923</b>	<b>993</b>	<b>1,049</b>	<b>1,359</b>	<b>1,389</b>	<b>1,589</b>	<b>1,794</b>	<b>2,008</b>
- Chengyu Expressway	555	657	686	666	890	844	943	1,061	1,192
- Chengya Expressway	171	211	237	303	394	469	550	618	680
- Chengbei Exit Expressway	114	55	70	80	74	76	97	116	135
- Chengle Expressway	-	-	-	-	-	-	357	424	505
Other income and gains	243	60	50	64	78	84	87	105	126
<b>Gross Revenue</b>	<b>1,083</b>	<b>984</b>	<b>1,043</b>	<b>1,114</b>	<b>1,436</b>	<b>1,473</b>	<b>2,034</b>	<b>2,323</b>	<b>2,639</b>
Less: Business & other related tax	(44)	(48)	(40)	(33)	(41)	(42)	(58)	(67)	(75)
Business tax rate	5.2%	5.2%	4.0%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Net revenue</b>	<b>1,039</b>	<b>936</b>	<b>1,003</b>	<b>1,081</b>	<b>1,395</b>	<b>1,431</b>	<b>1,975</b>	<b>2,257</b>	<b>2,563</b>
YoY Chng	n.a.	-10.0%	7.2%	7.8%	29.1%	2.6%	38.0%	14.2%	13.6%
<b>Cost of sales</b>	<b>(695)</b>	<b>(582)</b>	<b>(592)</b>	<b>(644)</b>	<b>(690)</b>	<b>(666)</b>	<b>(847)</b>	<b>(901)</b>	<b>(992)</b>
- Employee costs	(695)	(582)	(99)	(105)	(116)	(130)	(208)	(237)	(263)
- Repairs and maintenance	-	-	(127)	(181)	(177)	(146)	(227)	(258)	(278)
- Depreciation	-	-	(206)	(199)	(266)	(279)	(397)	(430)	(478)
- Other	-	-	(160)	(158)	(131)	(112)	(16)	25	27
<b>Operating profit</b>	<b>344</b>	<b>353</b>	<b>410</b>	<b>437</b>	<b>705</b>	<b>765</b>	<b>1,129</b>	<b>1,356</b>	<b>1,572</b>
Operating Margin	33.1%	37.8%	40.9%	40.4%	50.6%	53.4%	57.1%	60.1%	61.3%
EBIT	347	358	416	442	710	771	1,134	1,362	1,577
<b>EBITDA</b>	<b>347</b>	<b>358</b>	<b>622</b>	<b>641</b>	<b>976</b>	<b>1,050</b>	<b>1,531</b>	<b>1,792</b>	<b>2,055</b>
Finance costs	(102)	(117)	(126)	(115)	(87)	(125)	(91)	(174)	(323)
Share of profit of associates	2	5	5	5	5	6	6	6	6
<b>Profit before tax</b>	<b>244</b>	<b>241</b>	<b>290</b>	<b>327</b>	<b>623</b>	<b>646</b>	<b>1,044</b>	<b>1,188</b>	<b>1,254</b>
Taxation	(61)	(48)	(64)	(7)	(119)	(96)	(157)	(178)	(188)
Effective tax rate	25%	20%	22%	2%	19%	15%	15%	15%	15%
<b>Profit before MI</b>	<b>183</b>	<b>193</b>	<b>226</b>	<b>320</b>	<b>504</b>	<b>550</b>	<b>887</b>	<b>1,010</b>	<b>1,066</b>
Minority interests	25	23	22	(27)	(8)	(6)	(9)	(10)	(11)
<b>Net profit</b>	<b>208</b>	<b>216</b>	<b>248</b>	<b>293</b>	<b>495</b>	<b>544</b>	<b>878</b>	<b>1,000</b>	<b>1,055</b>
YoY Chng	n.a.	3.8%	15.1%	18.1%	69.1%	9.9%	61.3%	13.8%	5.6%
<b>Dividend</b>	<b>(82)</b>	<b>(102)</b>	<b>(102)</b>	<b>(102)</b>	<b>(102)</b>	<b>-</b>	<b>(263)</b>	<b>(300)</b>	<b>(317)</b>
Div Payout %	39.4%	47.5%	41.2%	34.9%	20.7%	0.0%	30.0%	30.0%	30.0%
<b>Margin</b>									
Operating	32%	36%	39%	39%	49%	52%	67%	71%	74%
EBIT	32%	36%	40%	40%	49%	52%	68%	72%	74%
EBITDA	32%	36%	60%	58%	68%	71%	91%	94%	96%
Net	19%	22%	24%	26%	34%	37%	52%	53%	49%

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 75

**SCEC: Balance Sheet**

Rmb mn	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<b>Non-current Assets</b>									
PPE	6,807	6,629	5,950	6,046	463	420	407	401	400
Service concession arrangements	-	-	-	-	5,669	5,652	7,176	10,954	14,614
Prepaid land lease payments	-	-	561	536	510	486	462	439	418
Operating rights	-	219	208	116	-	-	-	-	-
Interests in associates	53	56	58	59	58	58	58	58	58
Available-for-sale investments	35	35	34	33	33	33	33	33	33
Deferred tax assets	-	-	-	37	-	-	-	-	-
Long-term compensation receivables	-	-	-	69	79	77	77	77	77
Payment in advance	230	12	-	-	100	100	100	100	100
<b>Total non-current assets</b>	<b>7,125</b>	<b>6,951</b>	<b>6,811</b>	<b>6,895</b>	<b>6,912</b>	<b>6,825</b>	<b>8,313</b>	<b>12,062</b>	<b>15,700</b>
<b>Current Assets</b>									
Inventories	25	5	9	12	13	22	65	75	86
Prepayments and other receivables	118	50	145	152	50	37	75	75	75
Time deposits	-	-	-	-	17	163	147	147	147
Cash and cash equivalents	618	876	744	417	623	986	1,465	372	416
<b>Total current assets</b>	<b>761</b>	<b>931</b>	<b>899</b>	<b>581</b>	<b>703</b>	<b>1,208</b>	<b>1,751</b>	<b>668</b>	<b>724</b>
<b>Current Liabilities</b>									
Tax payable	30	26	33	17	50	42	44	47	49
Other payables and accruals	242	182	140	335	202	238	250	263	276
Interest-bearing bank and other loans	214	349	530	1,593	1,606	1,608	965	2,701	5,402
Due to the ultimate holding company	597	14	2	2	-	-	-	-	-
<b>Total current liabilities</b>	<b>1,084</b>	<b>572</b>	<b>705</b>	<b>1,947</b>	<b>1,857</b>	<b>1,888</b>	<b>1,259</b>	<b>3,010</b>	<b>5,727</b>
<b>Net current (liabilities) assets</b>	<b>(323)</b>	<b>360</b>	<b>194</b>	<b>(1,366)</b>	<b>(1,154)</b>	<b>(680)</b>	<b>492</b>	<b>(2,342)</b>	<b>(5,003)</b>
<b>Total assets less current liabilities</b>	<b>6,802</b>	<b>7,311</b>	<b>7,005</b>	<b>5,529</b>	<b>5,757</b>	<b>6,144</b>	<b>8,805</b>	<b>9,719</b>	<b>10,697</b>
<b>Non-current liabilities</b>									
Interest-bearing bank and other loans	1,806	2,208	1,792	464	397	241	434	455	478
Deferred tax liabilities	-	-	4	1	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>1,806</b>	<b>2,208</b>	<b>1,796</b>	<b>465</b>	<b>397</b>	<b>241</b>	<b>434</b>	<b>455</b>	<b>478</b>
Minority interests	259	232	205	100	102	99	112	155	171
<b>Net assets</b>	<b>4,737</b>	<b>4,871</b>	<b>5,004</b>	<b>4,964</b>	<b>5,259</b>	<b>5,804</b>	<b>8,259</b>	<b>9,109</b>	<b>10,048</b>
<b>Issued capital</b>									
Reserves	2,558	2,558	2,558	2,558	2,558	2,558	3,058	3,058	3,058
Proposed final dividend	2,097	2,211	2,344	2,303	2,701	3,246	4,938	5,751	6,673
Capital employed	82	102	102	102	-	-	263	300	317
<b>Capital employed</b>	<b>4,737</b>	<b>4,871</b>	<b>5,004</b>	<b>4,964</b>	<b>5,259</b>	<b>5,804</b>	<b>8,259</b>	<b>9,109</b>	<b>10,048</b>

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

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Exhibit 76

**SCEC: Cash Flow Statement**

Rmb mn	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit before tax:	344	353	290	327	615	646	1,044	1,188	1,254
Adjustments for:									
Share of profits of associates	-	-	(5)	(5)	(5)	(6)	(6)	(6)	(6)
Depreciation	209	224	206	199	219	79	397	430	478
Amortisation of land lease payments	1	2	25	25	25	25	-	-	-
Amortisation of operating rights	20	4	11	11	7	175	-	-	-
Impairment of other receivables, net	(1)	1	28	7	2	(8)	-	-	-
Loss on disposal of a subsidiary	(44)	(3)	1	-	1	-	-	-	-
Loss on disposal of items of PPE	2	4	2	3	21	4	-	-	-
Interest income	(6)	(11)	(12)	(10)	(20)	(28)	(28)	(34)	(41)
Interest expenses	-	-	126	115	87	119	91	174	323
Decrease/(increase) in prepayments	(134)	66	(123)	(3)	90	24	(37)	-	-
Increase in inventories	(16)	21	(5)	(3)	(0)	(9)	(43)	(10)	(11)
Increase/(decrease) in payables	(28)	(18)	(42)	84	(30)	(43)	(12)	(13)	(13)
Other operating cash flow	54	(584)	(12)	0	(2)	(1)	(45)	(46)	(114)
<b>Cash generated from operations</b>	<b>403</b>	<b>59</b>	<b>490</b>	<b>751</b>	<b>1,009</b>	<b>978</b>	<b>1,359</b>	<b>1,684</b>	<b>1,870</b>
Income tax paid	(17)	(51)	(54)	(63)	(50)	(105)	(157)	(178)	(188)
<b>Net cash from operating activities</b>	<b>386</b>	<b>7</b>	<b>436</b>	<b>688</b>	<b>959</b>	<b>873</b>	<b>1,203</b>	<b>1,505</b>	<b>1,682</b>
<b>Cash flows from investing activities</b>									
Increase in time deposits	42	(150)	177	-	(17)	(146)	16	-	-
Purchases of items of PPE	(52)	(126)	(117)	(298)	(207)	(197)	(1,760)	(4,053)	(4,048)
Proceeds from disposal of items of PPE	2	23	2	0	0	(0)	-	-	-
Proceeds from sale of investment	167	1	-	2	-	-	-	-	-
Purchases of MI	-	-	-	(252)	(105)	(6)	-	-	-
Interest received	6	11	12	10	20	28	28	34	41
Payment in advance	2	-	-	-	(100)	-	-	-	-
Dividend received from an associate	-	2	3	5	6	6	6	6	6
<b>Net cash from investing activities</b>	<b>167</b>	<b>(237)</b>	<b>78</b>	<b>(533)</b>	<b>(404)</b>	<b>(315)</b>	<b>(1,709)</b>	<b>(4,013)</b>	<b>(4,001)</b>
<b>Cash flows from financing activities</b>									
Interest paid	(102)	(117)	(126)	(109)	(33)	(33)	(33)	(33)	(33)
Dividend paid	(77)	(82)	(102)	(102)	(205)	-	(263)	(300)	(317)
Dividend paid to minority shareholders	(0)	-	(5)	-	(7)	(8)	(9)	(10)	(11)
Issuance of capital	-	-	-	-	-	-	1,741	-	-
New bank loans	389	970	30	280	1,045	45	(450)	1,758	2,724
New trust loan	-	-	-	-	499	-	-	-	-
Proceeds from short term CP	34	150	(177)	1,444	-	1,500	-	-	-
Repayment of short term CP	-	-	-	-	(1,500)	-	-	-	-
Repayment of bank loans	(298)	(410)	(243)	(1,971)	(126)	(1,177)	-	-	-
Repayment of other loans	(220)	(23)	(23)	(23)	(23)	(522)	-	-	-
<b>Net cash from financing activities</b>	<b>(274)</b>	<b>488</b>	<b>(646)</b>	<b>(482)</b>	<b>(349)</b>	<b>(195)</b>	<b>985</b>	<b>1,415</b>	<b>2,363</b>
<b>Net increase/(decrease) in cash</b>	<b>279</b>	<b>258</b>	<b>(132)</b>	<b>(327)</b>	<b>206</b>	<b>363</b>	<b>479</b>	<b>(1,093)</b>	<b>45</b>
Cash and cash equivalents (BOP)	339	618	876	744	417	623	986	1,465	372
<b>Cash and cash equivalents (EOP)</b>	<b>618</b>	<b>876</b>	<b>744</b>	<b>417</b>	<b>623</b>	<b>986</b>	<b>1,465</b>	<b>372</b>	<b>416</b>

E = Morgan Stanley Research estimate Source: Company data, Morgan Stanley Research

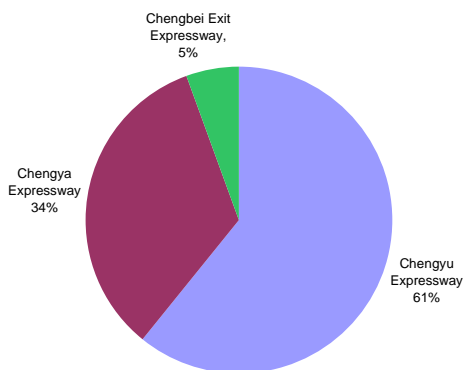
## Company Profile

### Company Overview

Sichuan Expressway is the only listed toll road company in southwest China. The company operates the Chengyu Expressway (226km), the Chengya Expressway (114km), the Chenle Expressway (86km) and has a 60% stake in the Chengbei Exit Expressway. In 1997, it was listed in Hong Kong, and, in July 2009, the company issued A-shares on the Shanghai Stock Exchange.

Exhibit 77

### SCEC: Revenue Breakdown, 2008



Source: Company data, Morgan Stanley Research

### Shareholder Structure

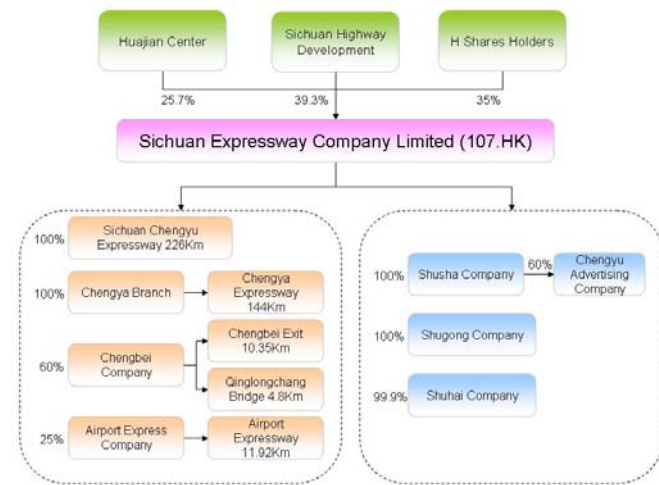
In 1H09, Sichuan Expressway was still a state-owned enterprise with Huajian Center controlling 25.7% and Sichuan Highway Development, 39.3%. The remaining 35% stake was owned by public H-shareholders. After the issue of A-shares in July 2009, the company's shareholding structure changed (Exhibit 78).

### Key Toll Road Assets

The company currently has four core toll road assets. It plans to acquire another two expressways and build one.

Exhibit 78

### SCEC: Shareholding Structure



Based on 2008 annual result. Source: Company data, Morgan Stanley Research

**1) Chengyu Expressway:** Chengyu Expressway was the first Expressway in Sichuan province. It is a dual-carriageway, four-lane expressway connecting Chengdu and Chongqing, the two largest cities in southwest China.

**2) Chengya Expressway:** Chengya Expressway is a dual-carriageway, three-lane expressway connecting Chengdu and Ya'an. The road was put into operation in 1999 with a total length of 114km.

**3) Chengbei Exit Expressway:** Chengbei Exit Expressway is a dual-carriageway, three-lane expressway, which started operations in 1998.

**4) Chengle Expressway:** Chengle Expressway is a dual-carriageway, four-lane expressway connecting Chengdu and Leshan. Its total length is 86.4km. Operations started in December 1999.

The company also plans to acquire Suiyu Expressway (Sichuan section) and Chengnan Expressway in the next two years to further expand its toll road asset portfolio. In addition, it has decided to build a new toll road connecting Chengdu-Renshou-Luzhou-Chishui, with total length of 104.64km and capex of Rmb7.51bn. Construction began in December 2009 and operation is scheduled for 2012.

# Jiangsu Expressway

## Visible Traffic Recovery; Upside Capped by Migration

### Equal-weight, Price Target HK\$7.59

- Downgrade to Equal-weight on Long-term Traffic Migration Concerns:** We downgrade our rating on Jiangsu Expressway from Overweight to Equal-weight and tweak our PT from HK\$7.55 to HK\$7.59. We are concerned about traffic migration to a new expressway connecting Nanjing and Shanghai. In our DCF model, we cut our traffic growth assumption from 8-9% in 2012-13 to only 1-2% while reducing our equity risk premium from 8% to 7%, which leads to slight changes on DCF value.
- Visible recovery on the way:** Following the economic and export recovery, Jiangsu Expressway's traffic volume has continuously improved, rising from 145,000 vehicles per day in 1Q09 to 150,000 in 3Q09. YoY, the company's traffic volume increased 1% in 3Q09 versus a decline of 8% in 1H09.
- Good cost control favors margin recovery:** Despite a tough operating environment in 2009, the company's gross margin improved from 53% in 1Q-3Q08 to 55% in 1Q-3Q09. This indicates the company's ability to control costs, which could enhance profitability and margins.

### Key Ratios and Statistics

Reuters:177.HK Bloomberg: 177 HK  
China Transportation

Price target	HK\$7.59			
Upside to price target (%)	7			
Shr price, close (Jan 12, 2010)	HK\$7.07			
52-Week Range	HK\$7.45-4.83			
Sh out, dil, curr (mn)	5,038			
Mkt cap, curr (mn)	Rmb31,355			
Avg daily trading value (mn)	US\$6			
Fiscal Year ending	12/08	12/09e	12/10e	12/11e
ModelWare EPS (Rmb)	0.32	0.40	0.47	0.54
Consensus EPS (Rmb)§	0.31	0.39	0.43	0.47
Revenue, net (Rmb mn)	5,095	5,454	5,875	6,303
EBITDA (Rmb mn)	3,501	3,963	4,525	5,073
ModelWare net inc (Rmb mn)	1,591	2,013	2,362	2,730
P/E	15.9	15.2	13.3	11.5
P/BV	1.7	2.1	2.0	2.0
ROE (%)	11.1	13.7	15.8	17.8
EV/EBITDA	9.4	9.4	8.2	7.2
Div yld (%)	5.4	5.6	6.4	7.4
Leverage (EOP) (%)	48.4	41.1	35.3	28.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note.)

§ = Consensus data is provided by FactSet Estimates.

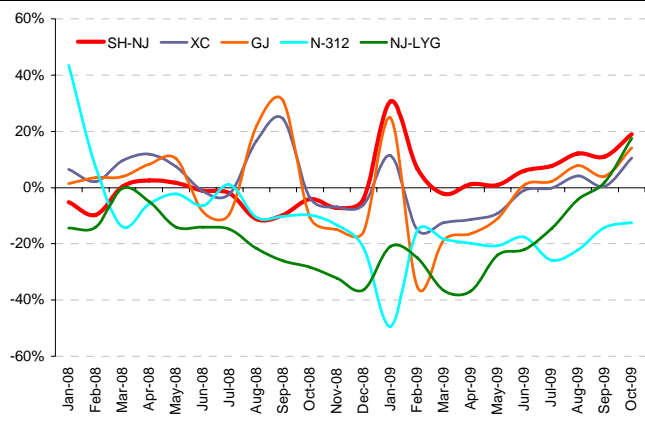
e = Morgan Stanley Research estimates

### Company Description

Jiangsu Expressway is engaged principally in the investment, construction, operation and management of the Jiangsu section of the Shanghai-Nanjing Expressway and other toll road assets in Jiangsu Province. The Jiangsu section, the company's core asset, connects six major cities, including Shanghai, Suzhou, Wuxi, Changzhou, Zhejiang and Nanjing, and has become one of the busiest highways in China.

Exhibit 79

### Continuing Traffic Recovery on Major Toll Roads



Source: Company data, Morgan Stanley Research

**Rising property exposure:** After establishing a dedicated property development arm and acquiring more land reserves, Jiangsu Expressway's property exposure will rise, in our view. Assuming the increased property prices persist, we estimate the new property business will contribute Rmb30-40mn to earnings in 2010 and Rmb80-90mn in 2011. However, as the property sentiment is highly correlated with government policy, it is at risk of tightening measures. According to management, the unit cost of land reserves newly acquired is Rmb2,124/sqm, while the average sales price of finished property is around Rmb6,000/sqm. Should property prices drop below Rmb5,000/sqm, it would be difficult for Jiangsu to make a profit, in our opinion.



January 14, 2010  
China Toll Roads

## JSEC: Financial Summary

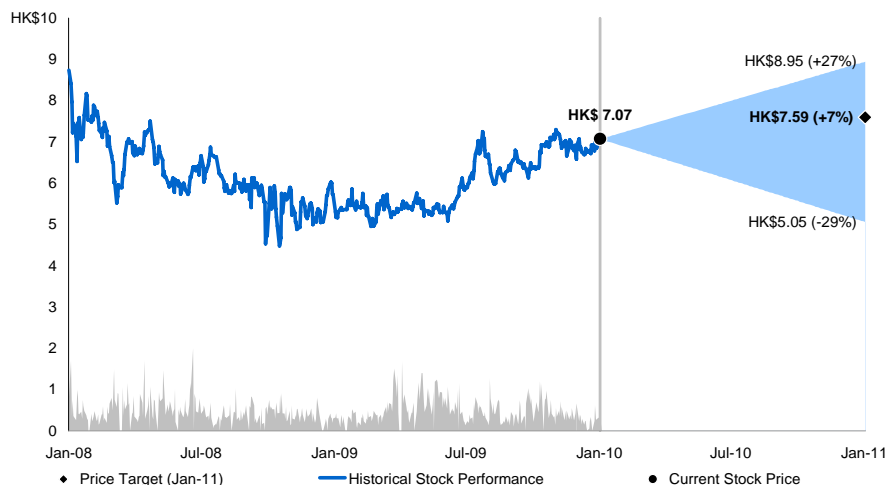
Rmb million; Years Ending December

Profit & Loss Statements						Ratio Analysis					
Year to Dec (Rmb Mn)	2007	2008	2009E	2010E	2011E	Growth%	2007	2008	2009E	2010E	2011E
<b>Toll road income</b>	<b>4,224</b>	<b>4,007</b>	<b>4,133</b>	<b>4,634</b>	<b>4,902</b>	Toll road income	23.1	(5.1)	3.1	12.1	5.8
- SH-NJ Expwy	3,412	3,204	3,414	3,884	4,084	- SH-NJ Expwy	33.0	(6.1)	6.6	13.8	5.1
- G312	177	179	134	131	143	- G312	(12.7)	0.8	(25.4)	(2.0)	9.2
- NJ-Lyg Expwy	63	41	36	36	40	- NJ-Lyg Expwy	(39.3)	(33.7)	(13.0)	-	11.3
- GJ-XC Expwy	572	583	549	583	634	- GJ-XC Expwy	1.9	1.9	(5.8)	6.1	8.8
Ancillary & others	1,086	1,270	1,522	1,452	1,630	Ancillary & others	63.0	17.0	19.8	(4.5)	12.2
<b>Total Revenue</b>	<b>5,310</b>	<b>5,277</b>	<b>5,654</b>	<b>6,087</b>	<b>6,531</b>	Net Revenue	29.1	0.5	7.0	7.7	7.3
Less: business tax	(241)	(182)	(200)	(212)	(229)	Operating Profit	35.2	(10.1)	18.5	15.1	11.6
<b>Net revenue</b>	<b>5,069</b>	<b>5,095</b>	<b>5,454</b>	<b>5,875</b>	<b>6,303</b>	Pretax Profit	39.0	(12.7)	27.2	17.2	15.7
<b>Cost of sales</b>	<b>(2,176)</b>	<b>(2,486)</b>	<b>(2,343)</b>	<b>(2,332)</b>	<b>(2,447)</b>	Net Profit	39.9	(3.1)	26.4	17.4	15.6
- Depr & amort.	(820)	(811)	(809)	(890)	(978)	EBITDA	27.2	(7.4)	13.2	14.2	12.1
- Staff cost	(223)	(313)	(344)	(379)	(435)	EPS	39.9	(3.1)	26.4	17.4	15.6
- Cost of inventories	(940)	(1,102)	(904)	(768)	(730)	<b>Margin%</b>					
- Others	(194)	(260)	(286)	(294)	(303)	EBITDA margin	74.6	68.7	72.7	77.0	80.5
<b>Gross profit</b>	<b>2,893</b>	<b>2,610</b>	<b>3,111</b>	<b>3,543</b>	<b>3,856</b>	Operating Margin	55.7	49.8	55.2	59.0	61.4
Operating Expenses	(70)	(70)	(102)	(80)	11	Net Profit Margin	32.4	31.2	36.9	40.2	43.3
<b>Operating Profit</b>	<b>2,823</b>	<b>2,539</b>	<b>3,010</b>	<b>3,464</b>	<b>3,867</b>	<b>Return%</b>					
Share of Associates	130	151	144	171	227	ROE	11.5	10.9	13.5	15.4	17.4
Net financial costs	(512)	(550)	(432)	(444)	(402)	ROA	6.7	6.8	8.7	10.4	12.2
Other Expenses, Net	10	(0)	-	-	-	<b>Gearing</b>					
<b>Profit Before Taxation</b>	<b>2,450</b>	<b>2,140</b>	<b>2,722</b>	<b>3,191</b>	<b>3,692</b>	Net Debt/Equity (%)	49.6	48.5	41.2	35.4	28.8
Taxation	(770)	(502)	(653)	(766)	(886)	Int. Coverage (x)	5.8	4.9	7.3	8.2	10.2
Minority Interests	(38)	(45)	(56)	(63)	(76)	<b>Operational Analysis</b>					
<b>Net Profit</b>	<b>1,642</b>	<b>1,592</b>	<b>2,013</b>	<b>2,362</b>	<b>2,730</b>		<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
EBITDA	3,782	3,501	3,963	4,525	5,073	<b>Avg traffic (vehicles/d)</b>					
<b>EPS (Rmb)</b>	<b>0.33</b>	<b>0.32</b>	<b>0.40</b>	<b>0.47</b>	<b>0.54</b>	- SH-NJ Expwy	48,374	46,316	51,732	59,530	66,673
						- G312	29,184	27,933	21,788	21,352	22,206
						- NJ-Lyg Expwy	7,361	6,017	5,235	5,235	5,549
						- GJ Expwy	34,705	34,938	33,308	35,919	37,715
						- XC Expwy	35,231	36,808	36,028	38,994	41,334
						- Yangtze Bridge	38,165	39,599	39,995	41,995	46,194
						- SJH Expwy	21,387	27,137	29,308	33,704	40,445
						<b>Avg toll income (Rmb m/day)</b>					
						- SH-NJ Expwy	9.3	8.8	9.4	10.6	11.2
						- G312	0.5	0.5	0.4	0.4	0.4
						- NJ-Lyg Expwy	0.2	0.1	0.1	0.1	0.1
						- GJ Expwy	0.6	0.6	0.6	0.6	0.6
						- XC Expwy	1.0	1.0	0.9	1.0	1.1
						- Yangtze Bridge	1.9	2.0	1.9	2.0	2.3
						- SJH Expwy	1.6	1.9	2.0	2.3	2.7
						<b>Growth%</b>					
						<b>Avg traffic</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
						- SH-NJ Expwy	22.6	(4.3)	11.7	15.1	12.0
						- G312	(7.8)	(4.3)	(22.0)	(2.0)	4.0
						- NJ-Lyg Expwy	(47.2)	(18.3)	(13.0)	-	6.0
						- GJ Expwy	(1.5)	0.7	(4.7)	7.8	5.0
						- XC Expwy	12.1	4.5	(2.1)	8.2	6.0
						- Yangtze Bridge	2.6	3.8	1.0	5.0	10.0
						- SJH Expwy	14.9	26.9	8.0	15.0	20.0
						<b>Avg toll income</b>					
						- SH-NJ Expwy	33.0	(6.1)	6.6	13.8	5.1
						- G312	(12.7)	0.8	(25.4)	(2.0)	9.2
						- NJ-Lyg Expwy	(39.3)	(33.7)	(13.0)	-	11.3
						- GJ Expwy	(7.5)	0.7	(4.7)	7.8	8.2
						- XC Expwy	8.3	3.2	(6.9)	5.2	9.2
						- Yangtze Bridge	(6.9)	3.2	(4.1)	5.0	15.5
						- SJH Expwy	10.0	14.8	4.8	15.0	20.0
						<b>Valuation</b>					
							<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
						Rept'd P/E	24.4	15.9	15.2	13.3	11.5
						Rept'd P/BV	2.8	1.7	2.1	2.0	2.0
						Rept'd EV/EBITDA	12.6	9.4	9.4	8.2	7.2
						Rept'd dividend yield	2.4	5.4	5.6	6.4	7.4

E = Morgan Stanley Research estimates Source: FactSet, Company data, Morgan Stanley Research

## Risk-Reward Snapshot: JSEC (0177.HK, HK\$7.07, Equal-weight, PT HK\$7.59)

### Risk-Reward View: New Expressway Adds Risk of Traffic Migration



Price target HK\$7.59		Based on base case DCF Valuation
Bull Case	Implied 16.8x 2010e P/E	<b>Volume growth picks up:</b> 5-10% higher than in base case on Shanghai-Nanjing Expressway in 2010-11, driven by stronger local economy; 10% higher earnings contribution from property business.
Base Case	Implied 14.2x 2010e P/E	<b>Volume recovers in short term:</b> Assume 10.8% volume growth on Shanghai-Nanjing Expressway in 2010; 85% dividend payout ratio for 2009-11; stable traffic mix with slight improvement in large-size vehicle (LSV) ratio. Property business contributes earnings of Rmb80-90mn in 2011.
Bear Case	Implied 9.5x 2010e P/E	<b>Economic slowdown depresses traffic:</b> Volume growth on the Shanghai-Nanjing Expressway is 10% p.a. lower than in base case in 2010-11. LSV ratios fall due to weaker exports. 10% lower earnings from property business.

### Investment Thesis:

- Downgrade from Overweight to Equal-weight given new expressway connecting Nanjing to Shanghai will likely attract traffic from Jiangsu Expressway after 2012.
- Revise PT to HK\$7.59 after 1) factoring traffic migration into DCF model; 2) reducing equity risk premium from 8% to 7%.
- Raise earnings forecasts 1-5% for 2009-10, driven by better traffic growth outlook and fresh contributions from the property projects.
- Expect further traffic recovery led by improving macro conditions in 2010.

### Key Value Drivers

- Traffic volume growth
- Traffic mix patterns

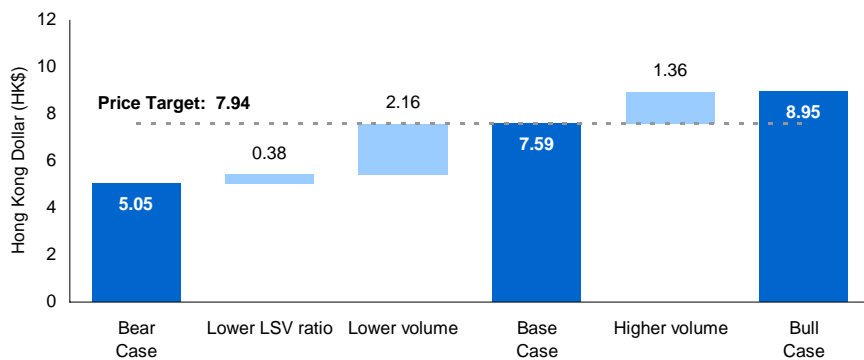
### Potential Catalysts

- Recovery in cargo demand and truck volumes, which could improve the company's traffic mix and margins.
- Further traffic rebound with resumption of meaningful export and local GDP growth.
- Shanghai Expo in 2010.

### Key Downside Risks

- Traffic migration to some unexpected new projects and the new Shanghai-Nanjing express rail.
- Increasing exposure to the volatile property market;
- Exogenous risks, such as natural disasters, which could seriously disrupt traffic growth.

### JSEC: Value Driven by Traffic Volumes



Source: Morgan Stanley, FactSet

## Valuation

### DCF Valuation for Toll Road Assets

We derive our price target from a DCF model, factoring in the impact of traffic migration to a new expressway connecting Shanghai and Nanjing. In our DCF valuation for toll road assets, we made the following changes: 1) we roll over the valuation date to December 2010 from December 2009 as our price target is for 12 months; 2) we cut our traffic growth assumption from 9% to 2% in 2012 and from 8% to 1.5% in 2013 to factor in the risk of traffic migration from a new expressway connecting Shanghai and Nanjing; 3) we revised down the equity risk premium from 8% to 7% amid the improved market situation. After the revision, Our DCF model produces an intrinsic value of HK\$7.59/share with 81% of that value contributed by the Shanghai-Nanjing Expressway and only 19% coming from the other six expressways or roads.

Exhibit 80

### JSEC: WACC Calculation

Equity beta	0.83
30-year risk free rate (%)	5.0
Equity risk premium (%)	7.0
<b>Cost of equity (%)</b>	<b>10.8</b>
Marginal cost of long-term debt (%)	5.3
Marginal tax rate (%)	25.0
<b>Post-tax cost of debt (%)</b>	<b>4.0</b>
MVE/(MVD+MVE) (%)	70.0
MVD/(MVD+MVE) (%)	30.0
<b>Weighted average cost of capital (%)</b>	<b>8.8</b>

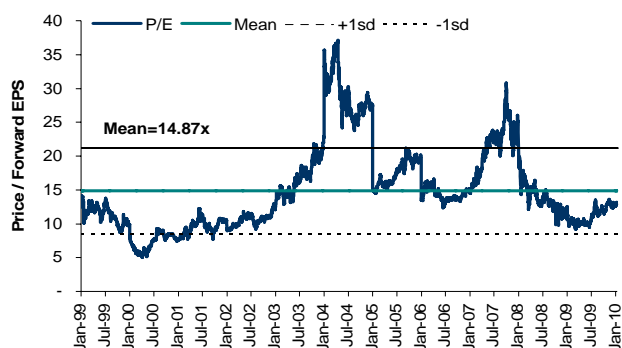
Source: Company data, Morgan Stanley Research

### Forward P/E, EV/EBITDA

The stock is currently trading at 13.3x 2010E P/E and 8.2x 2010E EV/EBITDA, close to the historical averages of 14.9x and 8.5x, respectively.

Exhibit 81

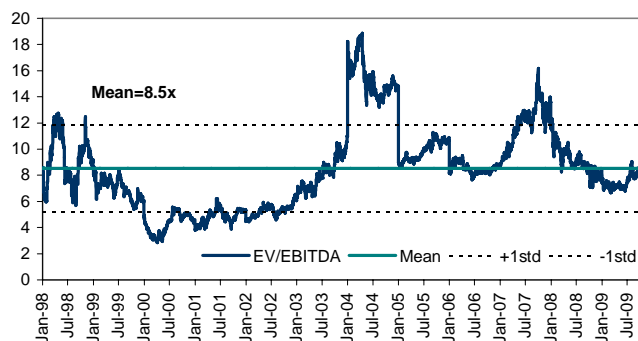
### JSEC: Forward Price/Earnings, 1999-2009



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 82

### JSEC: EV/EBITDA, 1998-2009



Source: Bloomberg, Company data, Morgan Stanley Research

### Downside Risks to Our Price Target

- 1) Faster-than-expected construction of new Shanghai-Nanjing Expressway and therefore earlier traffic migration to new toll road projects.
- 2) Stronger-than-expected traffic migration after the launch of Shanghai-Nanjing Express rail services in July 2010.
- 3) Increasing exposure to property market risk. Strong rally in property prices in 2009 increases uncertainty about future years, as it could squeeze further the upside or even pose downside risks to developers. Some traditional investors may opt out of their positions because of the additional exposure to the volatile property market.
- 4) Exogenous risks, such as natural disasters, could disrupt volume growth.

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Exhibit 83

## JSEC: DCF Valuation Model

	SH-NJ	NH-312	NJ-LYG	Guangjing	Xicheng	Yangtze Bdg.	Sujiahang	Total
NPV of explicit cash flow forecasts	31,159	(769)	204	1,386	2,512	6,126	7,870	48,488
Terminal value (growth rate = 0%)	-	-	-	-	-	-	-	-
Enterprise Value	31,159	(769)	204	1,386	2,512	6,126	7,870	48,488
Net Cash / (Debt)	(4,000)	(500)	-	-	-	-	-	(4,500)
DCF valuation	27,159	(1,269)	204	1,386	2,512	6,126	7,870	43,988
% attributable to Jiangsu Exp.	100%	100%	100%	85%	85%	27%	33%	
DCF valuation attributable to Jiangsu Exp. (Rmb mn)	27,159	(1,269)	204	1,178	2,135	1,634	2,623	33,664
% of valuation	81%	-4%	1%	3%	6%	5%	8%	100%
Total Equity Value (Rmb m)	33,664							
<b>Shares outstanding (mn)</b>	<b>5,038</b>							
Rmb/share	6.68							
<b>HK\$/share</b>	<b>7.59</b>							
Latest Stock Price	7.07							
<b>Upside/Downside</b>	<b>7%</b>							

Source: Morgan Stanley Research

Exhibit 84

## JSEC: DCF Valuation Breakdown by Road Section

Shanghai-Nanjing Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	2,514	2,923	3,050	3,119	3,133	3,414	3,740	3,997	4,219	4,477	4,747	5,031
Less: Cash Tax Payable on EBIT	(552)	(647)	(670)	(678)	(671)	(731)	(812)	(876)	(932)	(996)	(1,064)	(1,135)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(38)	(42)	(46)	(51)	(56)	(61)	(61)	(61)	(61)	(61)	(61)	(61)
<b>Free Cash Flow</b>	<b>1,924</b>	<b>2,234</b>	<b>2,334</b>	<b>2,390</b>	<b>2,405</b>	<b>2,622</b>	<b>2,866</b>	<b>3,059</b>	<b>3,226</b>	<b>3,419</b>	<b>3,622</b>	<b>3,835</b>
YoY Growth	7%	16%	4%	2%	1%	9%	9%	7%	5%	6%	6%	6%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>2,146</b>	<b>2,021</b>	<b>1,870</b>	<b>1,874</b>	<b>1,884</b>	<b>1,849</b>	<b>1,793</b>	<b>1,747</b>	<b>1,701</b>	<b>1,657</b>
<b>Shanghai-Nanjing Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	5,316	5,304	5,292	5,280	5,267	5,255	5,242	5,230	5,217	5,204	5,487	5,474
Less: Cash Tax Payable on EBIT	(1,206)	(1,203)	(1,200)	(1,197)	(1,194)	(1,191)	(1,188)	(1,185)	(1,181)	(1,178)	(1,249)	(1,246)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(61)	(61)	(61)	(61)	(61)	(61)	(61)	(61)	(61)	(61)	(61)	(61)
<b>Free Cash Flow</b>	<b>4,048</b>	<b>4,039</b>	<b>4,030</b>	<b>4,021</b>	<b>4,012</b>	<b>4,003</b>	<b>3,993</b>	<b>3,984</b>	<b>3,974</b>	<b>3,965</b>	<b>4,177</b>	<b>4,167</b>
YoY Growth	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	0%
<b>NPV of Free Cash Flow</b>	<b>1,608</b>	<b>1,475</b>	<b>1,353</b>	<b>1,241</b>	<b>1,139</b>	<b>1,045</b>	<b>958</b>	<b>879</b>	<b>806</b>	<b>740</b>	<b>716</b>	<b>657</b>
<b>Total NPV (Shanghai-Nanjing Exp.)</b>	<b>31,159</b>											

Shanghai-Nanjing (312)	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	(172)	(177)	(169)	(168)	(166)	(165)	(164)	(162)	(162)	(162)	(162)	(162)
Less: Cash Tax Payable on EBIT	90	91	89	89	88	88	88	87	87	87	87	87
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)
<b>Free Cash Flow</b>	<b>(105)</b>	<b>(110)</b>	<b>(103)</b>	<b>(102)</b>	<b>(101)</b>	<b>(100)</b>	<b>(99)</b>	<b>(98)</b>	<b>(98)</b>	<b>(98)</b>	<b>(98)</b>	<b>(98)</b>
YoY Growth	50%	4%	-6%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>(95)</b>	<b>(87)</b>	<b>(79)</b>	<b>(72)</b>	<b>(65)</b>	<b>(59)</b>	<b>(55)</b>	<b>(50)</b>	<b>(46)</b>	<b>(42)</b>
<b>Shanghai-Nanjing (312)</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	(144)	(144)	(143)	(143)								
Less: Cash Tax Payable on EBIT	83	83	82	82								
Plus: Decrease in WC	-	-	-	-								
Less: Capital Expenditure	(23)	(23)	(23)	(23)								
<b>Free Cash Flow</b>	<b>(85)</b>	<b>(84)</b>	<b>(84)</b>	<b>(84)</b>								
YoY Growth	-14%	0%	0%	-1%								
<b>NPV of Free Cash Flow</b>	<b>(34)</b>	<b>(31)</b>	<b>(28)</b>	<b>(26)</b>								
<b>Total NPV (SH-NJ 312)</b>	<b>(769)</b>											

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

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Exhibit 85

## JSEC: DCF Valuation Breakdown by Road Section – continued

Nanjing-Lianyungang Road	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	13	13	16	18	19	21	22	24	26	27	28	29
Less: Cash Tax Payable on EBIT	1	1	(0)	(0)	(1)	(1)	(2)	(2)	(2)	(3)	(3)	(3)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
<b>Free Cash Flow</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>23</b>	<b>23</b>	<b>24</b>
YoY Growth	-27%	-4%	22%	9%	7%	7%	7%	7%	7%	7%	3%	3%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>11</b>	<b>10</b>

Nanjing-Lianyungang Road	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	36	37	38	40	41	42	43	45	46			
Less: Cash Tax Payable on EBIT	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(7)	(7)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)			
<b>Free Cash Flow</b>	<b>29</b>	<b>30</b>	<b>31</b>	<b>32</b>	<b>33</b>	<b>33</b>	<b>34</b>	<b>35</b>	<b>36</b>			
YoY Growth	22%	3%	3%	3%	3%	3%	3%	3%	3%			
<b>NPV of Free Cash Flow</b>	<b>12</b>	<b>11</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>7</b>			

**Total NPV (NJ-LYG Exp.)** **204**

Guangjing Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	130	144	159	161	171	181	191	197	203	209	215	222
Less: Cash Tax Payable on EBIT	(31)	(34)	(38)	(38)	(41)	(43)	(46)	(47)	(49)	(50)	(52)	(54)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Free Cash Flow</b>	<b>99</b>	<b>109</b>	<b>120</b>	<b>122</b>	<b>129</b>	<b>137</b>	<b>145</b>	<b>149</b>	<b>153</b>	<b>158</b>	<b>163</b>	<b>167</b>
YoY Growth	-8%	10%	10%	1%	6%	6%	6%	3%	3%	3%	3%	3%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>111</b>	<b>103</b>	<b>100</b>	<b>98</b>	<b>95</b>	<b>90</b>	<b>85</b>	<b>81</b>	<b>76</b>	<b>72</b>

Guangjing Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	229	235	242	243	244	245	245	246	247			
Less: Cash Tax Payable on EBIT	(55)	(57)	(59)	(59)	(59)	(59)	(59)	(60)	(60)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)			
<b>Free Cash Flow</b>	<b>172</b>	<b>178</b>	<b>183</b>	<b>183</b>	<b>184</b>	<b>184</b>	<b>185</b>	<b>185</b>	<b>186</b>			
YoY Growth	3%	3%	3%	0%	0%	0%	0%	0%	0%			
<b>NPV of Free Cash Flow</b>	<b>68</b>	<b>65</b>	<b>61</b>	<b>57</b>	<b>52</b>	<b>48</b>	<b>44</b>	<b>41</b>	<b>38</b>			

**Total NPV (Guangjing Exp.)** **1,386**

Xicheng Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	239	251	281	287	303	321	339	358	379	400	408	416
Less: Cash Tax Payable on EBIT	(54)	(57)	(65)	(66)	(70)	(75)	(79)	(84)	(89)	(94)	(96)	(99)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
<b>Free Cash Flow</b>	<b>182</b>	<b>191</b>	<b>213</b>	<b>218</b>	<b>230</b>	<b>243</b>	<b>257</b>	<b>272</b>	<b>287</b>	<b>303</b>	<b>309</b>	<b>315</b>
YoY Growth	-7%	5%	12%	2%	6%	6%	6%	6%	6%	6%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>196</b>	<b>184</b>	<b>179</b>	<b>174</b>	<b>169</b>	<b>164</b>	<b>159</b>	<b>155</b>	<b>145</b>	<b>136</b>

Xicheng Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	425	426	428	429	431	432	433	435	436			
Less: Cash Tax Payable on EBIT	(101)	(101)	(101)	(102)	(102)	(102)	(103)	(103)	(103)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)			
<b>Free Cash Flow</b>	<b>321</b>	<b>322</b>	<b>324</b>	<b>325</b>	<b>326</b>	<b>327</b>	<b>328</b>	<b>329</b>	<b>330</b>			
YoY Growth	2%	0%	0%	0%	0%	0%	0%	0%	0%			
<b>NPV of Free Cash Flow</b>	<b>128</b>	<b>118</b>	<b>109</b>	<b>100</b>	<b>92</b>	<b>85</b>	<b>79</b>	<b>73</b>	<b>67</b>			

**Total NPV (Xicheng Exp.)** **2,512**

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

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Exhibit 86

**JSEC: DCF Valuation Breakdown by Road Section – continued**

Jiangyin Yangtze Bridge	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	547	571	672	712	741	771	805	840	877	895	913	935
Less: Cash Tax Payable on EBIT	(120)	(126)	(151)	(161)	(168)	(176)	(184)	(193)	(202)	(207)	(211)	(217)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
<b>Free Cash Flow</b>	<b>419</b>	<b>436</b>	<b>513</b>	<b>543</b>	<b>564</b>	<b>586</b>	<b>612</b>	<b>639</b>	<b>666</b>	<b>680</b>	<b>693</b>	<b>709</b>
YoY Growth	-6%	4%	17%	6%	4%	4%	4%	4%	4%	2%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>471</b>	<b>459</b>	<b>439</b>	<b>419</b>	<b>402</b>	<b>386</b>	<b>370</b>	<b>347</b>	<b>326</b>	<b>306</b>
<b>Jiangyin Yangtze Bridge</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	1,071	1,096	1,122	1,122	1,122	1,122	1,122	1,122	1,122			
Less: Cash Tax Payable on EBIT	(251)	(257)	(263)	(263)	(263)	(263)	(263)	(263)	(263)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)			
<b>Free Cash Flow</b>	<b>812</b>	<b>830</b>	<b>850</b>	<b>850</b>	<b>850</b>	<b>850</b>	<b>850</b>	<b>850</b>	<b>850</b>			
YoY Growth	14%	2%	2%	0%	0%	0%	0%	0%	0%			
<b>NPV of Free Cash Flow</b>	<b>322</b>	<b>303</b>	<b>285</b>	<b>262</b>	<b>241</b>	<b>222</b>	<b>204</b>	<b>187</b>	<b>172</b>			
<b>Total NPV (Jiangyin Yangtze Bdg.)</b>	<b>6,126</b>											
<b>Sujiahang Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	452	537	676	716	762	811	852	905	964	1,026	1,051	1,075
Less: Cash Tax Payable on EBIT	(76)	(97)	(132)	(142)	(153)	(166)	(176)	(189)	(204)	(219)	(225)	(232)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
<b>Free Cash Flow</b>	<b>358</b>	<b>421</b>	<b>525</b>	<b>556</b>	<b>590</b>	<b>627</b>	<b>657</b>	<b>697</b>	<b>742</b>	<b>788</b>	<b>807</b>	<b>825</b>
YoY Growth	3%	18%	25%	6%	6%	6%	5%	6%	6%	6%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>483</b>	<b>470</b>	<b>459</b>	<b>448</b>	<b>432</b>	<b>421</b>	<b>412</b>	<b>403</b>	<b>379</b>	<b>356</b>
<b>Sujiahang Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	1,247	1,260	1,273	1,285	1,298	1,311	1,324	1,337	1,351	1,630	1,646	1,725
Less: Cash Tax Payable on EBIT	(275)	(278)	(281)	(284)	(287)	(291)	(294)	(297)	(300)	(370)	(374)	(394)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
<b>Free Cash Flow</b>	<b>954</b>	<b>964</b>	<b>973</b>	<b>983</b>	<b>992</b>	<b>1,002</b>	<b>1,012</b>	<b>1,022</b>	<b>1,032</b>	<b>1,241</b>	<b>1,253</b>	<b>1,312</b>
YoY Growth	16%	1%	1%	1%	1%	1%	1%	1%	1%	20%	1%	5%
<b>NPV of Free Cash Flow</b>	<b>379</b>	<b>352</b>	<b>327</b>	<b>303</b>	<b>282</b>	<b>261</b>	<b>243</b>	<b>225</b>	<b>209</b>	<b>231</b>	<b>215</b>	<b>207</b>
<b>Total NPV (Sujiahang Exp.)</b>	<b>7,870</b>											

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

## Earnings Outlook

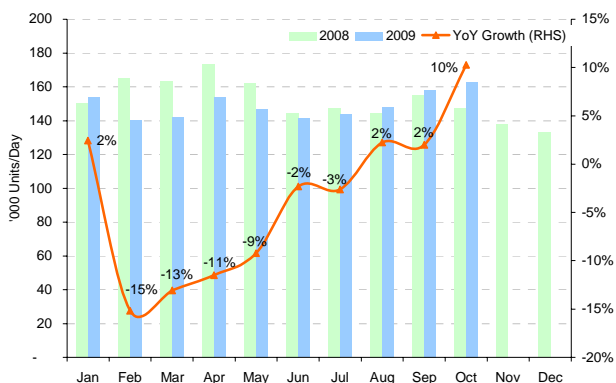
We raise our 2009-11 earnings estimates 4-6%, mainly based on higher traffic growth assumptions for the SH-NJ Expressway and new earnings contribution from property.

### Shanghai-Nanjing's Recovery to be Key Growth Driver

Following the economic and export recovery, Jiangsu Expressway's traffic volume has continued to improve since February 2009. Daily traffic volume on the Shanghai-Nanjing Expressway, the company's core toll road assets, recovered from 49,000 vehicles in 1Q09 to 52,000 in 3Q09. Aggregate traffic volume of Shanghai-Nanjing, Xicheng, Guangjing, G312 and Ninglian rose 10% YoY in October 2009, versus 2% in August and September and a decline in 1H09.

Exhibit 87

### JSEC: Average Daily Traffic Volume



Including SH-NJ, Xicheng, Guangjing, G312, Ninglian  
Source: Company data, Morgan Stanley Research

In light of this improving trend, we estimate toll road income will rise by 2% for full-year 2009, reversing the 2% decline recorded in 1H09.

For 2010, we believe Jiangsu Expressway will continue to benefit from the economic recovery and the opening of the Shanghai Expo. As a result, we expect the Shanghai-Nanjing Expressway to deliver 14% revenue growth. Guangjing and Xicheng Expressway should also return to growth after declines in 2009. G312, however, is likely to record a further decline in revenues, as the local government has scrapped the toll tariff on certain Class 2 highways, which divert traffic from G312. As for the NJ-LYG highway, it is difficult to see traffic volume recovering with the neighboring network continuing to divert traffic in 2010.

Exhibit 88

### JSEC: Key Growth Assumptions for Toll Roads

	2007	2008	2009E	2010E	2011E
SH-NJ Exp (JS)	3,412	3,204	3,414	3,884	4,084
YoY Chng	33%	-6%	7%	14%	5%
G312	177	179	134	131	143
YoY Chng	-13%	1%	-25%	-2%	9%
NJ-Lyg (JS)	63	41	36	36	40
YoY Chng	-39%	-34%	-13%	0%	11%
GJ-XC Exp	572	583	549	583	634
YoY Chng	2%	2%	-6%	6%	9%
<b>Total Toll Income</b>	<b>4,224</b>	<b>4,007</b>	<b>4,133</b>	<b>4,634</b>	<b>4,902</b>
YoY Chng	23%	-5%	3%	12%	6%

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

### Natural Hedging of Associated Assets

With the opening of the Sutong Bridge in May 2008, traffic has been diverted from the company's 26.7%- controlled Jiangyin Yangtze Bridge. However, the company's 33.33%-controlled Sujiahang Expressway connects directly to the Sutong Bridge and consequently posted strong growth in traffic volume in 2009. As traffic on those two associated assets offers a natural hedge to the Sutong Bridge diversion, we expect no further negative impact. We expect Jiangsu's traffic volume to stabilize and then recover in 2010 and 2011.

### Rising Exposure to Property Business

The company established Ninhu Properties, a property development company, to diversify its revenue stream by leveraging its local franchise in Jiangsu province. In 1H09, the company had revenue of Rmb174mn from sales of its Kun Shan property project.

In September 2009, Jiangsu Expressway acquired three pieces of lands, including 1) two lots at the Hongyan Community of Baohua Town, Jurong City, with surveyed areas of 144,352sqm and 188,736sqm; 2) one lot in the core of Huaqiao Town, Kunshan City, with an area of 129,129sqm. At an aggregate cost of Rmb981.9mn for those three pieces of land, the unit cost of the company's land reserves is Rmb2,124/sqm. Since quite a few new property projects in Kun Shan have average selling prices of over Rmb5,000/sqm., the company should be able to make a profit if the property price remains at current levels. In our earnings estimate, we conservatively forecast the property business will contribute earnings of Rmb30-40mn in 2010 and Rmb80-90mn in 2011.

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Exhibit 89

**JSEC: Earnings Estimate Revisions**

	2009E			2010E			2011E		
	New Est	Org Est	% Diff	New Est	Org Est	% Diff	New Est	Org Est	% Diff
<b>Turnover</b>									
SH-NJ Exp (JS)	3,414	3,435	-1%	3,884	3,760	3%	4,084	4,241	-4%
G312	134	136	-2%	131	139	-6%	143	149	-4%
NJ-Lyg (JS)	36	36	1%	36	39	-6%	40	43	-6%
GJ-XC Exp	549	552	0%	583	567	3%	634	609	4%
Ancillary services	1,254	1,034	21%	1,405	1,159	21%	1,577	1,302	21%
Other operations	267	267	0%	48	348	-86%	53	403	-87%
<b>Operating revenues</b>	<b>5,654</b>	<b>5,461</b>	<b>4%</b>	<b>6,087</b>	<b>6,011</b>	<b>1%</b>	<b>6,531</b>	<b>6,746</b>	<b>-3%</b>
Less: Business & other related tax	(200)	(190)	5%	(212)	(210)	1%	(229)	(236)	-3%
<b>Net revenue</b>	<b>5,454</b>	<b>5,271</b>	<b>3%</b>	<b>5,875</b>	<b>5,800</b>	<b>1%</b>	<b>6,303</b>	<b>6,510</b>	<b>-3%</b>
<b>Cost of sales</b>	<b>(2,343)</b>	<b>(2,347)</b>	<b>0%</b>	<b>(2,332)</b>	<b>(2,571)</b>	<b>-9%</b>	<b>(2,447)</b>	<b>(2,827)</b>	<b>-13%</b>
<b>Gross profit</b>	<b>3,111</b>	<b>2,925</b>	<b>6%</b>	<b>3,543</b>	<b>3,230</b>	<b>10%</b>	<b>3,856</b>	<b>3,683</b>	<b>5%</b>
Gross margin	57.0%	55.5%		60.3%	55.7%		61.2%	56.6%	
Other operating income/(expense)	41	56	-27%	78	62	25%	173	71	142%
Administrative	(143)	(125)	14%	(158)	(132)	20%	(162)	(145)	12%
<b>Profit from operating</b>	<b>3,010</b>	<b>2,856</b>	<b>5%</b>	<b>3,464</b>	<b>3,160</b>	<b>10%</b>	<b>3,867</b>	<b>3,609</b>	<b>7%</b>
Operating margin	55.2%	54.2%		59.0%	54.5%		61.4%	55.4%	
Net finance cost	(432)	(410)	5%	(444)	(289)	54%	(402)	(246)	63%
<b>EBIT</b>	<b>3,154</b>	<b>3,024</b>	<b>4%</b>	<b>3,635</b>	<b>3,345</b>	<b>9%</b>	<b>4,094</b>	<b>3,821</b>	<b>7%</b>
<b>EBITDA</b>	<b>3,963</b>	<b>3,880</b>	<b>2%</b>	<b>4,525</b>	<b>4,293</b>	<b>5%</b>	<b>5,073</b>	<b>4,878</b>	<b>4%</b>
YoY Chng	13.2%	10.8%		14.2%	10.6%		12.1%	13.6%	
EBITDA margin	72.7%	73.6%		77.0%	74.0%		80.5%	74.9%	
<b>Profit before tax</b>	<b>2,722</b>	<b>2,614</b>	<b>4%</b>	<b>3,191</b>	<b>3,056</b>	<b>4%</b>	<b>3,692</b>	<b>3,575</b>	<b>3%</b>
Taxation	(653)	(653)	0%	(766)	(764)	0%	(886)	(894)	-1%
<b>Profit before MI</b>	<b>2,069</b>	<b>1,960</b>	<b>6%</b>	<b>2,425</b>	<b>2,292</b>	<b>6%</b>	<b>2,806</b>	<b>2,681</b>	<b>5%</b>
Minority interests	(56)	(49)	15%	(63)	(54)	17%	(76)	(61)	23%
<b>Net profit</b>	<b>2,013</b>	<b>1,912</b>	<b>5%</b>	<b>2,362</b>	<b>2,238</b>	<b>6%</b>	<b>2,730</b>	<b>2,620</b>	<b>4%</b>
Net margin	36.9%	36.3%	0.6%	40.2%	38.6%	1.6%	43.3%	40.2%	3.1%
	2009E			2010E			2011E		
<b>Operational Analysis</b>	New Est	Org Est	% Diff	New Est	Org Est	% Diff	New Est	Org Est	% Diff
Avg traffic (vehicles/d)									
- SH-NJ Expwy	51,732	50,224	3%	59,530	55,662	7%	61,785	61,490	0%
- G312	21,788	22,905	-5%	21,352	23,363	-9%	23,830	25,574	-7%
- NJ-Lyg Expwy	5,235	4,934	6%	5,235	5,329	-2%	5,649	5,649	0%
- GJ Expwy	33,308	33,624	-1%	35,919	34,911	3%	35,958	35,624	1%
- XC Expwy	36,028	36,040	0%	38,994	37,926	3%	39,822	39,809	0%
- Yangtze Bridge	39,995	39,599	1%	41,995	41,579	1%	44,074	44,514	-1%
- SJH Expwy	29,308	30,393	-4%	33,704	32,825	3%	35,451	34,185	4%
Avg toll income (Rmb m/day)									
- SH-NJ Expwy	9.4	9.4	-1%	10.6	10.3	3%	11.6	10.3	13%
- G312	0.4	0.4	-2%	0.4	0.4	-6%	0.4	0.5	-10%
- NJ-Lyg Expwy	0.1	0.1	1%	0.1	0.1	-6%	0.1	0.1	5%
- GJ Expwy	0.6	0.6	-1%	0.6	0.6	3%	0.6	0.6	1%
- XC Expwy	0.9	1.0	0%	1.0	1.0	3%	1.1	1.1	0%
- Yangtze Bridge	1.9	1.9	1%	2.0	2.0	1%	2.2	2.2	-1%
- SJH Expwy	2.0	2.2	-11%	2.3	2.4	-5%	2.6	2.3	12%

E = Morgan Stanley Research estimates, Source: Company data, Morgan Stanley Research



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China Toll Roads

Exhibit 90

**JSEC: Income Statement**

Rmb Mn	2006	2007	2008	2009E	2010E	2011E
<b>Operating revenues</b>	<b>4,099</b>	<b>5,310</b>	<b>5,277</b>	<b>5,654</b>	<b>6,087</b>	<b>6,531</b>
YoY Chng	86.2%	29.6%	-0.6%	7.1%	7.6%	7.3%
<b>Toll revenue</b>	<b>3,432</b>	<b>4,224</b>	<b>4,007</b>	<b>4,133</b>	<b>4,634</b>	<b>4,902</b>
Sales of petrol	549	866	1,128	1,128	1,264	1,415
Sales of F&B	105	118	120	126	141	162
Emergency assistance	12	15	22	23	26	28
Advertising	-	-	-	244	22	24
<b>Gross revenues</b>	<b>4,099</b>	<b>5,310</b>	<b>5,277</b>	<b>5,654</b>	<b>6,087</b>	<b>6,531</b>
Less: Business & other related tax	(173)	(241)	(182)	(200)	(212)	(229)
Business tax rate	4.2%	4.5%	3.4%	3.5%	3.5%	3.5%
<b>Net revenue</b>	<b>3,926</b>	<b>5,069</b>	<b>5,095</b>	<b>5,454</b>	<b>5,875</b>	<b>6,303</b>
YoY Chng	86.5%	29.1%	0.5%	7.0%	7.7%	7.3%
<b>Cost of sales</b>	<b>(1,695)</b>	<b>(2,176)</b>	<b>(2,486)</b>	<b>(2,343)</b>	<b>(2,332)</b>	<b>(2,447)</b>
Depreciation & amortisation	(755)	(820)	(811)	(809)	(890)	(978)
Total staff cost	(213)	(223)	(313)	(344)	(379)	(435)
Cost of inventories recognised as expense	(577)	(940)	(1,102)	(904)	(768)	(730)
Others	(149)	(194)	(260)	(286)	(294)	(303)
<b>Gross profit</b>	<b>2,230</b>	<b>2,893</b>	<b>2,610</b>	<b>3,111</b>	<b>3,543</b>	<b>3,856</b>
YoY Chng	95.3%	29.7%	-9.8%	19.2%	13.9%	8.8%
Gross margin	56.8%	57.1%	51.2%	57.0%	60.3%	61.2%
Other operating income/(expense)	40	59	51	41	78	173
Administrative	(182)	(129)	(122)	(143)	(158)	(162)
<b>Profit from operating</b>	<b>2,088</b>	<b>2,823</b>	<b>2,539</b>	<b>3,010</b>	<b>3,464</b>	<b>3,867</b>
YoY Chng	104.6%	35.2%	-10.1%	18.5%	15.1%	11.6%
Operating margin	53.2%	55.7%	49.8%	55.2%	59.0%	61.4%
<b>Net finance cost</b>	<b>(455)</b>	<b>(512)</b>	<b>(550)</b>	<b>(432)</b>	<b>(444)</b>	<b>(402)</b>
Foreign exchange gain (loss)	-	-	-	-	-	-
<b>Share of results of assoc.</b>	<b>128</b>	<b>130</b>	<b>151</b>	<b>144</b>	<b>171</b>	<b>227</b>
<b>EBIT</b>	<b>2,218</b>	<b>2,962</b>	<b>2,690</b>	<b>3,154</b>	<b>3,635</b>	<b>4,094</b>
<b>EBITDA</b>	<b>2,973</b>	<b>3,782</b>	<b>3,501</b>	<b>3,963</b>	<b>4,525</b>	<b>5,073</b>
YoY Chng	88.9%	27.2%	-7.4%	13.2%	14.2%	12.1%
EBITDA margin	75.7%	74.6%	68.7%	72.7%	77.0%	80.5%
<b>Profit before tax</b>	<b>1,762</b>	<b>2,450</b>	<b>2,140</b>	<b>2,722</b>	<b>3,191</b>	<b>3,692</b>
Taxation	(549)	(770)	(502)	(653)	(766)	(886)
Effective tax rate	31%	31%	23%	24%	24%	24%
<b>Profit before MI</b>	<b>1,213</b>	<b>1,680</b>	<b>1,638</b>	<b>2,069</b>	<b>2,425</b>	<b>2,806</b>
Minority interests	(39)	(38)	(45)	(56)	(63)	(76)
<b>Net profit</b>	<b>1,174</b>	<b>1,642</b>	<b>1,592</b>	<b>2,013</b>	<b>2,362</b>	<b>2,730</b>
YoY Chng	75.8%	39.9%	-3.1%	26.4%	17.4%	15.6%
Net margin	29.9%	32.4%	31.2%	36.9%	40.2%	43.3%

E = Morgan Stanley Research estimate Source: Company data, Morgan Stanley Research

Exhibit 91

**JSEC: Balance Sheet**

	2006	2007	2008	2009E	2010E	2011E
<b>Non-current assets</b>						
	<b>24,033</b>	<b>23,167</b>	<b>22,701</b>	<b>22,034</b>	<b>21,651</b>	<b>21,183</b>
<b>Current assets</b>						
Inventories	10	13	10	10	9	10
Prepayments for materials & equipmt	4	1	7	12	12	12
Receivable from liquidation of a JV	19	19	18	18	18	18
Others	95	111	51	51	51	51
Less: Accumulated impairment losses	(25)	(24)	(18)	(21)	(22)	(22)
Prepayments & other receivables	<b>93</b>	<b>107</b>	<b>58</b>	<b>60</b>	<b>58</b>	<b>59</b>
Held-to-maturity securities	38	42	40	40	40	40
Prepaid lease payments	64	65	65	65	65	65
Loans to associate	-	-	-	-	-	-
Bank balances & cash	797	1,129	461	703	751	837
Other assets	12	42	107	107	107	107
	<b>1,014</b>	<b>1,399</b>	<b>741</b>	<b>985</b>	<b>1,031</b>	<b>1,118</b>
<b>Current liabilities</b>	-	-	-	-	-	-
Other payables	171	261	334	334	334	334
Construction costs payable	1,732	939	279	279	279	279
Taxation payable	105	276	157	157	157	157
Dividend payable	11	19,472	32,735	-	-	-
Current portion of LT borrowings	2	202	202	202	202	202
ST borrowings	4,510	4,754	2,650	2,150	1,650	1,050
Other payables	-	63	-	-	-	-
	<b>6,531</b>	<b>6,514</b>	<b>3,655</b>	<b>3,122</b>	<b>2,622</b>	<b>2,022</b>
<b>Net current (liabilities) assets</b>	<b>(5,517)</b>	<b>(5,116)</b>	<b>(2,914)</b>	<b>(2,137)</b>	<b>(1,591)</b>	<b>(904)</b>
<b>Total assets less current liabilities</b>	<b>18,516</b>	<b>18,052</b>	<b>19,787</b>	<b>19,897</b>	<b>20,060</b>	<b>20,279</b>
<b>Non-current liabilities</b>						
<b>LT borrowings (&gt;1 yr) @ 5.6% p.a.</b>	<b>4,437</b>	<b>3,284</b>	<b>4,712</b>	<b>4,512</b>	<b>4,312</b>	<b>4,112</b>
Deferred taxation	-	1	1	-	-	-
	<b>4,437</b>	<b>3,286</b>	<b>4,713</b>	<b>4,512</b>	<b>4,312</b>	<b>4,112</b>
Minority interests	428	429	439	448	457	466
<b>Net assets</b>	<b>13,651</b>	<b>14,337</b>	<b>14,635</b>	<b>14,937</b>	<b>15,292</b>	<b>15,701</b>
<b>Share capital</b>	<b>5,038</b>	<b>5,038</b>	<b>5,038</b>	<b>5,038</b>	<b>5,038</b>	<b>5,038</b>
Reserves	8,614	9,299	9,598	9,900	10,254	10,663
<b>Total Shareholders' equity</b>	<b>13,651</b>	<b>14,337</b>	<b>14,635</b>	<b>14,937</b>	<b>15,292</b>	<b>15,701</b>

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

January 14, 2010

China Toll Roads

Exhibit 92

**JSEC: Cash Flow Statement**

	2006	2007	2008	2009E	2010E	2011E
<b>Operating activities</b>						
<b>Profit before tax</b>	<b>1,762</b>	<b>2,450</b>	<b>2,140</b>	<b>2,722</b>	<b>3,191</b>	<b>3,692</b>
Adjustments for:						
Depreciation of PPE and toll road infrastructure	755	820	811	809	890	978
Loss on write-off/disposal of PPE	15	(5)	1	-	-	-
Dividend from available for sale investment	(0)	(0)	(0)	-	-	-
Finance cost	455	512	550	432	444	402
Results from associate	(128)	(130)	(151)	(144)	(171)	(227)
Gains on disposal of associate/subsidiary	1	-	(1)	-	-	-
Operating lease rental on land use rights	65	65	65	-	-	-
Impairment loss on other receivables	0	(1)	(2)	-	-	-
Interest income	(10)	(8)	-	-	-	-
Change in fair value for held-for-sale investments	(2)	(10)	1	-	-	-
<b>Operating cash flows before movements in working capital</b>	<b>2,913</b>	<b>3,694</b>	<b>3,412</b>	<b>3,819</b>	<b>4,354</b>	<b>4,845</b>
(Increase)/decrease in inventories	(1)	(3)	(1)	0	0	(1)
(Increase)/decrease in prepayments and other receivables	(40)	(8)	18	(2)	2	(1)
Increase/(decrease) in other payables	28	88	23	-	-	-
Increase/(decrease) in construction costs payables	(1)	(30)	(65)	167	121	159
Increase/(decrease) in unclaimed divd	-	-	-	(33)	-	-
Increase/(decrease) in other assets	(36)	5	1	-	-	-
<b>Cash from operations</b>	<b>2,863</b>	<b>3,746</b>	<b>3,387</b>	<b>3,952</b>	<b>4,477</b>	<b>5,002</b>
Interest paid	(455)	(512)	(464)	(432)	(444)	(402)
PRC income tax paid	(471)	(595)	(621)	(653)	(766)	(886)
<b>Net cash generated from operations</b>	<b>1,937</b>	<b>2,639</b>	<b>2,302</b>	<b>2,866</b>	<b>3,267</b>	<b>3,714</b>
<b>Investing activities</b>						
Disposal of associate	4	-	-	-	-	-
Proceeds on PPE disposal	3	43	1	-	-	-
Purchase of PPE	(1,210)	(837)	(827)	(200)	(500)	(500)
Purchase of available for sale investments	(3)	-	(1)	-	-	-
Amt received from connected companies	-	40	-	-	-	-
Repayment of receivable from former JV	1	-	-	-	-	-
Interest received	10	8	-	-	-	-
Dividend from available for sale investments	0	0	0	-	-	-
Dividend received from assoc.	113	108	114	43	51	68
<b>Net cash used in investing activities</b>	<b>(1,082)</b>	<b>(638)</b>	<b>(898)</b>	<b>(157)</b>	<b>(449)</b>	<b>(432)</b>
<b>Financing activities</b>						
Dividends paid	(744)	(949)	(1,347)	(1,711)	(2,008)	(2,321)
Dividends paid to minorities	(28)	(37)	(36)	(56)	(63)	(76)
New LT borrowings raised	-	-	3,088	(200)	(200)	(200)
Repayment of LT borrowings	(508)	(950)	(1,660)	-	-	-
Issuance of ST bond	(3,912)	-	(13)	-	-	-
Amt received from connect companies	-	23	-	-	-	-
New ST borrowings raised	6,310	8,424	5,120	(500)	(500)	(600)
Repayment of ST borrowings	(2,250)	(8,180)	(7,224)	-	-	-
<b>Net cash generated from financing</b>	<b>(1,132)</b>	<b>(1,668)</b>	<b>(2,072)</b>	<b>(2,467)</b>	<b>(2,771)</b>	<b>(3,196)</b>
<b>Net increase (decrease) in cash</b>	<b>(277)</b>	<b>332</b>	<b>(668)</b>	<b>243</b>	<b>48</b>	<b>86</b>
Cash at beginning of yr	1,074	797	1,129	461	703	751
Change due to restatements	-	-	-	-	-	-
<b>Cash at end of yr</b>	<b>797</b>	<b>1,129</b>	<b>461</b>	<b>703</b>	<b>751</b>	<b>837</b>

E = Morgan Stanley Research estimate Source: Company data, Morgan Stanley Research

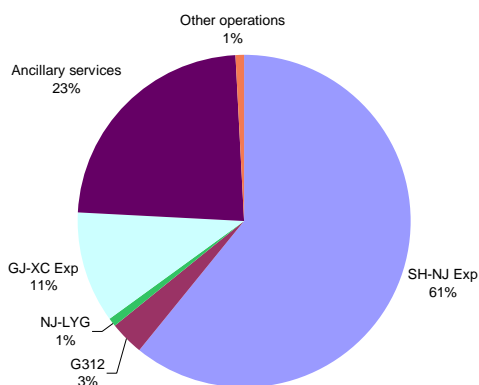
## Company Profile

### Company Overview

Jiangsu Expressway is engaged principally in the investment, construction, operation and management of several toll expressways within Jiangsu province. The company's core asset is the Jiangsu section of the Shanghai-Nanjing Expressway. It also has equity interests in toll roads and bridges within Jiangsu province.

Exhibit 93

### JSEC: Revenue Breakdown, 2008



Source: Company data, Morgan Stanley Research

### Profile of Jiangsu Expressway's Key Assets

#### 1) Jiangsu Section of Shanghai-Nanjing Expressway:

Shanghai-Nanjing Expressway was completed and opened to traffic in September 1996. This two-way, four-lane, closed-end expressway starts from Maqun of Nanjing in the west and ends at Anting of Shanghai in the east. Its trunk road is 248.21km long, and the Zhenjiang branch is 10.25km long. The investment in the construction was Rmb6,157mn. In June 2004, the company invested approximately Rmb10.54bn to expand the Shanghai-Nanjing Expressway. The full eight-lane expressway was opened to traffic on January 1, 2006. The operating period of the expanded Jiangsu section of the Shanghai-Nanjing Expressway has been extended by five years to 2032.

#### 2) The Shanghai-Nanjing Section of G312: The

Shanghai-Nanjing section of G312 was initially a class 2 highway, completed in December 1991. In June 1997, the company invested Rmb1,346mn to acquire 15-year toll rights for the section. In December 2005, the Shanghai-Nanjing section of G312 completed a four-lane class 1 highway expansion and conversion project. The section starts from the Dongyangfang viaduct of Nanjing in the west and ends at

Anting of Shanghai in the east and measures 282km. The whole section has tollgates and it is an open-end toll highway. Upon completion of the expansion, the company invested Rmb2.7bn to extend its toll collection operating rights by 12 years to 2024. G312 is part of the national road from Shanghai to Huoerguosi and is engaged primarily in inter-city and intra-city passenger and cargo traffic along the route. It is an ancillary road for the Shanghai-Nanjing Expressway.

#### 3) The Nanjing Section of Nanjing-Lianyungang Highway:

The Nanjing section of the Nanjing-Lianyungang Highway is part of G205 and is a traditionally a trans-Yangtze passage for passenger and cargo traffic between the north and the south of China. It starts from Luhe of Nanjing and ends at Tianchang of Anhui Province. It was completed and opened to traffic in September 1996. It is 29.8km long and is a two-way, four-lane closed-end expressway with one tollgate. The company invested Rmb448mn in December 1999 to acquire a 30-year toll collection operating right to 2029.

#### 4) Guangjing & Xicheng Expressway: Guangjing

Expressway starts from Guanglin of Taixin in the north and ends at the northern end of the Jiangyin Yangtze River Bridge in the south. It is a two-way, six-lane, closed-end expressway, with a total length of 17.2km, one service area and one-tollgate. Xicheng Expressway starts from the southern end of the Jiangyin Yangtze River Bridge in the north and ends at Qiangxiang of Wuxi in the south. It is a two-way, six-lane closed-end expressway with a total length of 35km. It has one service area and four tollgates.

#### 5) Jiangyin Yangtze River Bridge: Jiangyin Yangtze River

Bridge is a long-span steel suspension bridge. It has a total length of 3,071m and is designed as a two-way, six-lane expressway with one tollgate. The Jiangyin Yangtze River Bridge together with the Guangjing Expressway and the Xicheng Expressway, serve as the main parts of the national trunk linking Tongjiang to Sanya, and Beijing to Shanghai, and are an important link between the southern and northern parts of Jiangsu.

#### 6) The Jiangsu Section of the Sujiahang Expressway: The

Jiangsu Section of Sujiahang Expressway is a two-way, four-lane, closed-end expressway. It has a total length of 100.1km, which is divided into southern and northern sections. The southern section stretches from Suzhou to Wujiang and measures 54.4km. It was completed and opened to traffic in December 2002. The northern section stretches from Changsu

to Suzhou, measuring 45.7km. It was completed and opened to traffic in November 2003. There are two service areas and 10 tollgates along the Jiangsu Section of the Sujiahang Expressway. It is a traffic hub between Jiangsu Province and Zhejiang Province. Its operating period goes up to 2032.

Exhibit 94

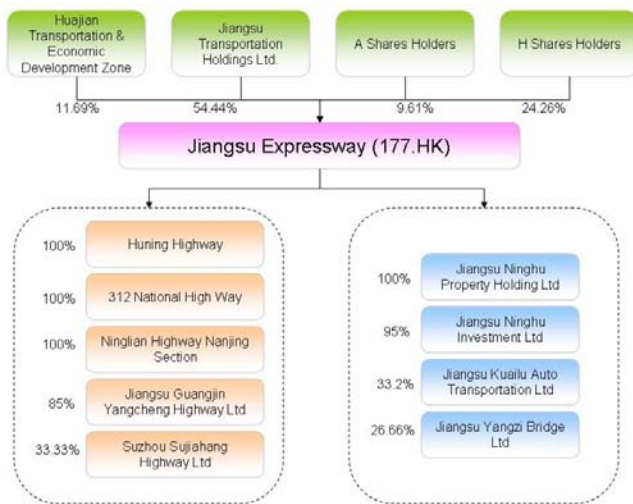
## JSEC: Major Road Assets



Source: Company data

Exhibit 95

## JSEC: Shareholding Structure



Source: Company data, Morgan Stanley Research

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# Shenzhen Expressway

## Diversified Asset Portfolio, But Lackluster Growth

### Equal-weight, Price Target HK\$4.17

- Beneficiary of export recovery in PRD:** Shenzhen Expressway is well positioned to benefit from sustainable economic growth and export recovery in the Pearl River Delta (PRD), as it derives over 80% of its toll revenue from Shenzhen and other cities in Guangdong province. Port throughput growth in Shenzhen has improved from -22% YoY in 1H09 to -15% in 3Q09 and we expect 10-12% growth in 2010.
- Diversified asset portfolio, but lackluster growth:** Shenzhen Expressway has the most diversified asset portfolio in China's toll road industry. It includes eight expressways in Shenzhen, five elsewhere in Guangdong, and three outside Guangdong. However, such diversification also has negative implications, as one road's positive result is offset by another road's negative figure, and this limits earnings growth potential. From 2004 to 2008, Shenzhen Expressway's net profit ranged from Rmb400mn to Rmb550mn, much lower than the industry peers.
- Weaker balance sheet leads to valuation discount:** Shenzhen Expressway's asset / equity was 2.6x in 2008, while net debt / equity ratio was 106%. Both figures are much higher than industry peers'. Accordingly, the stock is trading at 0.9x 2010E P/B, a 45% discount to peers.

### Qinglian Expressway the Potential Key Revenue Driver

As a major trunk route between Hunan province and Guangdong province, we expect the Qinglian Expressway to become a key top-line driver for Shenzhen Expressway, after commencing operations in 2009. We forecast toll income growth of 230% in 2009, 70% in 2010, and 30% in 2011 for the Qinglian Expressway. However, we do not expect this road to break even until 2011, as it is burdened by a close to Rmb6bn commercial loan with an interest rate in excess of 5%.

### Key Ratios and Statistics

Reuters: 548.HK Bloomberg: 548 HK

China Transportation

Price target	HK\$4.17			
Upside to price target (%)	2			
Shr price, close (Jan 12, 2010)	HK\$4.07			
52-Week Range	HK\$4.50-2.15			
Sh out, dil, curr (mn)	2,181			
Mkt cap, curr (mn)	HK\$8,875			
Avg daily trading value (mn)	US\$1.5			
<b>Fiscal Year ending</b>	<b>12/08</b>	<b>12/09e</b>	<b>12/10e</b>	<b>12/11e</b>
ModelWare EPS (Rmb)	0.23	0.27	0.27	0.31
Consensus EPS (Rmb)§	0.32	0.26	0.30	0.34
Revenue, net (Rmb mn)	1,026	1,305	1,726	1,892
EBITDA (Rmb mn)	1,023	1,218	1,458	1,586
ModelWare net inc (Rmb mn)	503	585	590	679
P/E	10.3	12.5	13.2	11.5
P/BV	0.7	0.9	0.9	0.8
ROE (%)	7.3	8.3	7.3	7.8
EV/EBITDA	10.7	12.7	11.0	9.5
Div yld (%)	5.0	4.0	3.8	4.3
Leverage (EOP) (%)	70.8	90.8	84.9	69.2

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note.)

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

### Company Description

Shenzhen Expressway is one of the largest toll road operators in the Pearl River Delta. It mainly operates and invests in toll highways in Shenzhen and other regions of Guangdong. It was listed in Hong Kong in 1997 and issued A shares in 2001 to become dual-listed.

### Consolidation of Toll Road Assets

In September, 2009, the company acquired the remaining 45% stake of Jihe East Expressway that it did not already own for Rmb1.1bn. This demonstrates Shenzhen Expressway's intention to further consolidate its toll road assets. According to management, the company will assess the value of each toll road asset and take appropriate consolidation action to generate shareholder value.

### Meiguan Renovation a Potential Downside Risk in 2010

We expect a negative effect on traffic flow as renovation and expansion of the Meiguan Expressway starts in 2010. This work will also increase the capex risk for Shenzhen Expressway, which might have a negative effect on the share price too.

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## SZEC: Financial Summary

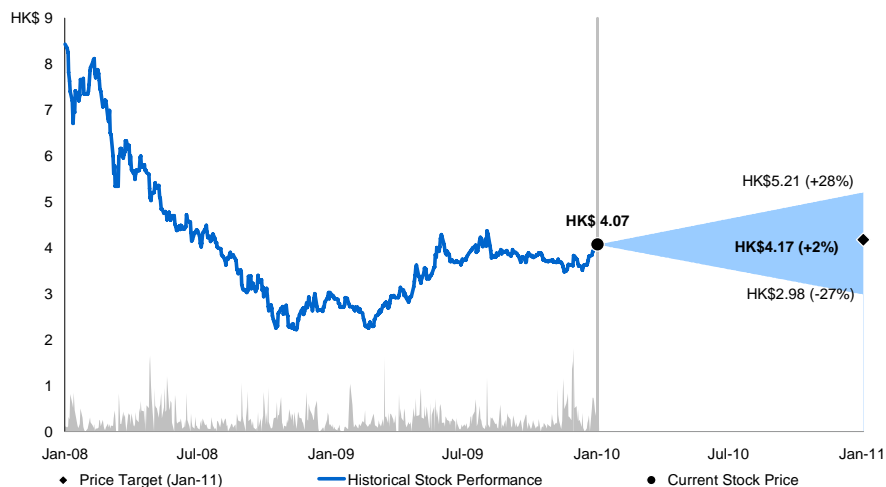
Rmb million; Years Ending December

Income Statements						Ratio Analysis					
Y/E Dec 31 (Rmb Mn)	2007	2008	2009E	2010E	2011E		2007	2008	2009E	2010E	2011E
<b>Toll road income</b>	<b>966</b>	<b>985</b>	<b>1,262</b>	<b>1,684</b>	<b>1,839</b>	<b>Growth%</b>					
- Meiguan	330	290	295	307	316	Toll income					
- Jihe W	345	343	339	350	350	- Meiguan	2.8	(12.1)	1.8	4.0	3.0
- Jihe E	-	-	59	239	239	- Jihe W	21.8	(0.6)	(1.1)	3.0	-
- Yanba	63	72	78	90	91	- Jihe E	n.a.	n.a.	n.a.	n.m.	-
- Yanpai	135	149	139	136	136	- Yanba	12.9	13.6	9.3	15.0	1.0
- Nanguang	-	60	113	158	182	- Yanpai	132.8	10.3	-6.5	-2.0	0.0
- Qinglian Project	93	72	237	403	524	- Nanguang	n.a.	n.a.	90.1	40.0	15.0
Other Income	138	78	90	105	121	- Qinglian Project	n.a.	(22.8)	230.0	70.0	30.0
<b>Gross Revenue</b>	<b>1,103</b>	<b>1,063</b>	<b>1,352</b>	<b>1,789</b>	<b>1,960</b>	Net revenue	43.2	(3.7)	27.1	32.3	9.6
Less: Business tax and surcharges	(37)	(37)	(47)	(63)	(69)	Operating profit	29.1	(21.5)	37.8	34.3	10.0
<b>Net revenue</b>	<b>1,066</b>	<b>1,026</b>	<b>1,305</b>	<b>1,726</b>	<b>1,892</b>	Profit before tax	13.4	(21.6)	14.4	6.5	15.2
Cost of services	(347)	(445)	(512)	(670)	(730)	Net profit	7.5	(19.2)	16.2	1.0	15.1
<b>Gross profit</b>	<b>719</b>	<b>581</b>	<b>793</b>	<b>1,056</b>	<b>1,162</b>	EBITDA	23.9	(2.5)	20.0	19.6	8.8
Other income	11	2	10	10	10	EPS	7.5	(19.2)	16.2	1.0	15.1
Other gains/(losses) - net	0	6	0	0	0	<b>Margin%</b>					
Administrative expenses	(50)	(54)	(67)	(77)	(85)	EBITDA Margin	97.4	98.7	93.2	84.2	83.6
<b>Operating profit</b>	<b>680</b>	<b>534</b>	<b>736</b>	<b>989</b>	<b>1,087</b>	Operating Margin	63.8	52.1	56.4	57.3	57.5
Finance costs, Net	(141)	(248)	(334)	(451)	(446)	Net Profit Margin	58.4	49.0	44.8	34.2	35.9
Share of profit of JCEs	189	292	252	159	159	<b>Return%</b>					
Share of profit of associates	(13)	(17)	(12)	(14)	(14)	ROE	9.0	7.1	7.2	6.8	7.3
<b>Profit before tax</b>	<b>715</b>	<b>561</b>	<b>641</b>	<b>683</b>	<b>787</b>	ROA	4.2	2.8	2.5	2.4	2.8
Tax	(98)	(66)	(64)	(102)	(118)	<b>Gearing</b>					
<b>Profit before MI</b>	<b>617</b>	<b>495</b>	<b>577</b>	<b>581</b>	<b>669</b>	Net Debt/Equity (%)	75.1	106.2	119.8	110.5	91.8
Minority interests	(5)	(9)	(7)	(10)	(11)	Net Int. Coverage (x)	5.7	3.2	2.8	2.5	2.7
<b>Net profit</b>	<b>622</b>	<b>503</b>	<b>585</b>	<b>590</b>	<b>679</b>						
						<b>Operational Analysis</b>					
EBITDA	1,038	1,013	1,215	1,454	1,582						
EPS (Rmb)	0.29	0.23	0.27	0.27	0.31	<b>Avg traffic (vehicles/day)</b>					
						- Meiguan	56,541	52,355	54,254	56,424	58,117
						- Jihe W	13,436	18,197	23,605	29,714	37,621
						- Jihe E	51,858	54,392	55,480	56,035	56,035
						- Yanba	10,234	11,533	12,802	14,722	14,869
						- Yanpai	18,004	20,502	19,477	19,087	19,087
						- Nanguang	n.a.	6,972	13,126	18,376	21,132
						<b>Avg toll income (Rmb m/day)</b>					
						- Meiguan	0.90	0.79	0.82	0.87	0.89
						- Jihe W	0.95	0.94	0.91	0.94	0.94
						- Jihe E	1.15	1.23	1.24	1.25	1.25
						- Yanba	0.17	0.20	0.20	0.23	0.23
						- Yanpai	0.37	0.41	0.54	0.53	0.53
						- Nanguang	n.a.	0.16	0.28	0.46	0.53
						<b>Growth%</b>					
						<b>Avg traffic (vehicles/day)</b>					
						- Meiguan	10.4	(7.4)	3.6	4.0	3.0
						- Jihe W	16.1	(1.0)	(0.5)	3.0	-
						- Jihe E	22.3	4.9	2.0	1.0	-
						- Yanba	5.4	12.7	11.0	15.0	1.0
						- Yanpai	145.4	13.9	(5.0)	(2.0)	-
						- Nanguang	n.a.	n.a.	88.3	40.0	15.0
						<b>Avg toll income (Rmb m/day)</b>					
						- Meiguan	2.8	(12.3)	3.2	6.0	3.0
						- Jihe W	21.8	(0.8)	(2.8)	3.0	-
						- Jihe E	27.3	6.7	0.7	1.0	-
						- Yanba	12.0	14.3	2.4	15.0	1.0
						- Yanpai	132.8	10.1	33.8	(2.0)	-
						- Nanguang	n.a.	n.a.	73.0	62.2	15.0
						<b>Valuation</b>					
						P/E	12.6	15.5	12.5	13.2	11.5
						P/BV	1.1	1.1	0.9	0.9	0.8
						EV/EBITDA	13.2	15.8	12.7	11.0	9.5
						Dividend Yield	4.5	3.3	4.0	3.8	4.3

E = Morgan Stanley Research estimates. Source: FactSet, Company data, Morgan Stanley Research

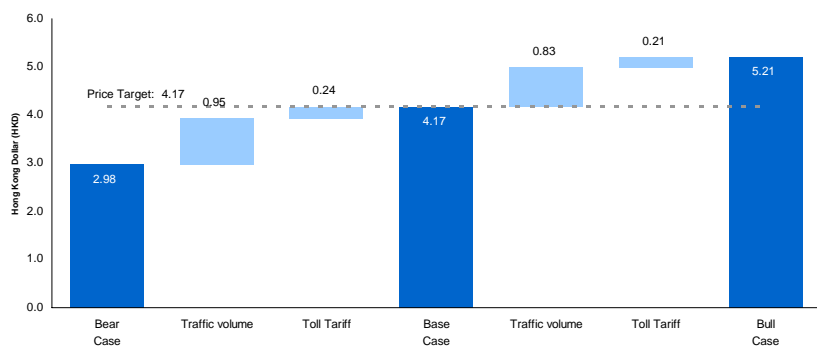
## Risk-Reward Snapshot: SZEC (0548.HK, HK\$4.07, EW, PT HK\$4.17)

### Risk-Reward View: A Diversified Company at a Fair Price



Price target HK\$4.17		Based on base case DCF Valuation
Bull Case	Implied 17.0x 2010e P/E	<b>Strong export growth leads to significant traffic rebound:</b> Thanks to the strong export recovery, traffic growth accelerates to over 10% in 2010/11; Qinglian Expressway experiences faster traffic growth on back of booming exports and economic outlook.
Base Case	Implied 13.6x 2010e P/E	<b>Qinglian Expressway to drive growth:</b> While decent export recovery favors mild traffic growth (3-5%) in 2010/11, Qinglian Expressway will likely post 60-70% volume growth in 2010, thanks to the rising traffic between Hunan and Guangdong.
Bear Case	Implied 9.7x 2010e P/E	<b>Traffic migration to cap growth:</b> Due to continuous traffic migration, traffic growth on old expressway remains sluggish (only 1-2% in 2010); Qinglian Expressway sees weaker-than-expected traffic growth due to migration to newly opened WuGuang high-speed railway.

### Bear to Bull: Traffic Growth is the Key Driver



Source: Morgan Stanley, FactSet

### Investment Thesis:

- Beneficiary of export recovery in PRD.
- Most diversified asset portfolio in China toll road industry.
- Qinglian Expressway to be the key growth driver in 2010-12.
- Further consolidation of toll road assets likely.
- Equal-weight because of weaker balance sheet and potential downside risk from Meiguan's renovation in 2010.

### Key Value Drivers

- Traffic growth.
- Overall expansion of China's economy.
- Recovery in exports.

### Potential Catalysts

- Evidence of a strong export recovery in 2010.
- Further asset consolidation.
- Announcement of rapid traffic growth for the Qinglian Expressway.

### Key Risks

- Upside: 1) stronger-than-expected traffic volume rebound as a result of export recovery; 2) rising project contribution from associated toll roads; 3) value-accretive asset acquisitions.
- Downside: 1) construction of other government-sponsored city roads that are free to use and divert traffic from Shenzhen Expressway; 2) lower-than-expected traffic volume on Qinglian Expressway; 3) continuous negative contribution from associated toll roads; 4) exogenous risks, such as natural disasters, could affect volume growth.



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## Valuation

### DCF Valuation for Toll Road Assets

We derive our price target from our DCF valuation for each toll road section. Our key assumptions are as follows: 1) EBITDA CAGR of 3.3% for 2009-11 and 0.3% for the rest of the concession period; 2) WACC of 9.6%; and 3) capex CAGR of 1.0% in the concession period, as maintenance cost is much lower than initial construction.

Exhibit 96

#### SZEC: WACC Calculation

Equity beta	1.0
30-year risk free rate (%)	5.0
Equity risk premium (%)	7.0
<b>Cost of equity (%)</b>	<b>12.0</b>
Marginal cost of long-term debt (%)	5.3
Marginal tax rate (%)	25.0
<b>Post-tax cost of debt (%)</b>	<b>4.0</b>
MVE/(MVD+MVE) (%)	70.0
MVD/(MVD+MVE) (%)	30.0
<b>Weighted average cost of capital (%)</b>	<b>9.6</b>

Source: Company data, Morgan Stanley Research

Exhibit 97

#### SZEC: DCF Valuation Model

	Meiguan	Jihe W	Yanba	Yanpai	Nanguan	Jihe E	JCE	Associate	Total
NPV of explicit cashflow forecasts	1,759	1,682	307	477	659	2,397	n.a.	n.a.	7,280
Terminal value (growth rate = 0%)	-	-	-	-	-	-	-	-	-
Enterprise Value	1,759	1,682	307	477	659	2,397	n.a.	n.a.	7,280
Net Cash / (Debt)	(100)	(100)	(20)	(100)	(20)	(200)	-	-	(540)
DCF valuation	1,659	1,582	287	377	639	2,197	n.a.	n.a.	6,740
% attributable to Shenzhen Exp.	100%	100%	100%	100%	100%	100%	n.a.	n.a.	
DCF valuation attributable to Shenzhen Exp.	1,659	1,582	287	377	639	2,197	929	350	8,019
% of valuation	21%	20%	4%	5%	8%	27%	12%	4%	100%
Total Equity Value (Rmb m)	8,019								
<b>Shares outstanding</b>	<b>2,181</b>								
Rmb/share	3.68								
<b>HK\$/share</b>	<b>4.17</b>								
Latest Stock Price	4.07								
<b>Upside/Downside</b>	<b>2.6%</b>								

Source: Morgan Stanley Research estimates

### Forward P/E, EV/EBITDA

The stock is trading at 12.5x P/E and 12.7x EV/EBITDA based on our 2009 estimates, close to the historical averages of 13.0x and 13.3x. We think the current valuation has fairly reflected the company's fundamentals. We see limited growth upside in the next 12 months, as the existing toll roads such as Meiguan Expressway will enter the renovation cycle from 2010.

### Risks to Our Price Target

Upside risks include: 1) a stronger-than-expected traffic volume rebound following the export recovery in 2010; 2) rising project contribution from associated toll road; and 3) value-accretive asset acquisitions.

Downside risks include: 1) construction of government-sponsored city roads, that are free to use and divert traffic away from Shenzhen Expressway; 2) lower-than-expected traffic volume on the Qinglian project; 3) continuous negative earnings contribution from associated toll roads; 4) exogenous risks, such as natural disasters, could disrupt volume growth.

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Exhibit 98

## SZEC: DCF Valuation Breakdown by Road Section - 1

Meiguan Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	236	245	253	260	268	276	285	290	296	302	308	314
Less: Cash Tax Payable on EBIT	(44)	(46)	(48)	(50)	(52)	(54)	(56)	(58)	(59)	(61)	(62)	(64)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(20)	(20)	(21)	(21)	(21)	(21)	(21)	(22)	(22)	(22)	(22)	(23)
<b>Free Cash Flow</b>	<b>172</b>	<b>179</b>	<b>184</b>	<b>190</b>	<b>195</b>	<b>201</b>	<b>207</b>	<b>211</b>	<b>215</b>	<b>219</b>	<b>224</b>	<b>228</b>
YoY Growth	-11%	4%	3%	3%	3%	3%	3%	2%	2%	2%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>168</b>	<b>158</b>	<b>148</b>	<b>139</b>	<b>131</b>	<b>122</b>	<b>113</b>	<b>105</b>	<b>98</b>	<b>91</b>

Meiguan Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	320	327	333	340	347	354	361					
Less: Cash Tax Payable on EBIT	(65)	(67)	(68)	(70)	(72)	(73)	(75)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(23)	(23)	(23)	(23)	(24)	(24)	(24)					
<b>Free Cash Flow</b>	<b>233</b>	<b>237</b>	<b>242</b>	<b>247</b>	<b>251</b>	<b>256</b>	<b>262</b>					
YoY Growth	2%	2%	2%	2%	2%	2%	2%					
<b>NPV of Free Cash Flow</b>	<b>85</b>	<b>79</b>	<b>74</b>	<b>68</b>	<b>64</b>	<b>59</b>	<b>55</b>					

**Total NPV (Meiguan Exp.) 1,759**

Jihe W Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	255	262	262	265	267	270	273	276	278	281	284	287
Less: Cash Tax Payable on EBIT	(46)	(48)	(48)	(49)	(49)	(50)	(51)	(51)	(52)	(53)	(53)	(54)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(20)	(20)	(21)	(21)	(21)	(21)	(21)	(22)	(22)	(22)	(22)	(23)
<b>Free Cash Flow</b>	<b>188</b>	<b>194</b>	<b>194</b>	<b>195</b>	<b>197</b>	<b>199</b>	<b>201</b>	<b>203</b>	<b>204</b>	<b>206</b>	<b>208</b>	<b>210</b>
YoY Growth	-17%	3%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>177</b>	<b>163</b>	<b>150</b>	<b>138</b>	<b>127</b>	<b>117</b>	<b>108</b>	<b>99</b>	<b>91</b>	<b>84</b>

Jihe W Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	290	293	295	298	301	304	307					
Less: Cash Tax Payable on EBIT	(55)	(56)	(56)	(57)	(58)	(59)	(59)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(23)	(23)	(23)	(23)	(24)	(24)	(24)					
<b>Free Cash Flow</b>	<b>212</b>	<b>214</b>	<b>216</b>	<b>218</b>	<b>220</b>	<b>222</b>	<b>224</b>					
YoY Growth	1%	1%	1%	1%	1%	1%	1%					
<b>NPV of Free Cash Flow</b>	<b>77</b>	<b>71</b>	<b>66</b>	<b>60</b>	<b>56</b>	<b>51</b>	<b>47</b>					

**Total NPV (Jihe W Expressway) 1,682**

Yanba Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	25	36	41	46	46	47	47	48	48	49	49	50
Less: Cash Tax Payable on EBIT	(3)	(5)	(6)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(9)	(9)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)
<b>Free Cash Flow</b>	<b>17</b>	<b>26</b>	<b>29</b>	<b>33</b>	<b>33</b>	<b>34</b>	<b>34</b>	<b>34</b>	<b>34</b>	<b>35</b>	<b>35</b>	<b>35</b>
YoY Growth	12%	47%	14%	13%	1%	1%	1%	1%	1%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>27</b>	<b>25</b>	<b>23</b>	<b>21</b>	<b>20</b>	<b>18</b>	<b>17</b>	<b>15</b>	<b>14</b>

Yanba Expressway	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBITDA	50	51	51	52	52	53	53	54	54	55	55	
Less: Cash Tax Payable on EBIT	(9)	(9)	(9)	(9)	(9)	(9)	(10)	(10)	(10)	(10)	(10)	
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	
Less: Capital Expenditure	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	
<b>Free Cash Flow</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>39</b>	<b>39</b>	
YoY Growth	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	
<b>NPV of Free Cash Flow</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>6</b>	<b>6</b>	

**Total NPV (Yanba Exp.) 307**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 99

## SZEC: DCF Valuation Breakdown by Road Section - 2

Yanpai Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	84	82	82	82	82	82	82	82	82	82	82	82
Less: Cash Tax Payable on EBIT	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
<b>Free Cash Flow</b>	<b>60</b>	<b>59</b>	<b>59</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>
YoY Growth	-19%	-2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>53</b>	<b>49</b>	<b>44</b>	<b>40</b>	<b>37</b>	<b>34</b>	<b>31</b>	<b>28</b>	<b>25</b>	<b>23</b>
<b>Yanpai Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	82	82	82	82	82	82	82					
Less: Cash Tax Payable on EBIT	(13)	(13)	(13)	(13)	(13)	(13)	(13)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(11)	(11)	(12)	(12)	(12)	(12)	(12)					
<b>Free Cash Flow</b>	<b>58</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>					
YoY Growth	0%	0%	0%	0%	0%	0%	0%					
<b>NPV of Free Cash Flow</b>	<b>21</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>13</b>	<b>12</b>					
<b>Total NPV (Yanpai Exp.)</b>	<b>477</b>											
<b>Nanguang Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	40	79	91	100	102	104	106	109	111	113	115	117
Less: Cash Tax Payable on EBIT	(7)	(17)	(20)	(22)	(23)	(23)	(24)	(24)	(25)	(25)	(26)	(26)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)
<b>Free Cash Flow</b>	<b>28</b>	<b>57</b>	<b>66</b>	<b>73</b>	<b>74</b>	<b>76</b>	<b>77</b>	<b>79</b>	<b>81</b>	<b>82</b>	<b>84</b>	<b>85</b>
YoY Growth	120%	107%	15%	10%	2%	2%	2%	2%	2%	2%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>61</b>	<b>57</b>	<b>53</b>	<b>49</b>	<b>46</b>	<b>42</b>	<b>39</b>	<b>37</b>	<b>34</b>
<b>Nanguang Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	120	122	125	127	130	132	135					
Less: Cash Tax Payable on EBIT	(27)	(28)	(28)	(29)	(29)	(30)	(31)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(6)	(6)	(6)	(6)	(6)	(6)	(6)					
<b>Free Cash Flow</b>	<b>87</b>	<b>89</b>	<b>91</b>	<b>92</b>	<b>94</b>	<b>96</b>	<b>98</b>					
YoY Growth	2%	2%	2%	2%	2%	2%	2%					
<b>NPV of Free Cash Flow</b>	<b>32</b>	<b>30</b>	<b>28</b>	<b>26</b>	<b>24</b>	<b>22</b>	<b>21</b>					
<b>Total NPV (Nanguang Exp.)</b>	<b>659</b>											
<b>Jihe E Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	381	384	384	384	384	384	387	391	394	397	400	404
Less: Cash Tax Payable on EBIT	(79)	(80)	(80)	(80)	(80)	(80)	(81)	(81)	(82)	(83)	(84)	(85)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(20)	(20)	(21)	(21)	(21)	(21)	(21)	(22)	(22)	(22)	(22)	(23)
<b>Free Cash Flow</b>	<b>282</b>	<b>284</b>	<b>284</b>	<b>284</b>	<b>283</b>	<b>283</b>	<b>285</b>	<b>288</b>	<b>290</b>	<b>292</b>	<b>294</b>	<b>297</b>
YoY Growth	0%	1%	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>259</b>	<b>236</b>	<b>215</b>	<b>196</b>	<b>181</b>	<b>166</b>	<b>153</b>	<b>140</b>	<b>129</b>	<b>119</b>
<b>Jihe E Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	407	411	414	418	421	425	428					
Less: Cash Tax Payable on EBIT	(86)	(86)	(87)	(88)	(89)	(90)	(91)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(23)	(23)	(23)	(23)	(24)	(24)	(24)					
<b>Free Cash Flow</b>	<b>299</b>	<b>301</b>	<b>304</b>	<b>306</b>	<b>308</b>	<b>311</b>	<b>313</b>					
YoY Growth	1%	1%	1%	1%	1%	1%	1%					
<b>NPV of Free Cash Flow</b>	<b>109</b>	<b>100</b>	<b>92</b>	<b>85</b>	<b>78</b>	<b>72</b>	<b>66</b>					
<b>Total NPV (Jihe E Exp.)</b>	<b>2,397</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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Exhibit 100

## SZEC: DCF Valuation Breakdown by Road Section - 3

Shuiguan Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	312	327	327	327	327	327	327	327	327	327	327	327
Less: Cash Tax Payable on EBIT	(71)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
<b>Free Cash Flow</b>	<b>232</b>	<b>242</b>	<b>242</b>	<b>242</b>	<b>242</b>	<b>242</b>	<b>242</b>	<b>242</b>	<b>241</b>	<b>241</b>	<b>241</b>	<b>241</b>
YoY Growth	2%	5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>221</b>	<b>202</b>	<b>184</b>	<b>168</b>	<b>153</b>	<b>139</b>	<b>127</b>	<b>116</b>	<b>106</b>	<b>97</b>
<b>Shuiguan Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	327	327	327	327	327							
Less: Cash Tax Payable on EBIT	(74)	(74)	(74)	(74)	(74)							
Plus: Decrease in WC	-	-	-	-	-							
Less: Capital Expenditure	(11)	(11)	(12)	(12)	(12)							
<b>Free Cash Flow</b>	<b>241</b>	<b>241</b>	<b>241</b>	<b>241</b>	<b>241</b>							
YoY Growth	0%	0%	0%	0%	0%							
<b>NPV of Free Cash Flow</b>	<b>88</b>	<b>80</b>	<b>73</b>	<b>67</b>	<b>61</b>							
<b>Total NPV (Shuiguan Exp.)</b>	<b>1,881</b>											
<b>Changsha Ring</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	26	27	27	27	27	27	27	27	27	27	27	27
Less: Cash Tax Payable on EBIT	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
<b>Free Cash Flow</b>	<b>22</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>
YoY Growth	1%	4%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>19</b>	<b>18</b>	<b>16</b>	<b>15</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>10</b>	<b>9</b>
<b>Changsha Ring</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	27	27	27	27	27							
Less: Cash Tax Payable on EBIT	(2)	(2)	(2)	(2)	(2)							
Plus: Decrease in WC	-	-	-	-	-							
Less: Capital Expenditure	(2)	(2)	(2)	(2)	(2)							
<b>Free Cash Flow</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>							
YoY Growth	0%	0%	0%	0%	0%							
<b>NPV of Free Cash Flow</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>			
<b>Total NPV (Changsha Exp.)</b>	<b>199</b>											
<b>Wuhuang Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	26	27	27	27	27	27	27	27	27	27	27	27
Less: Cash Tax Payable on EBIT	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Free Cash Flow</b>	<b>23</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>
YoY Growth	1%	4%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>20</b>	<b>18</b>	<b>17</b>	<b>15</b>	<b>14</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>10</b>
<b>Wuhuang Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	27	27	27	27	27							
Less: Cash Tax Payable on EBIT	(2)	(2)	(2)	(2)	(2)							
Plus: Decrease in WC	-	-	-	-	-							
Less: Capital Expenditure	(1)	(1)	(1)	(1)	(1)							
<b>Free Cash Flow</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>							
YoY Growth	0%	0%	0%	0%	0%							
<b>NPV of Free Cash Flow</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>4</b>			
<b>Total NPV (Wuhuang Exp.)</b>	<b>209</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

## Earnings Outlook

We estimate 16% earnings growth in 2009, driven mainly by the YoY changes in toll revenue as detailed in Exhibit 101. We estimate the net margin dropped 4-5ppt in 2009 because of rising financial costs, higher depreciation, and operation costs. For 2010, we forecast 1% earnings growth. Despite the stable operating profit margin outlook, we believe the rising financial cost will erode net margin from 43% in 2009 to 33% in 2010.

Exhibit 101

### SZEC: Key Growth Assumption

Rmb mn	2007	2008	2009E	2010E	2011E
Meiguan	330	290	295	307	316
YoY Chng	3%	-12%	2%	4%	3%
Jihe West	345	343	339	350	350
YoY Chng	22%	-1%	-1%	3%	0%
Jihe East	n.a.	n.a.	59	239	239
YoY Chng	n.a.	n.a.	n.a.	304%	0%
Yanba	63	72	78	90	91
YoY Chng	13%	14%	9%	15%	1%
Yanpai	135	149	139	136	136
YoY Chng	133%	10%	-7%	-2%	0%
Nanguang	-	60	113	158	182
YoY Chng	n.a.	n.a.	90%	40%	15%
Qinglian	93	72	237	403	524
YoY Chng	n.a.	-23%	230%	70%	30%
<b>Total Toll income</b>	<b>966</b>	<b>985</b>	<b>1,262</b>	<b>1,684</b>	<b>1,839</b>
YoY Chng	35%	2%	28%	33%	9%
Share of profit of JCEs	202	189	292	252	159
YoY Chng		-7%	54%	-14%	-37%
Share of profit of associates	(17)	(13)	(17)	(12)	(14)
YoY Chng		-20%	27%	-29%	17%
Operating Margin	62%	50%	54%	55%	55%
PBT Margin	65%	53%	47%	38%	40%
Net Margin	56%	47%	43%	33%	35%
<b>Net profit</b>	<b>622</b>	<b>503</b>	<b>585</b>	<b>590</b>	<b>679</b>
YoY Chng	7%	-19%	16%	1%	15%
Dividend Payout Ratio	56%	52%	50%	50%	50%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

### 1Q-3Q09 Earnings Recap

In 1Q-3Q09, Shenzhen Expressway's revenue rose by 17% and net profit rose 6%, as detailed in Exhibit 102. The Qinglian Expressway started operations in July 2007. In 1Q-3Q09, revenue was up 266% YoY from Qinglian Expressway and 83% YoY from Nanguan Expressway. However, aggregate revenue from other toll roads dipped 2.54% YoY because of the export decline in 1H09 and traffic being diverted to other roads.

Exhibit 102

### SZEC: 1Q-3Q09 Earnings Recap

RMB mn	1Q-3Q09	1Q-3Q08	Chg
Revenue	909	780	17%
Cost of goods sold	(451)	(333)	36%
<b>Gross profit</b>	<b>458</b>	<b>447</b>	<b>2%</b>
Other income	312	226	38%
G&A expenses	(36)	(24)	47%
<b>Operating profit</b>	<b>734</b>	<b>648</b>	<b>13%</b>
Finance costs	(251)	(184)	37%
Other non-operating income	(0)	(1)	n.m.
Profit before taxation	483	463	4%
Taxation	(34)	(42)	-17%
Profit after taxation	448	422	6%
Minority interests	(7)	(7)	3%
<b>Net profit</b>	<b>455</b>	<b>428</b>	<b>6%</b>
EPS (in RMB)	0.21	0.20	6%
Financial Ratio	1Q-3Q09	1Q-3Q08	Chg (bps)
<b>Margins (%)</b>			
Gross	50.4%	57.3%	(696)
EBIT	80.7%	83.0%	(228)
Net Profit	50.1%	54.9%	(487)
G&A expense % of Revenue	4.0%	3.1%	82
Effective Tax Rate	7.1%	9.0%	(186)

Source: Company data, Morgan Stanley Research

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Exhibit 103

**SZEC: Income Statement**

Rmb mn	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<i>Meiguan</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	321	330	290	295	307	316
<i>Jihe W</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	283	345	343	339	350	350
<i>Jieh E</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	59	239	239
<i>Yanba</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	56	63	72	78	90	91
<i>Yanpai</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	58	135	149	139	136	136
<i>Nanguang</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-	-	60	113	158	182
<i>Qinglian Project</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-	93	72	237	403	524
<b>Toll road income</b>	<b>553</b>	<b>445</b>	<b>706</b>	<b>911</b>	<b>719</b>	<b>966</b>	<b>985</b>	<b>1,262</b>	<b>1,684</b>	<b>1,839</b>
Entrusted construction manager	-	-	-	-	31	102	35	38	42	46
Other Income	-	-	-	-	19	35	44	52	63	76
<b>Gross Revenue</b>	<b>553</b>	<b>445</b>	<b>706</b>	<b>911</b>	<b>769</b>	<b>1,103</b>	<b>1,063</b>	<b>1,352</b>	<b>1,789</b>	<b>1,960</b>
Less: Business tax and surcharg	(29)	(23)	(38)	(38)	(25)	(37)	(37)	(47)	(63)	(69)
Business tax rate	5.2%	5.2%	5.3%	4.2%	3.2%	3.4%	3.5%	3.5%	3.5%	3.5%
<b>Net revenue</b>	<b>524</b>	<b>422</b>	<b>668</b>	<b>873</b>	<b>745</b>	<b>1,066</b>	<b>1,026</b>	<b>1,305</b>	<b>1,726</b>	<b>1,892</b>
YoY Change	7.0%	-19.6%	58.5%	30.7%	-14.7%	43.2%	-3.7%	27.1%	32.3%	9.6%
<b>Cost of services</b>	<b>(214)</b>	<b>(184)</b>	<b>(260)</b>	<b>(298)</b>	<b>(210)</b>	<b>(347)</b>	<b>(445)</b>	<b>(512)</b>	<b>(670)</b>	<b>(730)</b>
<b>Gross profit</b>	<b>311</b>	<b>238</b>	<b>409</b>	<b>575</b>	<b>535</b>	<b>719</b>	<b>581</b>	<b>793</b>	<b>1,056</b>	<b>1,162</b>
<i>YoY Change</i>	12%	-23%	72%	41%	-7%	34%	-19%	37%	33%	10%
<i>Gross margin</i>	56%	53%	58%	63%	69%	65%	55%	59%	59%	59%
Other income	67	80	115	192	42	11	2	10	10	10
<b>Other gains/(losses) - net</b>	<b>-</b>	<b>691</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>0</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Administrative expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(45)</b>	<b>(50)</b>	<b>(54)</b>	<b>(67)</b>	<b>(77)</b>	<b>(85)</b>
<b>Operating profit</b>	<b>377</b>	<b>1,009</b>	<b>523</b>	<b>767</b>	<b>527</b>	<b>680</b>	<b>534</b>	<b>736</b>	<b>989</b>	<b>1,087</b>
<i>YoY Change</i>	-8%	167%	-48%	47%	-31%	29%	-21%	38%	34%	10%
<i>Operating margin</i>	68%	227%	74%	84%	68%	62%	50%	54%	55%	55%
<b>Finance costs, Net</b>	<b>(25)</b>	<b>(13)</b>	<b>(24)</b>	<b>(101)</b>	<b>(82)</b>	<b>(141)</b>	<b>(248)</b>	<b>(334)</b>	<b>(451)</b>	<b>(446)</b>
Share of profit of JCEs	62	59	-	-	202	189	292	252	159	159
Share of profit of associates	-	-	(1)	(24)	(17)	(13)	(17)	(12)	(14)	(14)
<b>EBIT</b>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<b>743</b>	<b>712</b>	<b>856</b>	<b>809</b>	<b>976</b>	<b>1,134</b>	<b>1,233</b>
<b>EBITDA</b>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<b>911</b>	<b>838</b>	<b>1,038</b>	<b>1,013</b>	<b>1,215</b>	<b>1,454</b>	<b>1,582</b>
<i>EBITDA margin</i>				<i>n.m.</i>	<i>n.m.</i>	94%	95%	90%	81%	81%
<b>Profit before income tax</b>	<b>414</b>	<b>1,055</b>	<b>499</b>	<b>642</b>	<b>631</b>	<b>715</b>	<b>561</b>	<b>641</b>	<b>683</b>	<b>787</b>
<b>Income tax expenses</b>	<b>(61)</b>	<b>(149)</b>	<b>(76)</b>	<b>(80)</b>	<b>(40)</b>	<b>(98)</b>	<b>(66)</b>	<b>(64)</b>	<b>(102)</b>	<b>(118)</b>
<i>Effective tax rate</i>	15%	14%	15%	12%	6%	14%	12%	10%	15%	15%
Minority interests	6	7	8	10	12	(5)	(9)	(7)	(10)	(11)
<b>Net profit</b>	<b>347</b>	<b>899</b>	<b>415</b>	<b>553</b>	<b>579</b>	<b>622</b>	<b>503</b>	<b>585</b>	<b>590</b>	<b>679</b>
<i>YoY Change</i>	-18%	159%	-54%	33%	5%	7%	-19%	16%	1%	15%
<i>Net margin</i>	63%	202%	59%	61%	75%	56%	47%	43%	33%	35%
<b>Dividends</b>	<b>(262)</b>	<b>(414)</b>	<b>(240)</b>	<b>(262)</b>	<b>(283)</b>	<b>(349)</b>	<b>(262)</b>	<b>(292)</b>	<b>(295)</b>	<b>(340)</b>
Div payout %	75.4%	46.1%	57.8%	47.4%	49.0%	56.1%	52.0%	50.0%	50.0%	50.0%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 104

**SZEC: Balance Sheet**

Rmb mn	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<b>Non-current assets</b>										
PPE	4,205	3,307	4,130	4,055	3,635	345	697	1,019	1,316	1,589
Construction in progress	269	40	287	693	858	349	268	248	228	208
Land use rights	-	-	386	369	227	-	-	-	-	-
Concession intangible assets	-	6	7	825	-	10,742	13,777	17,632	18,487	19,342
Prepaid lease payments	-	-	-	-	-	-	16	16	16	16
Investments in JCE	1,240	1,319	123	78	1,685	1,424	1,213	1,085	957	829
Investment properties	-	-	-	-	-	-	18	18	18	18
Investments in associates	-	-	871	2,967	3,007	1,142	1,265	1,260	1,255	1,250
Deferred income tax assets	-	-	9	7	2	-	-	-	-	-
Long-term receivables	-	373	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	53	-	-	-	-	-
<b>Total</b>	<b>5,714</b>	<b>5,044</b>	<b>5,814</b>	<b>8,994</b>	<b>9,466</b>	<b>14,002</b>	<b>17,254</b>	<b>21,277</b>	<b>22,276</b>	<b>23,251</b>
<b>Current assets</b>										
Inventories	6	6	7	4	2	3	3	3	3	3
Trade and other receivables	17	14	409	158	95	224	324	1,640	1,516	552
Restricted cash	-	-	56	32	7	16	141	141	141	141
Cash and cash equivalents	963	1,275	1,242	892	328	467	536	629	537	566
Current portion LT receivables	-	649	-	-	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-	6	6	6	6
<b>Total</b>	<b>986</b>	<b>1,944</b>	<b>1,714</b>	<b>1,085</b>	<b>433</b>	<b>710</b>	<b>1,010</b>	<b>2,419</b>	<b>2,202</b>	<b>1,268</b>
<b>Current liabilities</b>										
Other payables	145	193	283	671	835	755	1,736	2,951	3,246	3,570
Current income tax liabilities	5	121	17	16	23	28	59	28	50	52
Borrowings	610	43	583	270	1,203	391	1,119	1,958	1,762	1,586
<b>Total</b>	<b>760</b>	<b>357</b>	<b>884</b>	<b>957</b>	<b>2,061</b>	<b>1,173</b>	<b>2,913</b>	<b>4,937</b>	<b>5,058</b>	<b>5,208</b>
<b>Net current (liabilities) assets</b>	<b>226</b>	<b>1,587</b>	<b>830</b>	<b>129</b>	<b>(1,628)</b>	<b>(464)</b>	<b>(1,903)</b>	<b>(2,517)</b>	<b>(2,856)</b>	<b>(3,940)</b>
<b>Total assets less current liabilities</b>	<b>5,940</b>	<b>6,632</b>	<b>6,644</b>	<b>9,123</b>	<b>7,838</b>	<b>13,538</b>	<b>15,350</b>	<b>18,760</b>	<b>19,421</b>	<b>19,311</b>
<b>Non-current liabilities</b>										
LT Borrowings	168	102	143	2,231	856	5,252	6,904	8,423	8,423	7,496
Deferred income tax liabilities	37	43	60	155	27	442	390	898	808	969
Government grants	240	354	373	364	350	238	304	608	669	736
<b>Total</b>	<b>445</b>	<b>500</b>	<b>575</b>	<b>2,750</b>	<b>1,233</b>	<b>5,931</b>	<b>7,598</b>	<b>9,928</b>	<b>9,900</b>	<b>9,202</b>
Minority interests	50	50	42	43	-	713	705	692	786	835
<b>Net assets</b>	<b>5,445</b>	<b>6,082</b>	<b>6,027</b>	<b>6,330</b>	<b>6,605</b>	<b>6,893</b>	<b>7,047</b>	<b>8,140</b>	<b>8,735</b>	<b>9,275</b>
<b>Share capital</b>										
Other reserves	2,181	2,181	2,181	2,181	2,181	2,181	2,181	2,181	2,181	2,181
Other reserves	2,939	3,127	3,248	3,377	3,264	3,541	3,595	3,595	3,595	3,595
Retained earnings	326	774	599	772	1,160	1,171	1,272	2,364	2,959	3,499
	<b>5,445</b>	<b>6,082</b>	<b>6,027</b>	<b>6,330</b>	<b>6,605</b>	<b>6,893</b>	<b>7,047</b>	<b>8,140</b>	<b>8,735</b>	<b>9,275</b>

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

January 14, 2010

China Toll Roads

Exhibit 105

**SZEC: Cash Flow Statement**

Rmb mn	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit for the year	414	1,055	499	642	631	715	561	641	683	787
Adjustment for:										
Depreciation & Amortisation	101	82	133	168	221	183	204	240	320	349
Gain on disposal of PPE	0	(691)	8	0	57	(21)	0	-	-	-
Interest income	(25)	(28)	(48)	(29)	(11)	(9)	(7)	(8)	(8)	(8)
Government subsidy income	(33)	(46)	(36)	(38)	(34)	(11)	-	-	-	-
Interest expense	-	-	24	84	100	158	262	343	458	454
Share of loss of associates	-	-	1	24	17	13	17	15	15	15
Share of profit of JCEs	11	28	-	(35)	-	(189)	(292)	(250)	(250)	(250)
Exchange gains	-	-	0	(0)	(9)	(9)	(10)	-	-	-
Others	107	(178)	(28)	(23)	(390)	32	40	(50)	(35)	13
Changes in working capital:										
Inventories	(0)	(0)	(1)	4	1	(0)	(0)	-	-	-
Trade and other receivables	(6)	(1)	(18)	(121)	56	(91)	(106)	(1,316)	125	964
Other payables	(32)	(17)	(1)	43	38	109	365	1,215	295	325
<b>Cash generated from operations</b>	<b>537</b>	<b>203</b>	<b>532</b>	<b>719</b>	<b>676</b>	<b>880</b>	<b>1,035</b>	<b>829</b>	<b>1,603</b>	<b>2,648</b>
Interest paid	(26)	(14)	(24)	(89)	(115)	-	-	-	-	-
Income tax paid	(36)	(36)	(66)	(76)	(88)	(84)	(87)	(64)	(102)	(118)
Government subsidies received	-	10	-	10	13	11	-	-	-	-
<b>Net cash generated from operating</b>	<b>475</b>	<b>163</b>	<b>443</b>	<b>565</b>	<b>486</b>	<b>807</b>	<b>948</b>	<b>764</b>	<b>1,500</b>	<b>2,530</b>
<b>Cash flows from investing activities</b>										
Purchase of PPE and investment in CIP	(304)	(177)	(296)	(425)	(669)	(3,373)	(2,697)	(2,775)	(1,000)	(1,000)
Deposits returned for road contract	-	-	-	-	146	(59)	(46)	(53)	(50)	(51)
Proceeds from sales of PPE	26	965	579	386	0	0	0	-	-	-
Acquisition of a subsidiary	-	(24)	-	-	-	(451)	-	-	-	-
Profit distribution from JCE	61	114	-	-	340	376	378	378	378	378
Profit distribution from associates	-	-	-	10	33	24	22	25	25	25
Interest received	-	28	12	-	6	9	3	-	-	-
Acquisition of associates	-	(1)	(868)	(1,654)	(358)	-	-	-	-	-
Others	80	(7)	103	(674)	(178)	19	(38)	-	-	-
<b>Net cash used in investing activities</b>	<b>(138)</b>	<b>898</b>	<b>(469)</b>	<b>(2,358)</b>	<b>(679)</b>	<b>(3,457)</b>	<b>(2,378)</b>	<b>(2,425)</b>	<b>(647)</b>	<b>(648)</b>
<b>Cash flow from financing activities</b>										
Proceeds from borrowings	1,285	447	881	3,394	2,430	5,195	4,877	2,358	(196)	(1,103)
Issue of shares	-	-	-	-	-	-	-	-	-	-
Proceeds from short-term bonds	-	-	-	-	1,000	-	-	-	-	-
Proceeds from convertible bond	-	-	-	-	-	1,459	-	-	-	-
Proceeds from corporate bonds	-	-	-	-	-	790	-	-	-	-
Repayments of borrowings	(1,395)	(929)	(463)	(1,703)	(3,536)	(4,173)	(2,545)	-	-	-
Interest paid	-	-	-	-	-	(205)	(364)	(343)	(458)	(454)
Payments for other borrowing costs	-	-	(3)	(19)	(2)	(0)	(119)	-	-	-
Dividends paid to shareholders	(218)	(262)	(414)	(240)	(262)	(283)	(349)	(262)	(292)	(295)
Dividends paid to minority shareholders	(10)	(5)	(7)	(8)	(8)	-	-	-	-	-
Others	1	-	-	19	7	5	-	-	-	-
<b>Net cash generated from financing</b>	<b>(337)</b>	<b>(749)</b>	<b>(7)</b>	<b>1,443</b>	<b>(371)</b>	<b>2,788</b>	<b>1,499</b>	<b>1,754</b>	<b>(946)</b>	<b>(1,852)</b>
<b>Net increase (decrease) in cash</b>	<b>1</b>	<b>312</b>	<b>(33)</b>	<b>(349)</b>	<b>(564)</b>	<b>138</b>	<b>69</b>	<b>93</b>	<b>(93)</b>	<b>30</b>
Cash and cash equivalent (BOP)	962	963	1,275	1,242	892	328	467	536	629	537
<b>Cash and cash equivalent (EOP)</b>	<b>963</b>	<b>1,275</b>	<b>1,242</b>	<b>892</b>	<b>328</b>	<b>467</b>	<b>536</b>	<b>629</b>	<b>537</b>	<b>566</b>

E = Morgan Stanley Research estimate Source: Company data, Morgan Stanley Research



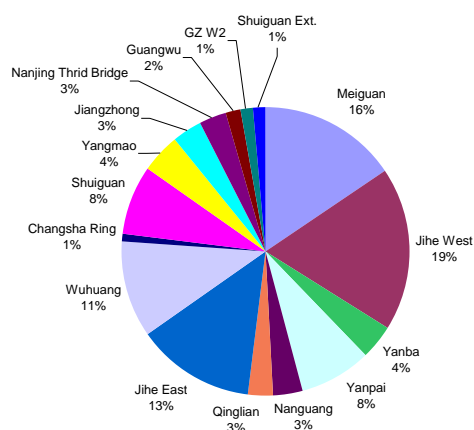
## Company Profile

### Company Overview

Shenzhen Expressway is one of the largest toll road operators in the PRD. It mainly operates and invests in toll highways in Shenzhen and other regions of Guangdong. It is dual-listed in both A-share and H-share market.

Exhibit 106

### Reclassified Revenue Breakdown – 2008



Per forma revenue including jointly controlled and associated toll road, revenue based on percentage of interest held. Source: Company data, Morgan Stanley Research

### Revenue Breakdown

Based on the income statement from 2008, Shenzhen Expressway generates revenue from four segments: 1) 75% from construction services under service concession arrangements; 2) 23% from tolls; 3) 1% from entrusted management services; and 4) 1% from other income.

In line with industry practice, we reclassify the revenue streams into three categories: 1) principle toll highway revenue, from Meiguan, Jihe West, Yanba, Yanpai, Nanguang, and Qinglian, which contributed 52% in 2008; 2) jointly controlled entities, including Jihe East, Wuhuang, Changsha Ring Road, which contributed 25%; and 3) associated toll roads, including Shuiguan, Yangmao, Jiangzhong, Nanjing Third Bridge,

Guangwu, GZ W2, and Shuiguan Extension, contributing 23%. This reclassification should help investors better understand the weight of each toll road's revenue contribution.

### Shareholder Structure

Shenzhen Expressway is indirectly controlled by the State-owned Assets Supervision & Administration Commission of the Shenzhen government through three directly controlled subsidiaries that hold an aggregate 50% stake in the company.

### Key Toll Road Assets Profile:

There are 16 toll road sections under Shenzhen Expressway, which can be divided into the following three categories:

#### 1) Highways in Shenzhen

**a) Meiguan Expressway** from Meilin to Guanlan started operation in May 1995. It connects in the south with the Huanggang Immigration and Customs Control, one of the largest land border checkpoints in Asia, and the Guangshen expressway in the north, and intercepts with Jihe expressway in the middle. It is the main route for ground transportation between Hong Kong and mainland China.

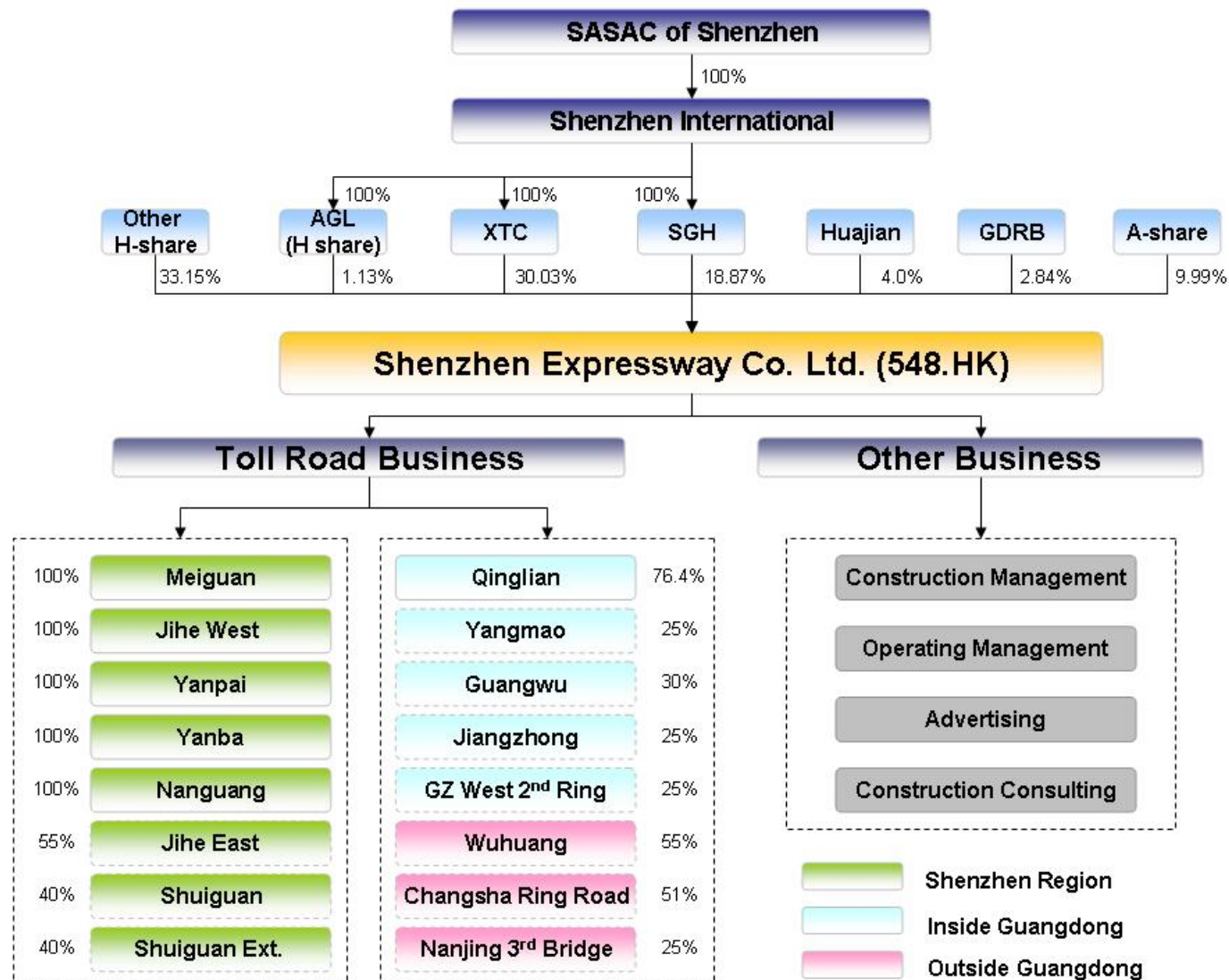
**b) Jihe West & Jihe East** from Shenzhen Bao'an International Airport to He'ao in Shenzhen City. This connects with Yantian Port through its subsidiary route Yanpai expressway in the east, passes through many connecting expressways to reach Huizhou, Shantou, and surrounding areas in eastern Guangdong, and links with Shenzhen Bao'an International Airport and Guangshen expressway.

**c) Yanba Expressway** from Yantian to Bagang. It connects with Yantian Port and Shenzhen downtown in the west, and passes through several seaside resorts.

**d) Yanpai Expressway** from Yantian to Paibang. It connects Yantian Port with Shuiguan expressway, Jihe East, and Boshen expressway (Boluo-Shenzhen, under construction).

Exhibit 107

**SZEC: Corporate and Shareholding Structure**



Note: SASAC represents State-owned Assets Supervision & Administration Commission; based on 2008 annual result, Source: Company data

**e) Nanguang Expressway** from Xili to Gongming is one of the main trunks roads in the western part of Shenzhen. It connects with the Shenzhen-Hong Kong Western Corridor and Shekou Western Ports via Nanping freeway and heads north to reach Dongguan City via Longda expressway.

**f) Shuiguan Expressway** from Shuijingcun to Guanjintou connects Shenzhen downtown and the Longgang Industrial Zone, one of the most important in Shenzhen.

**g) Shuiguan Extension** is an extension of the Shuiguan expressway. It connects the Bulong Interchange of Shuiguan

expressway and the Qingshuihe Checkpoint in Shenzhen, and links with two large warehouse areas, Qingshuihe and Sungang.

**2) Highways Elsewhere in Guangdong**

**a) Qinglian Project** includes the Qinglian Class 1 and Class 2 highways from Qingyuan City to Lianzhou City. This is a major highway transport corridor connecting the less developed areas in the northwestern part of Guangdong with the developed areas of the PRD.

**b) Yangmao Expressway** from Yangjiang City to Maoming City links with the Kaiyang expressway (Kaiping-Yangjiang) and Maozhan expressway (Maoming-Zhanjiang), and is an important part of the coastal Tongsan national trunk highway (Tongjiang, Heilongjiang-Sanya, Hainan).

**c) Guangwu Project** from Zhaoqing City in the east, connects with the Guangzhao expressway (Guangzhou-Zhaoqing), ends in Yunfu City in the west, and connects with the second phase of Guangwu expressway (under construction). The Guangwu Project is a section of the national trunk highway from Shantou, Guangdong to Qingshuihe, Yunnan.

**d) Jiangzhong Project** comprises an expressway from Zhongshan City to Jiangmen City and an expressway from Jiangmen City to Heshan City.

**e) GZ W2 Expressway** is the Xiaotang to Maoshan section of the national trunk highway Guangzhou Ring Road, also referred to as the Guangzhou Western Second Ring Expressway.

### 3) Highways Outside Guangdong Province

**a) Wuhuang Expressway** from Wuhan City to Huangshi City in Hubei province, was acquired by the company in August 2005. Running from east to west, Wuhuang Expressway is an important part of the Hurong National Highway (Shanghai – Chengdu), and is also the major hub of the transportation network of the eastern part of Hubei Province. It connects with Jingzhu expressway (Beijing-Zhuhai) and National Highway 107 in Wuhan City.

**b) Changsha Ring Road:** Changsha National Highway Ring Road (Northwestern Section) in Hunan Province links with Jingzhu expressway (Beijing-Zhuhai), National Highway 107 (Changsha Section) in the northeast and Changyi Expressway (Changsha-Yiyang), National Highway 319 (Changsha Section) and the southwestern section of Hunan Changsha Ring Road in the west.

**c) Nanjing Third Bridge** in Jiangsu Province. Nanjing Third Bridge commenced operation in October 2005. It connects with several cross-regional expressways which reach to Anhui, Jiangsu, and Zhejiang provinces. It is a convenient passage along the Hurong National Highway (Shanghai-Chengdu) crossing the Yangtze River at Nanjing City.

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# Anhui Expressway

## Long-term Growth Potential, But No Near-term Catalyst

### Equal-weight, Price Target HK\$5.87

- Benefiting from long-term economic growth:** We expect accelerated economic growth in Anhui province, a relatively under-developed area in the Yangtse River Delta (YRD), in the next decade. From 2003 to 2008, Anhui's GDP CAGR was 12.3%, outperforming the national average of 10.7%. We expect this trend to continue and believe the booming local economy will benefit Anhui Expressway.
- Industry relocation to boost traffic volume:** Thanks to Anhui's labor cost advantage and short distance from coastal ports, we expect more manufacturing to be transferred to the province from Shanghai and Jiangsu. Unilever (China) achieved a 30% cost saving when it relocated its production centre from Shanghai to Anhui in 2002. We look for the growing manufacturing activity in Anhui to boost traffic volume and therefore have a positive effect on Anhui Expressway.
- Good story, but no near-term catalyst:** Despite the positive long-term economic outlook and potential relocation benefits, we see no near-term catalyst for a re-rating of the stock. Trading at 10.9x P/E and 6.7x EV/EBITDA on our 2010 estimates, the stock is close to its historical average valuation, and we therefore rate it Equal-weight.

### Traffic Growth Should Remain Mixed

In 2009, traffic growth on toll road sections, including Hening, Gaojie, and Xuanguan, recovered sequentially. With the completion of the widening of the Hening section in September 2009, the traffic growth recovery there should continue in 2010 and 2011. However, because of traffic migration, traffic on the N205 and Lianhuo Expressway declined 12-17% in 2009. We do not expect a significant turnaround there in 2010 and 2011 and therefore anticipate that Anhui Expressway's traffic growth will remain mixed.

### Key Ratios and Statistics

Reuters:995.HK Bloomberg: 995 HK  
China Transportation

Price target	HK\$5.87			
Upside to price target (%)	8			
Shr price, close (Jan 12, 2010)	HK\$5.44			
52-Week Range	HK\$5.65-2.61			
Sh out, dil, curr (mn)	1,659			
Mkt cap, curr (mn)	HK\$9,023			
Avg daily trading value (mn)	US\$1.2			
<b>Fiscal Year ending</b>	<b>12/08</b>	<b>12/09e</b>	<b>12/10e</b>	<b>12/11e</b>
ModelWare EPS (Rmb)	0.40	0.40	0.44	0.48
Consensus EPS (Rmb)§	0.40	0.41	0.44	0.47
Revenue, net (Rmb mn)	1,690	1,862	1,983	2,139
EBITDA (Rmb mn)	1,355	1,472	1,583	1,707
ModelWare net inc (Rmb mn)	671	666	726	802
P/E	6.1	11.8	10.9	9.9
P/BV	0.8	1.5	1.5	1.5
ROE (%)	14.0	13.0	13.8	15.3
EV/EBITDA	4.6	7.0	6.7	6.3
Div yld (%)	9.3	5.1	5.5	6.1
Leverage (EOP) (%)	36.8	42.3	45.6	47.9

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note.)

§ = Consensus data is provided by FactSet Estimates.

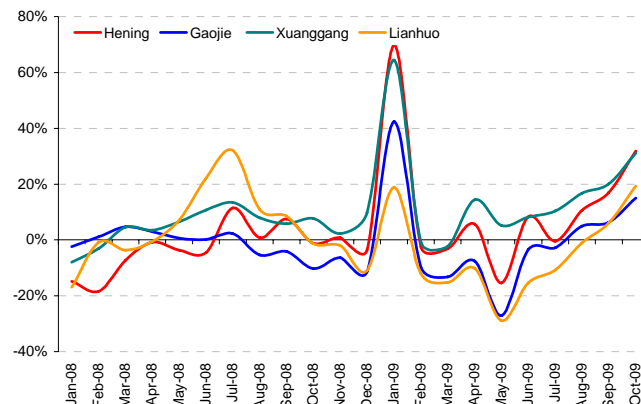
e = Morgan Stanley Research estimates

### Company Description

Anhui Expressway is the only listed highway company in Anhui province. Its wholly owned interests include Hening Expressway, Gaojie Expressway, the New Tianchang section of National Trunk 205 and the Anhui section of the Lianhuo Expressway. The company also has a 55.47% stake in Xuanguang Expressway Company Limited and a 65% interest in Kangcheng Pharmaceutical Company. Its H shares were issued in November 1996 and its A shares in January 2003.

Exhibit 108

### Mixed Traffic Growth for Major Roads



Source: Company data, Morgan Stanley Research

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China Toll Roads

## AHEC: Financial Summary

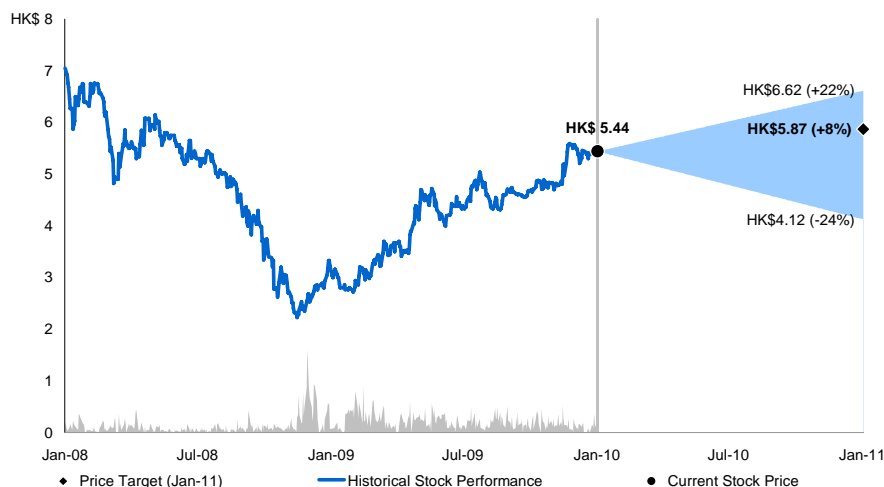
Rmb million; Years Ending December

Profit & Loss Statements						Ratio Analysis					
Year to Dec (Rmb mn)	2007	2008	2009E	2010E	2011E	Growth%	2007	2008	2009E	2010E	2011E
<b>Toll road income</b>	<b>1,651</b>	<b>1,690</b>	<b>1,772</b>	<b>1,881</b>	<b>2,021</b>	Toll road income	2.1	-2.5	10.1	6.1	7.4
- Hening Exp.	629	628	696	764	841	- Hening Exp.	2.0	-0.2	10.8	9.9	10.0
- National Trunk 205	66	45	43	43	43	- National Trunk 205	-40.0	-32.3	-4.1	0.0	0.5
- Gaojie Exp.	449	464	456	480	518	- Gaojie Exp.	15.5	3.4	-1.8	5.2	8.0
- Xuanguang Exp.	286	300	336	359	377	- Xuanguang Exp.	4.4	5.2	11.9	6.8	5.0
- Lianhuo Exp.	185	206	180	163	163	- Lianhuo Exp.	-18.5	11.6	-12.9	-9.1	0.0
- Ninghuai Exp.	36	46	62	71	78	- Ninghuai Exp.	0.0	26.9	34.0	15.0	10.0
Ancillary & others	38	-	90	103	118	Ancillary & others	0.0	112.3	12.5	14.2	14.9
<b>Total Revenue</b>	<b>1,689</b>	<b>1,690</b>	<b>1,862</b>	<b>1,983</b>	<b>2,139</b>	Net Revenue	1.9	0.1	10.2	6.5	7.8
Less: business tax	(55)	(53)	(59)	(63)	(68)	Operating Profit	-5.3	-7.5	1.0	8.8	10.6
<b>Net revenue</b>	<b>1,634</b>	<b>1,636</b>	<b>1,803</b>	<b>1,921</b>	<b>2,071</b>	Pretax Profit	2.8	-13.1	-1.8	8.9	10.4
<b>Cost of sales</b>	<b>(422)</b>	<b>(517)</b>	<b>(590)</b>	<b>(602)</b>	<b>(616)</b>	Net Profit	-44.6	23.5	-0.6	8.9	10.4
- Depr & amort.	(349)	(365)	(365)	(365)	(365)	EBITDA	1.5	-4.5	0.7	6.5	8.0
- Staff cost	(86)	(102)	(104)	(109)	(115)	EPS	-44.6	23.5	-0.6	8.9	10.4
- Maintenance	(69)	(119)	(59)	(65)	(72)	<b>Margin%</b>					
- Others	82	69	(61)	(63)	(64)	EBITDA margin	89.7	85.6	78.2	78.2	78.3
<b>Gross profit</b>	<b>1,213</b>	<b>1,119</b>	<b>1,213</b>	<b>1,318</b>	<b>1,456</b>	Operating Margin	68.4	60.5	59.0	60.4	62.0
Operating Expenses	(96)	(129)	(149)	(159)	(171)	Net Profit Margin	33.2	41.0	37.0	37.8	38.7
<b>Operating Profit</b>	<b>1,117</b>	<b>990</b>	<b>1,064</b>	<b>1,160</b>	<b>1,285</b>	<b>Return%</b>					
Share of Associates	1	3	3	3	3	ROE	10.7	13.5	12.8	13.8	15.3
Net financial costs	(2)	(66)	(93)	(100)	(112)	ROA	7.1	8.2	7.4	7.8	8.6
Other Expenses, Net	(0)	42	(22)	(26)	(30)	<b>Gearing</b>					
<b>Profit Before Taxation</b>	<b>1,116</b>	<b>970</b>	<b>952</b>	<b>1,037</b>	<b>1,145</b>	Net Debt/Equity (%)	0.3	0.4	0.4	0.5	0.5
Taxation	(484)	(251)	(238)	(259)	(286)	Int. Coverage (x)	609.4	15.8	11.2	11.4	11.2
Minority Interests	(88)	(48)	(48)	(52)	(57)	<b>Operational Analysis</b>					
<b>Net Profit</b>	<b>543</b>	<b>671</b>	<b>666</b>	<b>726</b>	<b>802</b>		<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
EBITDA	1,466	1,400	1,411	1,502	1,622	<b>Avg traffic (vehicles/d)</b>					
<b>EPS (Rmb)</b>	<b>0.33</b>	<b>0.40</b>	<b>0.40</b>	<b>0.44</b>	<b>0.48</b>	- Hening Exp.	14,310	13,840	15,884	17,791	19,570
						- National Trunk 205	8,004	5,979	5,844	5,844	5,873
						- Gaojie Exp.	9,631	9,399	9,503	10,453	11,289
						- Xuanguang Exp.	9,996	10,494	11,925	13,118	13,774
						- Lianhuo Exp.	7,069	7,281	6,997	6,647	6,647
						- Ninghuai Exp.	9,478	11,058	15,040	17,296	19,025
						<b>Avg toll income (Rmb mn/day)</b>					
						- Hening Exp.	1.7	1.7	1.9	2.1	2.3
						- National Trunk 205	0.2	0.1	0.1	0.1	0.1
						- Gaojie Exp.	1.2	1.3	1.2	1.3	1.4
						- Xuanguang Exp.	0.8	0.8	0.9	1.0	1.0
						- Lianhuo Exp.	0.5	0.6	0.5	0.4	0.4
						- Ninghuai Exp.	0.1	0.1	0.2	0.2	0.2
						<b>Growth%</b>					
						<b>Avg traffic</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
						- Hening Exp.	-2.6	-3.3	14.8	12.0	10.0
						- National Trunk 205	-48.5	-25.3	-2.3	0.0	0.5
						- Gaojie Exp.	16.2	-2.4	1.1	10.0	8.0
						- Xuanguang Exp.	12.7	5.0	13.6	10.0	5.0
						- Lianhuo Exp.	-19.4	3.0	-3.9	-5.0	0.0
						- Ninghuai Exp.	n.a.	16.7	36.0	15.0	10.0
						<b>Avg toll income</b>					
						- Hening Exp.	2.0	-0.2	10.8	9.9	10.0
						- National Trunk 205	-40.0	-32.3	-4.1	0.0	0.5
						- Gaojie Exp.	15.5	3.4	-1.8	5.2	8.0
						- Xuanguang Exp.	4.4	5.2	11.9	6.8	5.0
						- Lianhuo Exp.	-18.5	11.6	-12.9	-9.1	0.0
						- Ninghuai Exp.	n.m.	26.9	34.0	15.0	10.0
						<b>Valuation</b>					
							<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
						P/E	14.6	11.8	11.8	10.9	9.9
						P/B	1.7	1.5	1.5	1.5	1.5
						EV/EBITDA	7.5	7.9	7.0	6.7	6.3
						Dividend yield	4%	5%	5%	6%	6%

E = Morgan Stanley Research estimates Source: FactSet, Company data, Morgan Stanley Research

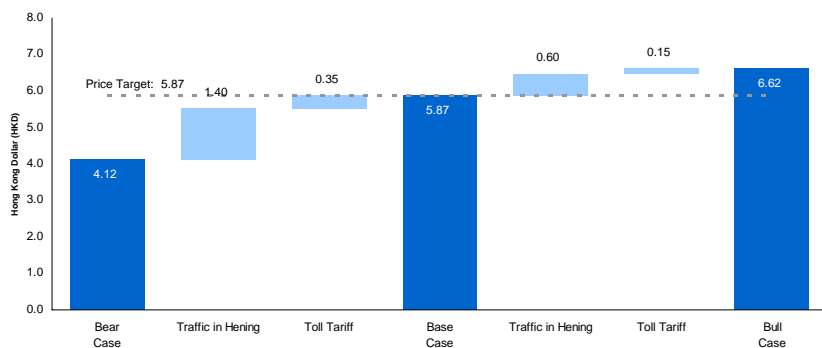
## Risk-Reward Snapshot: AHEC (0995.HK, HK\$5.44, Equal-weight, PT HK\$5.87)

### A Good Long-term Story, But Lacks Near-term Catalyst



<b>Price target HK\$5.87</b>		Based on base-case residual income valuation
Bull Case	Implied 13.2x 2010e P/E	<b>Strong traffic growth with booming local economy:</b> Rapid local economic growth leads to better traffic growth / recovery on all the company's toll roads over the next 2-3 years.
Base Case	Implied 11.7x 2010e P/E	<b>Hening widening to introduce traffic growth:</b> Following the road widening in September 2009, we expect strong traffic growth on the Hening Expressway in 2010-12. Other toll road assets will likely register flattish traffic volume.
Bear Case	Implied 8.2x 2010e P/E	<b>Traffic uses other means following aggressive infrastructure investment:</b> Traffic growth remains limited because of swift expansion of new toll roads and the railway network.

### Bear to Bull: Hening Expressway Traffic the Key Driver



Source: Morgan Stanley, FactSet

### Investment Thesis:

- Excellent geographic exposure in Anhui province, which has long-term economic growth potential.
- Relocation of manufacturing center to boost traffic volume in the long run.
- Widening of Hening section to introduce new growth momentum from 2010.
- Mixed traffic performance because of traffic migration.
- No near-term catalyst to drive the stock.

### Key Value Drivers

- Traffic growth on the Hening, Gaojie, and Xuanguang roads.
- New investment on Ningxuanhang Expressway (Xuancheng-Ningbo section),

### Potential Catalysts

- Evidence of strong export recovery.
- Shanghai Expo 2010.
- Opening of high-speed railway.

### Key Risks

- Upside: 1) better traffic growth in 2010-12 because of a strong local economy; 2) higher-than-expected traffic growth on Hening Expressway 2009; 3) traffic recovery on Gaojie Expressway following renovation in June 2009.
- Downside: 1) traffic using other newly constructed expressways and railways in Anhui province; 2) economic slowdown in Anhui province led by macro controls and austerity measures; 3) exogenous risks, such as natural disasters, could affect volume growth.

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## Valuation

### DCF Valuation for Toll Road Assets

We derive our price target from a DCF valuation for each key toll road section. Our key assumptions are as follows: 1) EBITDA CAGR at 7.0% for 2009-11 and 1.4% in the remainder of the concession period; 2) a WACC of 8.8%; 3) capex CAGR of 1.0% in the concession period, as the maintenance cost is much lower than the initial construction cost.

Exhibit 109

#### AHEC: WACC Calculation

Equity beta	0.83
30-year risk free rate (%)	5.0
Equity risk premium (%)	7.0
<b>Cost of equity (%)</b>	<b>10.8</b>
Marginal cost of long-term debt (%)	5.3
Marginal tax rate (%)	25.0
<b>Post-tax cost of debt (%)</b>	<b>4.0</b>
MVE/(MVD+MVE) (%)	70.0
MVD/(MVD+MVE) (%)	30.0
<b>Weighted average cost of capital (%)</b>	<b>8.8</b>

Source: Company data, Morgan Stanley Research

### Forward P/E, EV/EBITDA

The stock is trading at 11.8x P/E and 7.0x EV/EBITDA based on our 2009 estimates, close to the industry average. Although there is a long-term growth opportunity for Anhui Expressway, we believe there is a lack of catalysts to drive the stock in the coming 6-12 months. We believe the stock is fairly valued.

### Risks to Our Price Target

Upside risks to our price target include: 1) better traffic growth in 2010-12 because of a strong local economy; 2) higher-than-expected traffic growth on Hening Expressway 2009; 3) traffic recovery on Gaojie Expressway following renovation in June 2009.

Downside risks, however, could arise from the following: 1) traffic using other newly constructed expressways and railways in Anhui province; 2) economic slowdown in Anhui province led by macro controls and austerity measures; 3) exogenous risks, such as natural disasters, could affect volume growth.

Exhibit 110

#### AHEC: DCF Valuation Summary

	Hening	Gaojie	Xuang guang	Lianhuo	205	Ninghuai	Total
NPV of explicit cashflow forecasts	4,915	3,027	2,339	825	61	321	11,487
Terminal value (growth rate = 0%)	-	-	-	-	-	-	-
Enterprise Value	4,915	3,027	2,339	825	61	321	11,487
Net Cash / (Debt)	(758)	(561)	(363)	(249)	(54)	(56)	(2,040)
DCF valuation	4,157	2,466	1,976	576	6	265	9,448
% attributable to Anhui Exp.	100%	100%	55%	100%	100%	100%	
DCF valuation attributable to Anhui Exp. (Rmb mn)	<b>4,157</b>	<b>2,466</b>	<b>1,096</b>	<b>576</b>	<b>6</b>	<b>265</b>	<b>8,568</b>
% of valuation	49%	29%	13%	7%	0%	3%	100%
Total Equity Value (Rmb m)	<b>8,568</b>						
<b>Shares outstanding</b>	<b>1,659</b>						
Rmb/share	5.17						
<b>HK\$/share</b>	<b>5.87</b>						

Source: Morgan Stanley Research estimates

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Exhibit 111

## AHEC: DCF Valuation Breakdown by Road Section - 1

Hening Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	591	650	715	729	744	759	774	789	805	821	837	854
Less: Cash Tax Payable on EBIT	(114)	(129)	(145)	(149)	(152)	(156)	(160)	(164)	(167)	(172)	(176)	(180)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(51)	(51)	(52)	(52)	(53)	(53)	(54)	(54)	(55)	(55)	(56)	(56)
<b>Free Cash Flow</b>	<b>427</b>	<b>470</b>	<b>518</b>	<b>529</b>	<b>539</b>	<b>550</b>	<b>560</b>	<b>571</b>	<b>583</b>	<b>594</b>	<b>606</b>	<b>618</b>
YoY Growth	8%	10%	10%	2%	2%	2%	2%	2%	2%	2%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>477</b>	<b>447</b>	<b>419</b>	<b>393</b>	<b>368</b>	<b>345</b>	<b>324</b>	<b>304</b>	<b>285</b>	<b>267</b>
<b>Hening Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	871	889	907	925	943	962						
Less: Cash Tax Payable on EBIT	(184)	(188)	(193)	(197)	(202)	(207)						
Plus: Decrease in WC	-	-	-	-	-	-						
Less: Capital Expenditure	(57)	(57)	(58)	(59)	(59)	(60)						
<b>Free Cash Flow</b>	<b>630</b>	<b>643</b>	<b>656</b>	<b>669</b>	<b>682</b>	<b>695</b>						
YoY Growth	2%	2%	2%	2%	2%	2%						
<b>NPV of Free Cash Flow</b>	<b>250</b>	<b>235</b>	<b>220</b>	<b>206</b>	<b>194</b>	<b>182</b>						
<b>Total NPV (Hening Exp.)</b>	<b>4,915</b>											
<b>Gaojie Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	401	422	456	460	465	470	474	479	484	489	494	499
Less: Cash Tax Payable on EBIT	(100)	(106)	(114)	(115)	(116)	(117)	(119)	(120)	(121)	(122)	(123)	(125)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(30)	(31)	(31)	(31)	(32)	(32)	(32)	(32)	(33)	(33)	(33)	(34)
<b>Free Cash Flow</b>	<b>271</b>	<b>286</b>	<b>311</b>	<b>314</b>	<b>317</b>	<b>320</b>	<b>324</b>	<b>327</b>	<b>330</b>	<b>333</b>	<b>337</b>	<b>340</b>
YoY Growth	-4%	6%	9%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>286</b>	<b>266</b>	<b>247</b>	<b>229</b>	<b>213</b>	<b>198</b>	<b>183</b>	<b>170</b>	<b>158</b>	<b>147</b>
<b>Gaojie Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	504	509	514	519	524	529	535	540	545			
Less: Cash Tax Payable on EBIT	(126)	(127)	(128)	(130)	(131)	(132)	(134)	(135)	(136)			
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-			
Less: Capital Expenditure	(34)	(34)	(35)	(35)	(36)	(36)	(36)	(37)	(37)			
<b>Free Cash Flow</b>	<b>344</b>	<b>347</b>	<b>350</b>	<b>354</b>	<b>358</b>	<b>361</b>	<b>365</b>	<b>368</b>	<b>372</b>			
YoY Growth	1%	1%	1%	1%	1%	1%	1%	1%	1%			
<b>NPV of Free Cash Flow</b>	<b>136</b>	<b>127</b>	<b>118</b>	<b>109</b>	<b>101</b>	<b>94</b>	<b>88</b>	<b>81</b>	<b>75</b>			
<b>Total NPV (Gaojie Exp.)</b>	<b>3,027</b>											
<b>Xuanguang Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	286	305	321	324	327	330	334	337	340	344	347	351
Less: Cash Tax Payable on EBIT	(54)	(59)	(63)	(63)	(64)	(65)	(66)	(67)	(68)	(68)	(69)	(70)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
<b>Free Cash Flow</b>	<b>222</b>	<b>236</b>	<b>248</b>	<b>250</b>	<b>252</b>	<b>255</b>	<b>257</b>	<b>259</b>	<b>262</b>	<b>264</b>	<b>267</b>	<b>269</b>
YoY Growth	10%	7%	5%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>228</b>	<b>211</b>	<b>196</b>	<b>182</b>	<b>169</b>	<b>157</b>	<b>145</b>	<b>135</b>	<b>125</b>	<b>116</b>
<b>Xuanguang Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	354	358	361	365	368	372	376	380				
Less: Cash Tax Payable on EBIT	(71)	(72)	(73)	(74)	(75)	(76)	(76)	(77)				
Plus: Decrease in WC	-	-	-	-	-	-	-	-				
Less: Capital Expenditure	(11)	(11)	(12)	(12)	(12)	(12)	(12)	(12)				
<b>Free Cash Flow</b>	<b>272</b>	<b>274</b>	<b>277</b>	<b>279</b>	<b>282</b>	<b>285</b>	<b>287</b>	<b>290</b>				
YoY Growth	1%	1%	1%	1%	1%	1%	1%	1%				
<b>NPV of Free Cash Flow</b>	<b>108</b>	<b>100</b>	<b>93</b>	<b>86</b>	<b>80</b>	<b>74</b>	<b>69</b>	<b>64</b>				
<b>Total NPV (Xuanguang Exp.)</b>	<b>2,339</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research



Exhibit 112

## AHEC: DCF Valuation Breakdown by Road Section - 2

Lianhuo Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	126	114	114	114	114	114	114	114	114	114	114	114
Less: Cash Tax Payable on EBIT	(20)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
<b>Free Cash Flow</b>	<b>95</b>	<b>87</b>	<b>87</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>
YoY Growth	-13%	-9%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>80</b>	<b>73</b>	<b>67</b>	<b>62</b>	<b>57</b>	<b>52</b>	<b>48</b>	<b>44</b>	<b>40</b>	<b>37</b>
<b>Lianhuo Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	114	114	114	114	114	114	114	114	114	114	114	114
Less: Cash Tax Payable on EBIT	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(11)	(11)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(13)	(13)
<b>Free Cash Flow</b>	<b>86</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>84</b>	<b>84</b>	<b>84</b>
YoY Growth	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NPV of Free Cash Flow</b>	<b>34</b>	<b>31</b>	<b>29</b>	<b>26</b>	<b>24</b>	<b>22</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>13</b>
<b>Total NPV (Lianhuo Exp.)</b>	<b>825</b>											
<b>National Trunk 205</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	24	24	24	24	24	24	24	24	24	24	24	24
Less: Cash Tax Payable on EBIT	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
<b>Free Cash Flow</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
YoY Growth	-20%	-1%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>
<b>National Trunk 205</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	24	24	24	24	25	25						
Less: Cash Tax Payable on EBIT	(6)	(6)	(6)	(6)	(6)	(6)						
Plus: Decrease in WC	-	-	-	-	-	-						
Less: Capital Expenditure	(11)	(11)	(12)	(12)	(12)	(12)						
<b>Free Cash Flow</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>6</b>						
YoY Growth	-1%	-1%	-1%	-1%	-1%	-1%						
<b>NPV of Free Cash Flow</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>						
<b>Total NPV (National Trunk 205)</b>	<b>61</b>											
<b>Ninghuai Expressway</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	37	43	47	49	51	52	53	54	55	56	57	58
Less: Cash Tax Payable on EBIT	(9)	(11)	(12)	(12)	(13)	(13)	(13)	(13)	(14)	(14)	(14)	(15)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)
<b>Free Cash Flow</b>	<b>23</b>	<b>27</b>	<b>30</b>	<b>32</b>	<b>33</b>	<b>34</b>	<b>34</b>	<b>35</b>	<b>36</b>	<b>37</b>	<b>37</b>	<b>38</b>
YoY Growth	38%	18%	12%	6%	3%	2%	2%	2%	2%	2%	2%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>27</b>	<b>26</b>	<b>24</b>	<b>23</b>	<b>21</b>	<b>20</b>	<b>19</b>	<b>18</b>	<b>16</b>
<b>Ninghuai Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	59	61	62	63	64	66	67	68				
Less: Cash Tax Payable on EBIT	(15)	(15)	(15)	(16)	(16)	(16)	(17)	(17)				
Plus: Decrease in WC	-	-	-	-	-	-	-	-				
Less: Capital Expenditure	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)				
<b>Free Cash Flow</b>	<b>39</b>	<b>40</b>	<b>41</b>	<b>41</b>	<b>42</b>	<b>43</b>	<b>44</b>	<b>45</b>				
YoY Growth	2%	2%	2%	2%	2%	2%	2%	2%				
<b>NPV of Free Cash Flow</b>	<b>15</b>	<b>15</b>	<b>14</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>10</b>				
<b>Total NPV (Ninghuai Expressway)</b>	<b>321</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

## Earnings Outlook

We estimate flattish earnings in 2009, with an 11% YoY increase in toll revenue from Hening Expressway, but declines in revenue from the N205, Gaojie and Lianhuo roads because of traffic using other roads, as detailed below. We estimate the net margin declined 4ppt because of flattish toll revenue but rising operational costs.

Exhibit 113

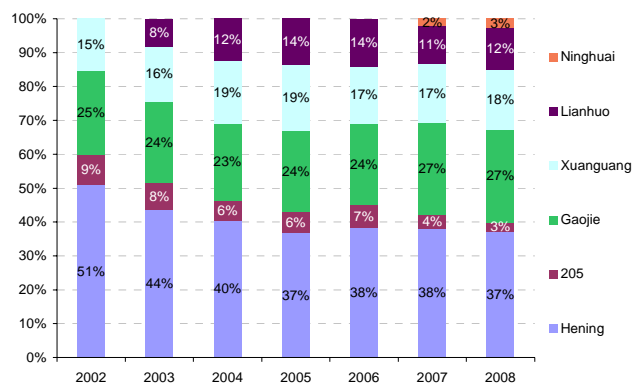
### AHEC: Key Growth Assumption

Rmb mn	2007	2008	2009E	2010E	2011E
Hening	629	628	696	764	841
YoY Chng	2%	0%	11%	10%	10%
New Tianchang (N205)	66	45	43	43	43
YoY Chng	-40%	-32%	-4%	0%	0%
Gaojie	449	464	456	480	518
YoY Chng	15%	3%	-2%	5%	8%
Xuanguang	286	300	336	359	377
YoY Chng	4%	5%	12%	7%	5%
Lianhuo	185	206	180	163	163
YoY Chng	-19%	12%	-13%	-9%	0%
Ninghuai	36	46	62	71	78
YoY Chng	n.a.	27%	34%	15%	10%
<b>Total Toll income</b>	<b>1,651</b>	<b>1,690</b>	<b>1,772</b>	<b>1,881</b>	<b>2,021</b>
YoY Chng	2%	2%	5%	6%	7%
Operating Margin	66%	61%	56%	57%	59%
PBT Margin	66%	57%	51%	52%	54%
Net Margin	32%	40%	36%	37%	37%
<b>Net profit</b>	<b>543</b>	<b>671</b>	<b>666</b>	<b>726</b>	<b>802</b>
YoY Chng	-45%	23%	-1%	9%	10%
Dividend Payout Ratio	61%	57%	60%	60%	60%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 114

### AHEC: Toll Income Mix Changes



Source: Company data, Morgan Stanley Research

### Anhui Expressway: 1Q-3Q Earnings Recap

In 1Q-3Q09, Anhui Expressway delivered flattish results, as detailed below. The larger-than-expected 13% YoY increase in general and administrative expenses was the root cause of the weaker EBIT and net margin.

Exhibit 115

### AHEC: 1Q-3Q09 Earnings Recap

RMB mn	1Q-3Q09	1Q-3Q08	Chg
Revenue	1,303	1,273	2%
Cost of goods sold	(423)	(426)	-1%
<b>Gross profit</b>	<b>880</b>	<b>848</b>	<b>4%</b>
Other income	2	2	-11%
G&A expenses	(101)	(89)	13%
<b>Operating profit</b>	<b>781</b>	<b>761</b>	<b>3%</b>
Finance costs	(37)	(47)	-21%
Other non-operating income	3	60	n.m.
Profit before taxation	747	773	-3%
Taxation	(169)	(192)	-12%
Profit after taxation	578	581	-1%
Minority interests	42	38	11%
<b>Net profit</b>	<b>535</b>	<b>543</b>	<b>-1%</b>
EPS (in RMB)	0.25	0.25	-1%
<b>Financial Ratio</b>	<b>1Q-3Q09</b>	<b>1Q-3Q08</b>	<b>Chg (bps)</b>
<b>Margins (%)</b>			
Gross	67.6%	66.6%	99
EBIT	60.2%	64.4%	(425)
Net Profit	41.1%	42.6%	(155)
G&A expense % of Revenue	7.7%	7.0%	76
Effective Tax Rate	22.6%	24.8%	(219)

Source: Company data, Morgan Stanley Research

January 14, 2010

China Toll Roads

Exhibit 116

**AHEC: Income Statement**

Rmb mn	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<b>Toll Revenue</b>	<b>717</b>	<b>830</b>	<b>1,179</b>	<b>1,538</b>	<b>1,617</b>	<b>1,651</b>	<b>1,690</b>	<b>1,772</b>	<b>1,881</b>	<b>2,021</b>
- Hening Expressway	366	362	477	565	617	629	628	696	764	841
- New Tianchang Section of National Trunk 205	63	66	69	96	111	66	45	43	43	43
- Gaojie Expressway	177	200	268	368	389	449	464	456	480	518
- Xuanguang Expressway	110	134	218	298	274	286	300	336	359	377
- Lianhuo Expressway Anhui Section	-	69	147	211	227	185	206	180	163	163
- Ninghuai Expressway Tianchang Section	-	-	-	-	1	36	46	62	71	78
Other recurring revenue	45	82	86	19	38	38	-	90	103	118
<b>Gross Revenue</b>	<b>761</b>	<b>912</b>	<b>1,264</b>	<b>1,557</b>	<b>1,655</b>	<b>1,689</b>	<b>1,690</b>	<b>1,862</b>	<b>1,983</b>	<b>2,139</b>
Less: Business & other related tax	(38)	(46)	(64)	(63)	(51)	(55)	(53)	(59)	(63)	(68)
Business tax rate	5.0%	5.0%	5.0%	4.0%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%
<b>Net revenue</b>	<b>723</b>	<b>866</b>	<b>1,201</b>	<b>1,495</b>	<b>1,604</b>	<b>1,634</b>	<b>1,636</b>	<b>1,803</b>	<b>1,921</b>	<b>2,071</b>
YoY Chng	n.a.	19.7%	38.7%	24.5%	7.3%	1.9%	0.1%	10.2%	6.5%	7.8%
<b>Cost of sales</b>	<b>(214)</b>	<b>(282)</b>	<b>(372)</b>	<b>(347)</b>	<b>(339)</b>	<b>(422)</b>	<b>(517)</b>	<b>(590)</b>	<b>(602)</b>	<b>(616)</b>
- Depreciation and amortisation expenses	(132)	(178)	(222)	(242)	(266)	(349)	(365)	(365)	(365)	(365)
- Employee benefit expenses	(39)	(49)	(86)	(104)	(92)	(86)	(102)	(104)	(109)	(115)
- Repair and maintenance expenses	-	-	(206)	(158)	(114)	(69)	(119)	(59)	(65)	(72)
- Tax related to revenue	(38)	(46)	(64)	(63)	(51)	(55)	(53)	(59)	(62)	(67)
- Expense for toll roads service sector	-	-	-	-	-	-	(36)	(36)	(36)	(36)
- Auditor's remuneration	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
- Others	-	-	-	-	-	-	-	-	-	-
<b>Gross profit</b>	<b>510</b>	<b>584</b>	<b>829</b>	<b>1,148</b>	<b>1,265</b>	<b>1,213</b>	<b>1,119</b>	<b>1,213</b>	<b>1,318</b>	<b>1,456</b>
YoY Chng	n.a.	14.6%	42.0%	38.4%	10.2%	-4.2%	-7.7%	8.4%	8.7%	10.4%
Other (losses) / gains - net	4	8	(5)	(13)	5	(0)	42	(22)	(26)	(30)
Administrative	(82)	(93)	(117)	(129)	(92)	(96)	(129)	(149)	(159)	(171)
<b>Operating profit</b>	<b>432</b>	<b>499</b>	<b>707</b>	<b>1,006</b>	<b>1,178</b>	<b>1,117</b>	<b>1,032</b>	<b>1,043</b>	<b>1,134</b>	<b>1,254</b>
YoY Chng	n.a.	15.6%	41.6%	42.3%	17.2%	-5.3%	-7.5%	1.0%	8.8%	10.6%
EBIT	431	499	706	1,009	1,179	1,118	1,035	1,046	1,137	1,257
<b>EBITDA</b>	<b>564</b>	<b>677</b>	<b>928</b>	<b>1,251</b>	<b>1,445</b>	<b>1,466</b>	<b>1,400</b>	<b>1,411</b>	<b>1,502</b>	<b>1,622</b>
Finance costs	(1)	(3)	(24)	(56)	(94)	(2)	(66)	(93)	(100)	(112)
Share of profit of associates	(0)	(1)	(1)	3	0	1	3	3	3	3
<b>Profit before tax</b>	<b>431</b>	<b>496</b>	<b>683</b>	<b>953</b>	<b>1,085</b>	<b>1,116</b>	<b>970</b>	<b>952</b>	<b>1,037</b>	<b>1,145</b>
Taxation	(83)	(101)	(140)	(205)	(91)	(484)	(251)	(238)	(259)	(286)
Effective tax rate	19%	20%	20%	22%	8%	43%	26%	25%	25%	25%
<b>Profit before MI</b>	<b>347</b>	<b>395</b>	<b>543</b>	<b>748</b>	<b>994</b>	<b>631</b>	<b>719</b>	<b>714</b>	<b>778</b>	<b>859</b>
Minority interests	0	(0)	(0)	(1)	(12)	(88)	(48)	(48)	(52)	(57)
<b>Net profit</b>	<b>347</b>	<b>395</b>	<b>543</b>	<b>747</b>	<b>981</b>	<b>543</b>	<b>671</b>	<b>666</b>	<b>726</b>	<b>802</b>
YoY Chng	n.a.	13.7%	37.4%	37.6%	31.5%	-44.6%	23.5%	-0.6%	8.9%	10.4%
<b>Margin</b>										
Gross	67%	64%	66%	74%	76%	72%	66%	65%	66%	68%
Operating	57%	55%	56%	65%	71%	66%	61%	56%	57%	59%
EBIT	57%	55%	56%	65%	71%	66%	61%	56%	57%	59%
EBITDA	74%	74%	73%	80%	87%	87%	83%	76%	76%	76%
Net	46%	43%	43%	48%	59%	32%	40%	36%	37%	37%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 117

**AHEC: Balance Sheet**

	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<b>Non-current assets</b>										
Concession intangible assets	-	-	-	-	-	6,294	7,370	7,838	7,985	8,126
Land use rights	559	557	498	477	575	13	12	12	12	12
Property, plant and equipment	3,989	5,835	6,124	6,323	6,689	772	729	735	754	769
Investment property	-	-	-	-	-	23	30	30	30	30
Intangible assets	6	4	3	4	4	3	3	3	3	3
Investments in associates	22	4	3	6	6	7	24	24	24	24
Available-for-sale financial assets	-	18	18	18	18	18	18	18	18	18
Prepay to Minority shareholder	-	-	-	400	-	-	-	-	-	-
<b>Total non-current assets</b>	<b>4,576</b>	<b>6,417</b>	<b>6,646</b>	<b>7,227</b>	<b>7,293</b>	<b>7,130</b>	<b>8,186</b>	<b>8,660</b>	<b>8,826</b>	<b>8,982</b>
<b>Current assets</b>										
Inventories	23	18	1	3	3	3	2	2	2	2
Trade and other receivables	31	39	33	25	16	15	20	20	20	20
Cash and cash equivalents	1,119	511	678	581	400	407	531	578	434	423
<b>Total current assets</b>	<b>1,173</b>	<b>568</b>	<b>713</b>	<b>609</b>	<b>419</b>	<b>426</b>	<b>553</b>	<b>601</b>	<b>456</b>	<b>446</b>
<b>Total assets</b>	<b>5,749</b>	<b>6,985</b>	<b>7,359</b>	<b>7,836</b>	<b>7,711</b>	<b>7,556</b>	<b>8,739</b>	<b>9,260</b>	<b>9,283</b>	<b>9,427</b>
<b>Current liabilities</b>										
Trade and other payables	206	346	518	474	497	575	664	693	685	689
Current income tax liabilities	15	19	57	112	9	208	118	118	118	118
Provision	-	-	-	-	-	20	16	16	16	16
Borrowings	-	627	450	350	1,261	1,390	2,225	2,575	2,575	2,675
<b>Total current liabilities</b>	<b>221</b>	<b>992</b>	<b>1,025</b>	<b>936</b>	<b>1,768</b>	<b>2,193</b>	<b>3,024</b>	<b>3,403</b>	<b>3,394</b>	<b>3,498</b>
<b>Net current (liabilities) assets</b>	<b>951</b>	<b>(424)</b>	<b>(312)</b>	<b>(327)</b>	<b>(1,349)</b>	<b>(1,768)</b>	<b>(2,470)</b>	<b>(2,802)</b>	<b>(2,938)</b>	<b>(3,053)</b>
<b>Total assets less current liabilities</b>	<b>5,527</b>	<b>5,993</b>	<b>6,334</b>	<b>6,900</b>	<b>5,944</b>	<b>5,363</b>	<b>5,716</b>	<b>5,858</b>	<b>5,889</b>	<b>5,929</b>
<b>Non-current liabilities</b>										
Long-term payables	1,047	1,177	1,176	755	282	235	250	280	300	320
Deferred income tax liabilities	130	148	160	317	201	66	69	69	69	69
Deferred income	-	-	-	-	-	48	46	46	46	46
<b>Total non-current liabilities</b>	<b>1,177</b>	<b>1,325</b>	<b>1,336</b>	<b>1,071</b>	<b>482</b>	<b>349</b>	<b>364</b>	<b>394</b>	<b>414</b>	<b>434</b>
Minority interests	192	209	201	200	65	221	220	216	236	236
<b>Net assets</b>	<b>4,158</b>	<b>4,460</b>	<b>4,796</b>	<b>5,629</b>	<b>5,396</b>	<b>4,792</b>	<b>5,131</b>	<b>5,248</b>	<b>5,238</b>	<b>5,259</b>
<b>Shareholder Equity</b>										
Share capital	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659
Share premium	1,688	1,447	1,447	1,447	1,447	1,416	1,416	1,416	1,416	1,416
Other reserves	-	315	427	610	(42)	3	74	-	-	-
Retained earnings	811	1,039	1,263	1,913	2,332	1,715	1,983	2,174	2,164	2,185
<b>Total Shareholders' equity</b>	<b>4,158</b>	<b>4,460</b>	<b>4,796</b>	<b>5,629</b>	<b>5,396</b>	<b>4,792</b>	<b>5,131</b>	<b>5,248</b>	<b>5,238</b>	<b>5,259</b>

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 118

**AHEC: Cash Flow Statement**

	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
<b>Operating activities</b>										
<b>Profit before tax</b>	<b>392</b>	<b>450</b>	<b>619</b>	<b>890</b>	<b>1,035</b>	<b>1,116</b>	<b>970</b>	<b>952</b>	<b>1,037</b>	<b>1,145</b>
Adjustments for:										
Settlement of revenue in concession intangible assets	-	-	-	-	244	(792)	(1,274)	(1,067)	(978)	(987)
Amortisation of Concession intangible assets	-	-	-	-	-	261	268	332	353	359
Depreciation of property, plant and equipment	129	175	200	220	21	85	95	74	69	61
Depreciation of investment property	-	-	-	-	1	1	1	1	1	1
Amortisation of land use rights	-	-	21	21	(0)	1	1	1	1	1
Amortisation of intangible assets	3	3	1	0	(0)	1	1	1	1	1
Loss on disposal of property, plant and equipment	0	1	8	17	-	15	24	29	35	42
Gain on disposal of property, plant and equipment	-	-	-	-	(3)	-	(0)	-	-	-
Share of profit of associates	0	1	1	(3)	94	(1)	(3)	(3)	(3)	(3)
Gain on disposal of investment in an associate	-	-	(1)	-	(1)	(4)	-	-	-	-
Interest income	(4)	(2)	(2)	(3)	-	(4)	(5)	(7)	(9)	(11)
Interest expense	1	3	24	56	(0)	2	66	93	100	112
Dividend income	(0)	(1)	-	(1)	10	(1)	(1)	(1)	(1)	(1)
<b>Op cash flows before movements in working capital</b>	<b>522</b>	<b>629</b>	<b>870</b>	<b>1,198</b>	<b>1,401</b>	<b>679</b>	<b>141</b>	<b>405</b>	<b>605</b>	<b>719</b>
Decrease / (Increase) in inventories	(8)	5	(11)	(1)	(0)	(0)	1	-	-	-
Decrease in provision	-	-	-	-	-	(27)	(4)	-	-	-
(Increase) / Decrease in prepayments and other receivables	22	(13)	(34)	14	-	6	(5)	-	-	-
(Decrease) / Increase in trade and other payables	35	17	166	(59)	-	183	142	29	(9)	4
<b>Cash from operations</b>	<b>571</b>	<b>638</b>	<b>991</b>	<b>1,151</b>	<b>1,401</b>	<b>841</b>	<b>276</b>	<b>434</b>	<b>596</b>	<b>724</b>
Interest paid	(1)	(2)	(26)	(12)	(57)	(70)	(119)	(93)	(100)	(112)
Income tax paid	(68)	(80)	(78)	(147)	(311)	(318)	(338)	(238)	(259)	(286)
<b>Net cash generated from operations</b>	<b>502</b>	<b>556</b>	<b>886</b>	<b>992</b>	<b>1,032</b>	<b>453</b>	<b>(182)</b>	<b>103</b>	<b>237</b>	<b>325</b>
<b>Investing activities</b>										
Purchase of property, plant and equipment	(102)	(1,494)	(481)	(426)	(592)	(105)	(85)	(80)	(120)	(120)
Cash paid to acquire the equity interests in associate	(18)	(253)	5	(400)	(1)	(55)	(71)	130	212	194
Proceeds from sales of investments in an associate	(1)	(5)	9	-	(120)	5	-	-	-	-
Proceeds from sales of property, plant and equipment	0	0	3	0	(950)	0	0	-	-	-
Interest received	4	2	2	3	-	4	5	5	5	5
Dividend received	0	1	-	1	0	1	1	1	1	1
<b>Net cash used in investing activities</b>	<b>(116)</b>	<b>(1,748)</b>	<b>(462)</b>	<b>(822)</b>	<b>(1,663)</b>	<b>(150)</b>	<b>(149)</b>	<b>56</b>	<b>98</b>	<b>80</b>
<b>Financing activities</b>										
Proceeds from borrowings	-	633	580	500	3,326	2,746	3,085	2,600	2,300	2,400
Repayments of borrowings	(65)	(6)	(727)	(600)	(2,415)	(2,617)	(2,250)	(2,250)	(2,300)	(2,300)
Cash generating from minority shareholder	4	3	-	-	-	-	30	-	-	-
Interest paid/received	-	-	(100)	(166)	-	-	-	-	-	-
Dividends paid to minority interests	-	-	-	-	(464)	(11)	(79)	(80)	(80)	(80)
Dividends paid to the Company's shareholders	(113)	(50)	-	-	-	(415)	(332)	(381)	(400)	(436)
Share issuing income or expense	536	(7)	-	-	-	-	-	-	-	-
<b>Net cash generated from financing</b>	<b>362</b>	<b>573</b>	<b>(247)</b>	<b>(266)</b>	<b>447</b>	<b>(297)</b>	<b>455</b>	<b>(111)</b>	<b>(480)</b>	<b>(416)</b>
<b>Net increase (decrease) in cash</b>	<b>747</b>	<b>(619)</b>	<b>178</b>	<b>(96)</b>	<b>(184)</b>	<b>6</b>	<b>123</b>	<b>47</b>	<b>(144)</b>	<b>(11)</b>
Cash at Beginning of Year	371	1,119	511	678	581	400	407	531	578	434
Change due to restatements	-	11	(10)	(1)	3	1	1	-	-	-
<b>Cash at End of Year</b>	<b>1,119</b>	<b>511</b>	<b>678</b>	<b>581</b>	<b>400</b>	<b>407</b>	<b>531</b>	<b>578</b>	<b>434</b>	<b>423</b>

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

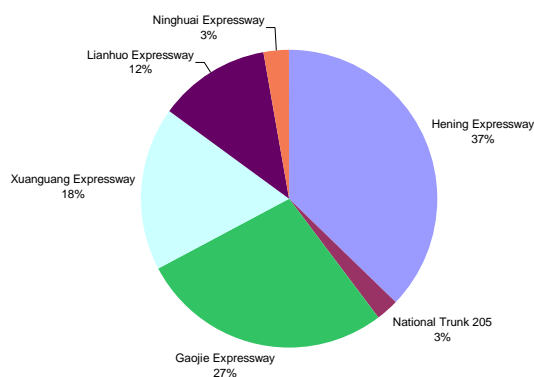
## Company Profile

### Company Overview

Anhui Expressway is the only listed highway company in Anhui province. Its wholly owned interests include Hening Expressway, Gaojie Expressway, the New Tianchang section of National Trunk 205 and the Anhui section of the Lianhuo Expressway.

Exhibit 119

### Revenue Breakdown – 2008



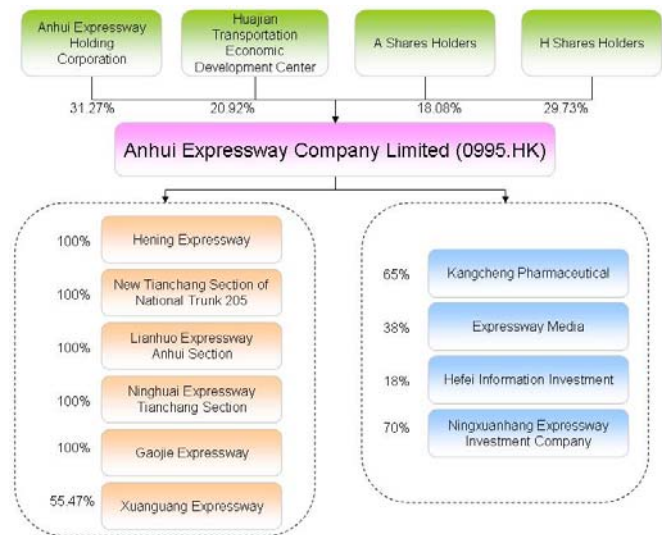
Source: Company data, Morgan Stanley Research

### Shareholder Structure

Anhui Expressway is a state-owned enterprise, majority controlled by the local government, as shown below.

Exhibit 120

### AHEC: Shareholding Structure



Source: Company data, Morgan Stanley Research

### Key toll road assets:

**1) Hening Expressway:** This is a 134km dual carriageway four-lane expressway in Anhui linking Dashushan and Zhouzhuang. It forms an integral part of the ‘two verticals and two horizontals’ National Trunk System from Shanghai to Chengdu in Sichuan province, which also forms part of the National Trunk 312 linking Shanghai and Yining in Xinjiang.

**2) New Tianchang Section of National Trunk 205:** This is a 30km dual carriageway four-lane vehicular highway of Class 1 standard in Tianchang in Anhui. The Tianchang section is a part of National Trunk 205, which starts in Shanhaiguan, Hebei province and ends in Guangzhou, Guangdong province.

**3) Ninghuai Expressway Tianchang Section:** This 14km section starts from the terminal of the Jiangsu Nanjing Section of Ninghuai Expressway in Tianchang city, and ends at the Jiangsu Huaian Section of the Ninghuai Expressway. As a standard dual carriageway six-lane expressway, it is an important part in the key highway and national “7918” expressway network from Changchun to Shenzhen.

**4) Gaojie Expressway:** This 110km dual carriageway four-lane expressway forms part of the ‘two verticals and two horizontals’ National Trunk System between Shanghai and Chengdu.

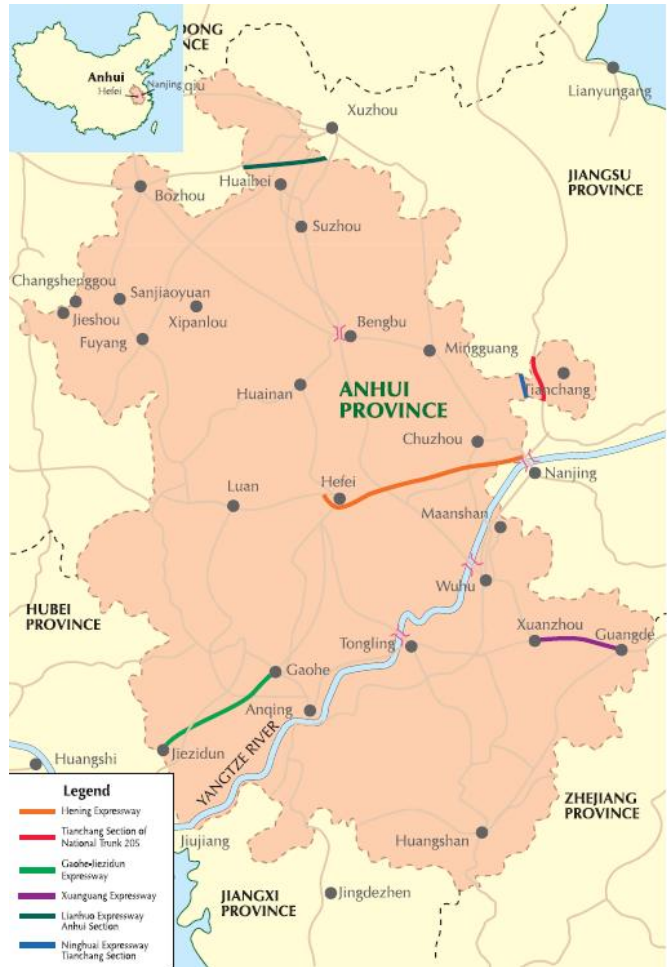
**5) Xuanguang Expressway:** This 84km dual carriageway four-lane expressway is in southeastern Anhui. It starts from Xuanzhou and ends near Jiepai, Guangde and forms part of the National Trunk 318 from Shanghai to Nielamu in Tibet.

**6) Lianhuo Expressway Anhui Section:** This 54km dual carriage four-lane expressway is part of the ‘two verticals and two horizontals’ National Trunk between Lianyungang and Huoerguosi.

**7) Ningxuanhang Expressway Anhui Section:** This 122km dual carriage four-lane expressway starts at the border between Anhui and Jiangsu at Jinshankou, passes through Xuancheng and Ningguo, and ends at the boarder between Anhui and Zhejiang at Qianqiuquan.

Exhibit 121

## Anhui Expressway: Key Toll Road Assets



Source: Company data

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China Toll Roads

## HHI

Attractive Dividend,  
But Limited Growth Potential

## Equal-weight, Price Target HK\$5.26

- **Decent traffic recovery in 2009:** Traffic growth on the Guangzhou-Shenzhen Superhighway (GSS) has improved sequentially in 2009, thanks to more concrete signs of export recovery. Daily average traffic reached 340k in 3Q09, up 10% from 309k in 1H09 and up 4% YoY. We forecast 4% annual growth in 2010-11 from a low base in 2009 and with an improving export outlook.
- **Attractive dividend payout:** HHI's generous dividend policy (100% payout ratio in 2010, we estimate) offers the highest dividend yield in our China toll road universe. With the sustainable business outlook, we think HHI is a good investment vehicle for shareholders that prefer high dividend payouts.
- **Limited growth potential in 2010-11:** We believe HHI has limited growth upside in 2010-11 because of a lack of new toll road assets and high utilization of the existing GSS. Traffic potentially migrating to a new expressway parallel to the GSS might even introduce downside risk. Although we would expect the opening of the Hong Kong-Zhuhai-Macau Bridge to significantly boost HHI's growth, we think this investment theme is too distant, as the bridge is not scheduled to open until 2015.

**Long-term Boost from Hong Kong-Zhuhai-Macau Bridge**

HHI's WRD 1, and the under-construction WRD II and III, will directly connect to the Hong Kong-Zhuhai-Macau bridge, benefiting from the associated increased traffic flow. HHI is not investing directly in the bridge, so it can share the benefit without bearing the risk of the significant capex required.

**Potential Traffic Migration**

We are concerned about the potential traffic migration to the following: 1) a new expressway to be completed in 2010 running parallel to the GSS; 2) a bridge connecting Shenzhen and Zhongshan over the Pearl River inlet; and 3) newly upgraded Guangshen Railways. The new expressway poses the most significant threat, in our view, as it cuts the road distance from Guangzhou to Shenzhen to 89km, versus 123km on the GSS, therefore offering a cheaper route.

**Key Ratios and Statistics**

Reuters:737.HK Bloomberg: 737 HK

**China Transportation**

Price target	HK\$5.26
Upside to price target (%)	6
Shr price, close (Jan 12, 2010)	HK\$5.03
52-Week Range	HK\$5.22-3.70
Sh out, dil, curr (mn)	2,971
Mkt cap, curr (mn)	HK\$14,943
Avg daily trading value (mn)	US\$1.2

Fiscal Year ending	12/09	12/10e	12/11e	12/12e
ModelWare EPS (Rmb)	0.36	0.37	0.40	0.40
Consensus EPS (Rmb)\$	0.36	0.34	0.35	0.35
Revenue, net (Rmb mn)	3,188	3,331	3,567	3,713
EBITDA (Rmb mn)	1,733	1,892	2,104	2,142
ModelWare net inc (Rmb mn)	1,059	1,112	1,186	1,174
P/E	12.1	13.4	12.6	12.7
P/BV	1.5	1.8	1.8	1.8
ROE (%)	9.1	13.3	14.2	14.0
EV/EBITDA	8.8	9.5	8.7	8.3
Div yld (%)	15.0	7.4	7.5	7.5
Leverage (EOP) (%)	28.1	35.0	38.3	32.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note.)

\$ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

**Company Description**

HHI is a Hong Kong-based toll road operator with substantial interests in major expressways in Guangdong province. Its key assets include the 122.8km Guangzhou-Shenzhen Superhighway, 38km Guangzhou ESW Ring Road, and 14.7km West Delta Route Phase I (WDR I). Greenfield projects include WDR II (46km), WDR III (38km) and the Guangzhou-Shenzhen Superhighway expansion.

**Rising Tax Burden**

HHI enjoys preferential tax treatment, with an effective rate of only 15% in 2009. However, following tax unification, we think the tax rate will eventually rise to 25%. We estimate HHI's effective tax rate will increase from 18% in 2009, to 21% in 2010, and 23% in 2011.

**Why Not Underweight?**

While we highlight the traffic migration risk in 2010 and rising tax burden in the following three years, we believe that HHI's high dividend payout policy will persuade investors to hold the stock and enjoy a relatively stable dividend. We therefore maintain our Equal-weight rating on the stock.



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## HHI: Financial Summary

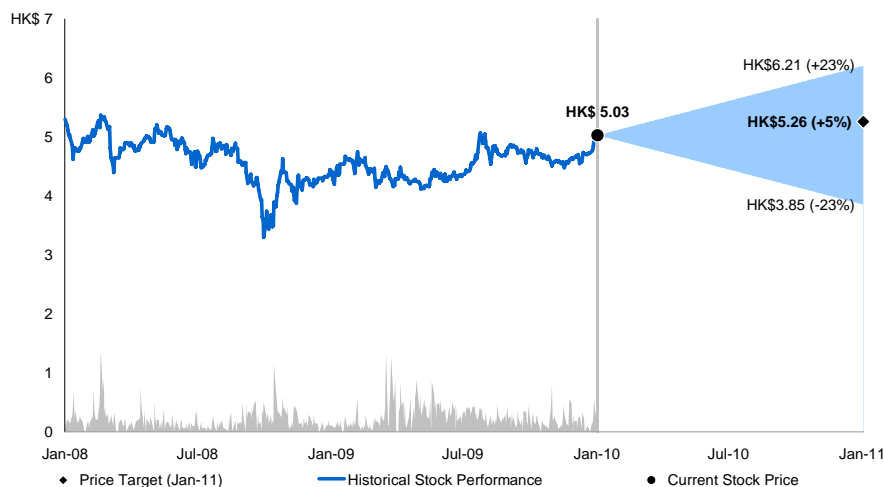
HK\$ million; Years Ending June

Profit & Loss Statements						Ratio Analysis					
FY Ends Jun-30 (HK\$ M)	2008	2009	2010E	2011E	2012E		2008	2009	2010E	2011E	2012E
<b>Toll road income</b>	<b>1,770</b>	<b>1,864</b>	<b>1,975</b>	<b>2,121</b>	<b>2,276</b>	<b>Growth%</b>					
- GS Superhighway	1,643	1,772	1,883	2,017	2,160	Toll road income	(15.3)	5.3	6.0	7.4	7.3
- GZ-ESW	46	-	-	-	-	- GS Superhighway	(10.3)	7.8	6.3	7.1	7.1
- WRD I	80	93	93	104	116	- GZ-ESW	(75.4)	na	na	na	na
Business tax	(53)	(56)	(59)	(64)	(68)	- WRD I	17.1	15.5	(0.1)	12.6	11.0
Other income	676	163	199	294	290	Net revenue	(8.4)	(17.6)	7.3	11.2	6.2
<b>Net revenue</b>	<b>2,392</b>	<b>1,972</b>	<b>2,115</b>	<b>2,351</b>	<b>2,497</b>	Operating Profit	(12.5)	(17.4)	8.5	12.0	0.6
Toll operation expenses	(163)	(143)	(115)	(128)	(188)	Net profit	(16.3)	(6.2)	5.0	6.7	(1.1)
Depreciation & amortisation	(355)	(307)	(345)	(370)	(397)	EBITDA	(7.2)	(21.3)	9.2	11.2	1.8
General & admin.	(134)	(84)	(96)	(107)	(154)	EPS	45.9	(46.2)	5.0	6.7	(1.1)
<b>Operating profit</b>	<b>1,740</b>	<b>1,438</b>	<b>1,559</b>	<b>1,747</b>	<b>1,758</b>	<b>Margin%</b>					
Finance cost	(252)	(162)	(167)	(205)	(193)	EBITDA margin	92.0	87.9	89.4	89.5	85.8
Other non-operating expense	(27)	(12)	(13)	(13)	(13)	Operating Margin	72.7	72.9	73.7	74.3	70.4
<b>Profit before tax</b>	<b>1,461</b>	<b>1,264</b>	<b>1,380</b>	<b>1,529</b>	<b>1,552</b>	Net Profit Margin	47.2	53.7	52.6	50.5	47.0
Tax	(314)	(187)	(248)	(321)	(357)	<b>Return%</b>					
<b>Profit before MI</b>	<b>1,147</b>	<b>1,077</b>	<b>1,131</b>	<b>1,208</b>	<b>1,195</b>	ROE	9.7	12.7	13.3	14.1	13.9
Minority interests	(19)	(18)	(19)	(21)	(22)	ROA	6.4	7.3	7.6	8.2	8.1
<b>Net profit</b>	<b>1,129</b>	<b>1,059</b>	<b>1,112</b>	<b>1,186</b>	<b>1,174</b>	<b>Gearing</b>					
EBITDA	2,201	1,733	1,892	2,104	2,142	Net Debt/Equity (%)	NC	30.0	35.0	38.3	32.0
EPS (HK\$)	0.66	0.36	0.37	0.40	0.40	Int. Coverage (x)	7.3	8.8	9.3	8.5	9.0
Recurrent EPS (HK\$)	0.38	0.36	0.37	0.40	0.40	<b>Operational Analysis</b>					
<b>Balance Sheets</b>						FY Ends Jun-30	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
FY Ends Jun-30 (HK\$ M)	2008	2009	2010E	2011E	2012E	Adj. avg traffic (mil vehicle/d)					
PPE, net	9,395	11,469	11,230	10,991	10,723	- GS Superhighway	116.7	114.5	119.0	123.8	129.3
Investment in JCEs	1,113	-	-	-	-	- WRD I	10.4	10.4	11.2	12.5	13.9
Other toll road investments	54	-	746	1,383	1,383	Adj. avg toll income (Rmb m/day)					
Others	664	141	141	141	141	- GS Superhighway	3.18	3.27	3.44	3.69	3.95
<b>Total Non-Current Assets</b>	<b>11,226</b>	<b>11,610</b>	<b>12,117</b>	<b>12,515</b>	<b>12,247</b>	- WRD I	0.15	0.15	0.16	0.18	0.20
Cash	6,002	2,778	2,501	1,904	2,114	Growth%					
Prepayments & other receivables	101	78	79	80	80	Avg traffic (vehicles/day)					
Other current assets	249	121	2	2	2	- GS Superhighway	(1.3)	(1.8)	3.9	4.0	4.5
<b>Current Assets</b>	<b>6,352</b>	<b>2,978</b>	<b>2,582</b>	<b>1,986</b>	<b>2,196</b>	- WRD I	9.3	0.2	7.2	12.0	11.0
Current Liabilities	686	796	768	809	993	Avg toll income (Rmb m/day)					
LT debts/bonds	4,444	4,894	5,079	4,779	4,479	- GS Superhighway	(13.1)	2.7	5.3	7.1	7.1
Other LT liabilities	711	509	461	461	461	- WRD I	8.0	0.8	8.9	12.6	11.0
Minority Interests	51	48	49	52	52	<b>Valuation</b>					
<b>Net Asset</b>	<b>11,686</b>	<b>8,341</b>	<b>8,341</b>	<b>8,400</b>	<b>8,459</b>	P/E	7.6	14.1	13.4	12.6	12.7
<b>Shareholders' Equity</b>	<b>11,686</b>	<b>8,341</b>	<b>8,341</b>	<b>8,400</b>	<b>8,459</b>	P/E recurrent	13.2	14.1	13.4	12.6	12.7
						P/BV	1.3	1.8	1.8	1.8	1.8
						EV/EBITDA	6.1	10.1	9.5	8.7	8.3
						Dividend yield	12.9%	23.7%	7.4%	7.5%	7.5%
						FCF/EV	7.5%	2.5%	9.7%	10.6%	11.9%
						FCF/Mkt cap	6.8%	3.0%	11.7%	12.9%	14.1%
<b>Cash Flow Statement</b>											
FY Ends Jun-30 (HK\$ M)	2008	2009E	2010E	2011E	2012E						
Profit before tax	2,462	1,264	1,380	1,529	1,552						
Depreciation & Amortisation	355	307	345	370	397						
Other non-cash items	(743)	2	46	(11)	(20)						
Change in Working Capital	(15)	84	(28)	39	183						
Operating cash flow	2,059	1,658	1,742	1,927	2,113						
Interest Received/(Paid)	(46)	(35)	(79)	(121)	(113)						
Income Tax Paid	(145)	(187)	(248)	(321)	(357)						
Dividend Paid	(1,943)	(3,552)	(1,131)	(1,149)	(1,136)						
Capital Expenditures	1,062	(1,313)	(746)	(637)	-						
New Bank Loan	869	(238)	185	(300)	(300)						
Proceeds from Share Issue	1	-	-	-	-						
Others	53	235	-	-	(0)						
Increase/(Decrease) In Cash	1,910	(3,432)	(278)	(600)	207						
<b>Beginning Cash</b>	<b>4,322</b>	<b>6,210</b>	<b>2,778</b>	<b>2,501</b>	<b>1,904</b>						
Effect of foreign exchange rate changes	(8)	-	-	3	3						
Effect of change in profit sharing of a JCE	(14)	-	-	-	-						
<b>Ending Cash</b>	<b>6,210</b>	<b>2,778</b>	<b>2,501</b>	<b>1,904</b>	<b>2,114</b>						

E = Morgan Stanley Research estimates Source: FactSet, Company data, Morgan Stanley Research

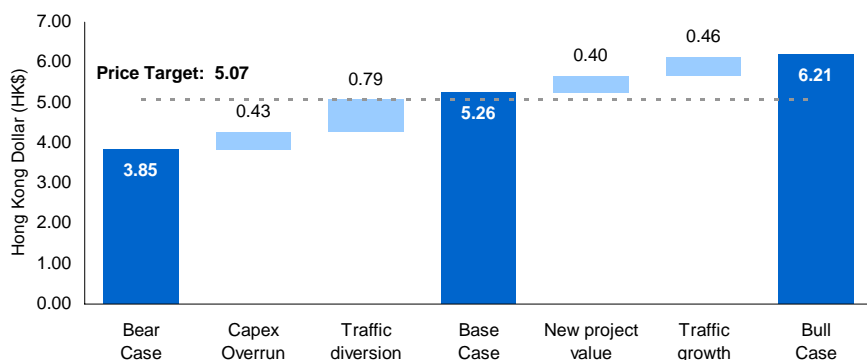
## Risk-Reward Snapshot: HHI (0737.HK, HK\$5.03, Equal-weight, PT HK\$5.26)

### Risk-Reward View: Fairly Valued



Price target HK\$5.03		Based on base-case sum-of-the-parts valuation
Bull Case	Implied 16.8x 2010e P/E	<b>Better traffic in GSS + higher value from WRD:</b> 50% premium valuation to book value for WRD II & III based on better traffic growth outlook, hence higher DCF value. Less traffic migration from GSS in 2010-12 (traffic on the GSS rises 5% per annum).
Base Case	Implied 14.2x 2010e P/E	<b>Steady traffic volume growth:</b> 3.7% for 2010, 4.0% for 2011, and 4.5% for 2012 for GSS; 8%, 12%, and 11% for WDR I.
Bear Case	Implied 10.4x 2010e P/E	<b>Significant traffic migration:</b> 6% lower long-term traffic volume growth for GSS from 2010; 3x higher capex for new investment projects as cost management suffers during road construction.

### Bear to Bull: Traffic Figures and New Project Value are Key



Source: Morgan Stanley, FactSet

### Investment Thesis

- High dividend yield viewed as a key investment positive.
- However, threat of traffic migration away from the GSS looms as a major overhang.

### Key Value Drivers

- Potential value from new investment projects, (ie, WDR II and III).
- Traffic volume growth on the GSS and the WDR I as a function of local economic growth and consumption.
- Capex demand and budgeting for new investment projects.

### Key Catalysts

- Evidence of strong growth on WDR I as several highways will be connecting to it.

### Key Risks

- Upside: 1) higher-than-expected value from pipeline projects; 2) traffic volume surprises because of strong local economies; 3) potential implementation of toll-by-weight system in Guangdong.
- Downside: 1) serious capex over-runs and delays in pipeline projects; 2) more traffic migration to new competing projects; 3) economic slowdown in Guangdong led by macro controls and austerity measures.

## Valuation

We use a sum-of-the-parts model to value HHI. We base the fair values for GSS and WDR I on DCF models and those of WDR II and III on a 15% premium to the book values of HHI's equity interest. We would consider valuing WDR II and III on a DCF valuation once more traffic and financial data is available.

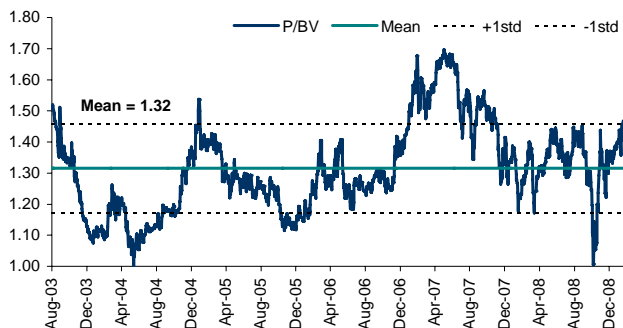
We keep most other assumptions unchanged, e.g., beta of 0.9x, risk free rate of 5% and 75%:25% capital structure, but reduce the equity risk premium from 8% to 7%, as a result, our WACC declines 9.5%, which leads to a slight increase of intrinsic value to HK\$5.26.

### Forward P/E and P/B

The stock is trading at 13.4 P/E and 9.5x EV/EBITDA, based on our 2010 estimates, close to the historical averages of 12.5x and 9.1x. There is a long-term growth opportunity for HHI following construction of the Hong Kong-Zhuhai-Macau bridge, but we believe that investment theme is too distant and that the risk of traffic migration from the new expressway alongside the GSS will limit the stock's upside potential.

Exhibit 122

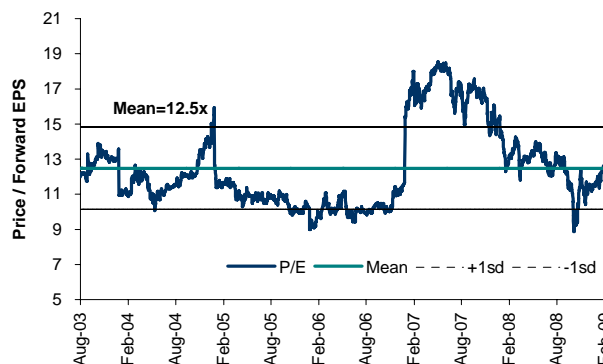
### HHI: Forward P/B from Aug-2003 to Current



Source: Bloomberg, Morgan Stanley Research

Exhibit 123

### HHI: Forward P/E from Aug-2003 to Current



Source: Bloomberg, Morgan Stanley Research

### Risks to Our Price Target

**Upside:** 1) Higher-than-expected values from pipeline projects, including WRD II & III; 2) stronger-than-expected traffic volume growth in 2010-12 because of the robust local economy and the Asian Games to be held in Guangzhou in 2010; and 3) implementation of a toll-by-weight tariff system in Guangdong could lead to a higher unit toll rate, judging by the experience in other provinces. However, overloading has not been as serious a problem in Guangdong as it has been in Anhui and Jiangsu, so the benefits may not be as significant.

**Downside:** 1) serious capex overrun led by engineering difficulties, or rising cost of labor and materials; 2) potential traffic migration to competing roads, such as the Nanguang Expressway, the Riverside Expressway and the new Guangzhou-Shenzhen Riverside Expressway; and 3) economic slowdown in Guangdong led by macro controls and austerity measures. In particular, the government has recently lowered its GDP growth forecast for Guangdong for the next few years because of concerns over environmental protection and resource preservation.

Exhibit 124

## HHI: Sum of Parts Valuation Summary

	GS Superhighway	WDR I Expwy	WDR II Expwy	WDR III Expwy	Total
NPV of explicit cashflow forecasts	11,678	1,287			12,965
Terminal value (growth rate = 0%)	-	-			-
Enterprise Value	11,678	1,287			12,965
Net Cash / (Debt)	(1,416)	(265)			(1,681)
DCF valuation or NAV	10,263	1,021	1,432	1,114	13,829
% of valuation	74%	7%	10%	8%	100%
GZ ESW disposals (FY08)					-
<b>Total Equity Value (HKD m)</b>					<b>15,627</b>
Shares outstanding (m)					2,970
<b>HK\$/share</b>					<b>5.26</b>

Source: Morgan Stanley Research

Exhibit 125

## HHI: DCF Valuation Breakdown by Road Section

Guangshen Superhighway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	2,693	2,837	3,039	3,255	3,486	3,663	3,719	3,719	3,719	3,719	3,719	3,808
Less: Cash Tax Payable on EBIT	(181)	(191)	(686)	(736)	(790)	(831)	(844)	(844)	(844)	(844)	(844)	(866)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(81)	(85)	(76)	(81)	(70)	(73)	(74)	(74)	(74)	(74)	(74)	(76)
<b>Free Cash Flow</b>	<b>2,431</b>	<b>2,560</b>	<b>2,277</b>	<b>2,437</b>	<b>2,626</b>	<b>2,758</b>	<b>2,801</b>	<b>2,801</b>	<b>2,801</b>	<b>2,801</b>	<b>2,801</b>	<b>2,866</b>
YoY Growth	3%	5%	-11%	7%	8%	5%	2%	0%	0%	0%	0%	2%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>2,177</b>	<b>2,129</b>	<b>2,095</b>	<b>2,010</b>	<b>1,865</b>	<b>1,704</b>	<b>1,556</b>	<b>1,422</b>	<b>1,299</b>	<b>1,214</b>
<b>Guangshen Superhighway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	3,905	3,905	3,905	3,905	3,998	4,101	4,101					
Less: Cash Tax Payable on EBIT	(891)	(891)	(891)	(891)	(914)	(939)	(913)					
Plus: Decrease in WC	-	-	-	-	-	-	-					
Less: Capital Expenditure	(78)	(78)	(78)	(78)	(80)	(82)	(82)					
<b>Free Cash Flow</b>	<b>2,937</b>	<b>2,937</b>	<b>2,937</b>	<b>2,937</b>	<b>3,005</b>	<b>3,079</b>	<b>3,106</b>					
YoY Growth	2%	0%	0%	0%	2%	2%	1%					
<b>NPV of Free Cash Flow</b>	<b>1,136</b>	<b>1,038</b>	<b>948</b>	<b>866</b>	<b>810</b>	<b>758</b>	<b>698</b>					
<b>Total NPV (GS Superhighway)</b>	<b>23,724</b>											

WRD I Expressway	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	116	126	142	158	174	191	215	243	267	294	323	364
Less: Cash Tax Payable on EBIT	(9)	(9)	(11)	(39)	(43)	(47)	(53)	(60)	(66)	(72)	(80)	(90)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(3)	(4)	(4)	(5)	(5)	(6)	(6)	(7)	(8)	(9)	(8)	(9)
<b>Free Cash Flow</b>	<b>104</b>	<b>113</b>	<b>127</b>	<b>114</b>	<b>126</b>	<b>138</b>	<b>156</b>	<b>176</b>	<b>193</b>	<b>212</b>	<b>235</b>	<b>265</b>
YoY Growth	-7%	9%	13%	-10%	10%	10%	13%	13%	10%	10%	11%	13%
<b>NPV of Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>127</b>	<b>114</b>	<b>126</b>	<b>138</b>	<b>156</b>	<b>176</b>	<b>193</b>	<b>212</b>	<b>235</b>	<b>265</b>
<b>WRD I Expressway</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
EBITDA	410	447	483	522	577	633	671	712	754	807	853	878
Less: Cash Tax Payable on EBIT	(101)	(110)	(119)	(129)	(143)	(157)	(166)	(176)	(186)	(200)	(211)	(217)
Plus: Decrease in WC	-	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditure	(10)	(11)	(10)	(10)	(12)	(13)	(13)	(14)	(15)	(16)	(17)	(18)
<b>Free Cash Flow</b>	<b>299</b>	<b>326</b>	<b>354</b>	<b>382</b>	<b>423</b>	<b>464</b>	<b>492</b>	<b>521</b>	<b>553</b>	<b>592</b>	<b>625</b>	<b>644</b>
YoY Growth	13%	9%	9%	8%	11%	10%	6%	6%	6%	7%	6%	3%
<b>NPV of Free Cash Flow</b>	<b>116</b>	<b>115</b>	<b>114</b>	<b>113</b>	<b>114</b>	<b>114</b>	<b>111</b>	<b>107</b>	<b>104</b>	<b>101</b>	<b>98</b>	<b>92</b>
<b>Total NPV (WRD I Exp.)</b>	<b>3,128</b>											

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 126

**HHI: Income Statement**

<b>Year ended 30 June (HK\$ m)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
<b>Toll incomes</b>	<b>2,089</b>	<b>1,770</b>	<b>1,865</b>	<b>1,975</b>	<b>2,121</b>	<b>2,276</b>
- GS Superway	1,831	1,643	1,772	1,883	2,017	2,160
- GZ-ESW	189	46	-	-	-	-
- WRD I	69	80	93	93	104	116
Business tax	(63)	(53)	(56)	(59)	(64)	(68)
<b>Net toll income</b>	<b>2,026</b>	<b>1,717</b>	<b>1,809</b>	<b>1,916</b>	<b>2,058</b>	<b>2,208</b>
<b>Other income</b>	<b>585</b>	<b>676</b>	<b>163</b>	<b>199</b>	<b>294</b>	<b>290</b>
- Interest income from	-	0%	-	-	-	-
A JCE	35	10	-	-	-	-
Bank deposits	177	211	126	88	84	80
- Imputed interest income on interest free loan to JCE	22	22	44	44	44	44
- Net exchange gain	236	439	33	33	133	133
- Rental income	6	7	7	7	7	7
- Management fee from JCE	3	2	2	2	2	2
- Acceleration of imputed interest on early repayment of interest-free loan made by the Group to a JCE	66	-	-	-	-	-
- Recovery of impairment loss on receivable	11	-	-	-	-	-
- Gain on waiver of loan from a JCE	8	-	-	-	-	-
- Others	20	25	25	25	25	25
-Gain on disposal of PPE	-	0	-	-	-	-
-Less: fair value adjustment	-	(40)	-	-	-	-
<b>Net revenues</b>	<b>2,611</b>	<b>3,127</b>	<b>3,188</b>	<b>3,331</b>	<b>3,567</b>	<b>3,713</b>
	26.0%	19.8%	2.0%	4.5%	7.1%	4.1%
<b>Operating expenses</b>	<b>622</b>	<b>1,414</b>	<b>1,763</b>	<b>1,784</b>	<b>1,834</b>	<b>1,968</b>
Toll operation expenses	(135)	(163)	(143)	(115)	(128)	(188)
Depreciation & amortisation	(381)	(355)	(307)	(345)	(370)	(397)
General & admin.	(106)	(134)	(84)	(96)	(107)	(154)
<b>Operating profit</b>	<b>1,989</b>	<b>1,713</b>	<b>1,426</b>	<b>1,547</b>	<b>1,734</b>	<b>1,745</b>
Operating margin	76%	55%	45%	46%	49%	47%
<b>EBIT</b>	<b>1,989</b>	<b>1,846</b>	<b>1,426</b>	<b>1,547</b>	<b>1,734</b>	<b>1,745</b>
<b>EBITDA</b>	<b>2,370</b>	<b>2,201</b>	<b>1,733</b>	<b>1,892</b>	<b>2,104</b>	<b>2,142</b>
EBITDA margins	91%	70%	54%	57%	59%	58%
Finance costs	(460)	(252)	(162)	(167)	(205)	(193)
<b>Profit before tax and extraordinary items</b>	<b>1,529</b>	<b>1,461</b>	<b>1,264</b>	<b>1,380</b>	<b>1,529</b>	<b>1,552</b>
Disposal gain from discontinued business	-	974	-	-	-	-
<b>Profit before tax</b>	<b>1,529</b>	<b>2,435</b>	<b>1,264</b>	<b>1,380</b>	<b>1,529</b>	<b>1,552</b>
Taxation	(155)	(446)	(187)	(248)	(321)	(357)
<b>Profit before M.I.</b>	<b>1,374</b>	<b>1,989</b>	<b>1,077</b>	<b>1,131</b>	<b>1,208</b>	<b>1,195</b>
Minority interest	(25)	(19)	(18)	(19)	(21)	(22)
<b>Net profit</b>	<b>1,349</b>	<b>1,970</b>	<b>1,059</b>	<b>1,112</b>	<b>1,186</b>	<b>1,174</b>
	19.5%	46.1%	-46.2%	5.0%	6.7%	-1.1%
<b>Recurrent net profit</b>	<b>1,349</b>	<b>1,129</b>	<b>1,059</b>	<b>1,112</b>	<b>1,186</b>	<b>1,174</b>
	19.5%	-16.3%	-6.2%	5.0%	6.7%	-1.1%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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China Toll Roads

Exhibit 127

**HHI: Balance Sheet**

<b>Year ended 30 June (HK\$ m)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
<b>Non-current Assets</b>						
PPE, net	10,204	9,395	11,469	11,230	10,991	10,723
Investment in JCEs	1,706	1,113	-	-	-	-
Investment in toll expwy projects	50	54	-	746	1,383	1,383
Prepaid lease payments	126	134	-	-	-	-
Balance with JCEs	806	531	141	141	141	141
	<b>12,891</b>	<b>11,226</b>	<b>11,610</b>	<b>12,117</b>	<b>12,515</b>	<b>12,247</b>
<b>Current Assets</b>						
Inventories	3	2	2	2	2	2
Other receivables, deposits & prepayments	91	96	15	16	17	18
Other receivable from an outside JV partner	87	-	63	63	63	63
Prepaid lease payments	5	5	-	-	-	-
Pledged bank deposits	393	235	-	-	-	-
- Pledged and not available for use	26	27	-	-	-	-
- Available for use	367	208	-	-	-	-
Bank balances & cash	3,955	6,002	2,778	2,501	1,904	2,114
	<b>4,534</b>	<b>6,352</b>	<b>2,978</b>	<b>2,582</b>	<b>1,986</b>	<b>2,196</b>
<b>Total Assets</b>	<b>17,425</b>	<b>17,578</b>	<b>14,588</b>	<b>14,698</b>	<b>14,501</b>	<b>14,444</b>
<b>Non-current Liabilities</b>						
Bank & other loans	4,995	4,444	4,894	5,079	4,779	4,479
Other Interest Payables-due after one year	-	55	40	-	-	-
Balance with outside JV partners	603	360	141	141	141	141
Amount due to holding companies	-	-	8	-	-	-
Deferred tax liabilities	255	296	320	320	320	320
	<b>5,853</b>	<b>5,155</b>	<b>5,403</b>	<b>5,540</b>	<b>5,240</b>	<b>4,940</b>
<b>Current Liabilities</b>						
Other payables, accruals & deposits received	257	383	387	360	400	585
Bank & other loans	220	267	344	344	344	344
Other payable to a JCE	118	-	28	28	28	28
Other interest payable	8	6	4	4	4	4
Tax liabilities	29	30	32	32	32	32
	<b>632</b>	<b>686</b>	<b>796</b>	<b>768</b>	<b>809</b>	<b>993</b>
<b>Total Liabilities</b>	<b>6,485</b>	<b>5,841</b>	<b>6,199</b>	<b>6,308</b>	<b>6,049</b>	<b>5,933</b>
<b>Net Assets</b>	<b>10,939</b>	<b>11,737</b>	<b>8,389</b>	<b>8,390</b>	<b>8,452</b>	<b>8,511</b>
<b>Capital &amp; Reserves</b>						
Share capital	297	297	296	296	296	296
Dividend reserve	10,598	11,389	8,045	8,045	8,104	8,163
	<b>10,895</b>	<b>11,686</b>	<b>8,341</b>	<b>8,341</b>	<b>8,400</b>	<b>8,459</b>
Minority interests	44	51	48	49	52	52
<b>Total capital employed</b>	<b>10,939</b>	<b>11,737</b>	<b>8,389</b>	<b>8,390</b>	<b>8,452</b>	<b>8,511</b>

E = Morgan Stanley Research estimate Source: Company data, Morgan Stanley Research

January 14, 2010

China Toll Roads

Exhibit 128

**HHI: Cash Flow Statement**

<b>Year ended 30 June (HK\$ m)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Operating Profit	1,754	2,471	1,256	1,415	1,606	1,621
Interest income	235	243	170	132	128	124
Finance costs	(460)	(252)	(162)	(167)	(205)	(193)
<b>Profit before tax</b>	<b>1,529</b>	<b>2,462</b>	<b>1,264</b>	<b>1,380</b>	<b>1,529</b>	<b>1,552</b>
Adjustments for:						
Interest expenses	447	280	162	167	205	193
Interest income	(300)	(243)	(126)	(88)	(84)	(80)
Net exchange losses (gain)	(236)	(439)	(33)	(33)	(133)	(133)
Depreciation & amortization	381	355	307	345	370	397
Amortization of premium on acquisition of held-to-maturity debt securities	-	-	-	-	-	-
(Gain) loss on disposal of PPE	0	(350)	-	-	-	-
Share based payment expense	11	5	-	-	-	-
Gain on waiver of loan from a JV	(8)	-	-	-	-	-
Recovery of impairment loss of receivable	(11)	5	-	(0)	0	(0)
<b>Operating cash flows before WC changes</b>	<b>1,814</b>	<b>2,073</b>	<b>1,573</b>	<b>1,770</b>	<b>1,888</b>	<b>1,930</b>
Decrease (increase) in inventories	(1)	1	(0)	-	-	-
Decrease/(Increase) in other receivables, desposits & prepayments	17	(9)	80	(1)	(1)	(1)
Increase/(Decrease) in other payables, accruals & deposits received	43	(6)	4	(28)	41	184
<b>Cash from operations</b>	<b>1,872</b>	<b>2,059</b>	<b>1,658</b>	<b>1,742</b>	<b>1,927</b>	<b>2,113</b>
Interest Received	-	-	-	-	-	-
Income tax paid	(100)	(145)	(187)	(248)	(321)	(357)
Payment for purchase of shares under Share Award Scheme	(14)	-	-	-	-	-
<b>Net cash from operating activities</b>	<b>1,758</b>	<b>1,914</b>	<b>1,471</b>	<b>1,493</b>	<b>1,606</b>	<b>1,756</b>
<b>Investing activities</b>						
Purchase of PPE	(618)	(1,041)	(1,217)	-	-	-
Proceeds on disposal of PPE	0	1,721	-	-	-	-
Additions of investment in toll road projects under development	-	383	(96)	(746)	(637)	-
Addition of loans to a JCE	(89)	(333)	-	-	-	-
Repayment of loans made to JCEs	416	518	-	-	-	-
Redemption & disposal of held-to-maturity debt securities	-	-	-	-	-	-
Interest received	177	211	126	88	84	80
Increase in pledged bank deposits	-	-	235	-	-	-
<b>Cash from investing activities</b>	<b>(114)</b>	<b>1,325</b>	<b>(952)</b>	<b>(658)</b>	<b>(553)</b>	<b>80</b>
<b>Financing activities</b>						
Proceeds from shares issue	88	1	-	-	-	-
New bank & other loans	752	1,186	62	485	-	-
Repayment of bank & other loans	(275)	(187)	(300)	(300)	(300)	(300)
Repayment of loans made from outside JCE partners	(574)	(284)	-	-	-	-
Registered capital contribution and loans made from JVs	530	154	-	-	-	-
Interest paid	(301)	(256)	(162)	(167)	(205)	(193)
Dividend paid to:						
- shareholders	(950)	(1,930)	(3,534)	(1,112)	(1,127)	(1,115)
- a minority shareholder of a subsidiary	(17)	(12)	(18)	(19)	(21)	(22)
<b>Net cash used in financing activities</b>	<b>(746)</b>	<b>(1,329)</b>	<b>(3,951)</b>	<b>(1,114)</b>	<b>(1,653)</b>	<b>(1,629)</b>
<b>Net increase in cash &amp; equivalents</b>	<b>898</b>	<b>1,910</b>	<b>(3,432)</b>	<b>(278)</b>	<b>(600)</b>	<b>207</b>
<b>Cash &amp; equivalents brought forward</b>	<b>3,384</b>	<b>4,322</b>	<b>6,210</b>	<b>2,778</b>	<b>2,501</b>	<b>1,904</b>
Changes due to restatement	-	-	-	-	-	-
Effect of foreign exchange rate changes	40	(8)	-	-	3	3
<b>Bank balance and cash</b>	<b>4,322</b>	<b>6,210</b>	<b>2,778</b>	<b>2,501</b>	<b>1,904</b>	<b>2,114</b>

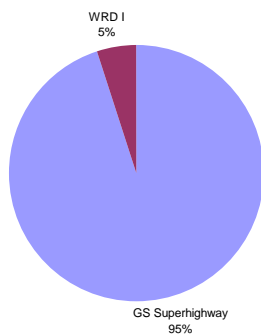
E = Morgan Stanley Research estimate Source: Company data, Morgan Stanley Research

## Company Profile

### Company Overview

Listed in Hong Kong since 2003, HHI is an expressway operator in Guangdong. It has a 48% stake in the oldest toll road in the province, the GSS, and a 50% stake in WRD I. Hopewell Holdings Limited has a 70% stake in HHI.

Exhibit 129  
Revenue Breakdown - 2008



Source: Company data, Morgan Stanley Research

Exhibit 130  
HHI: Shareholding Structure



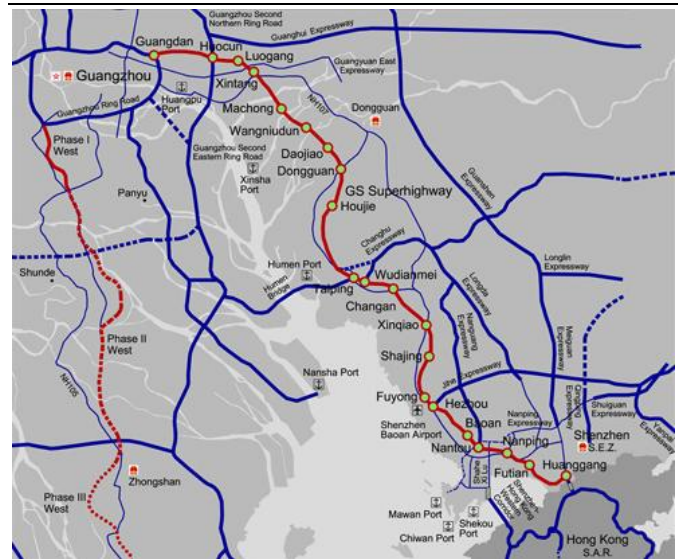
Source: Company data, Morgan Stanley Research

### Key toll road assets under HHI

1) **GSS** is first and currently the only expressway directly connecting Guangzhou with Shenzhen and Hong Kong. The GSS is a major artery in the developing PRD expressway network, forming a north-south corridor running through the

eastern PRD. Many large towns and important facilities including Shenzhen Baoan Airport and various seaports are connected to this Expressway's 21 interchanges.

Exhibit 131  
HHI: Guangshen Superhighway



Source: Company data,

2) **WRD I** is a 14.7km dual three-lane expressway and runs from the Hainan interchange of the Guangzhou E-S-W Ring Road to Bijiang in Shunde where it joins Shunde 105 and the northern end of the Bi Gui Road. It shortens the travel time between Guangzhou city and Shunde to approximately 10 minutes from approximately 40 minutes on local roads.

3) **WRD II** will be a 46km 3x3 expressway from Bijiang of WRD I in Shunde to Zhongshan.

4) **WRD III** will be a 38km 3x3 expressway from the Zhongshan end of WRD II extending southwards to connect to the highway network in Zhuhai.



## Appendix 1: China Expressway Network Brief Introduction

### '7918' Expressway Network in China

In 2004, the State Council announced a new expressway construction project, known as the 7918 Network, which comprises seven expressways radiating from Beijing, nine north-south arteries, and 18 east-west arteries. The whole project, totaling approximately 85,000km, is scheduled for completion in 2034. By the end of 2010, the nation plans to complete 55,000km of expressway, indicating a CAGR of 9.4% over 2007-10, leaving 30,000km to be built in 2011-34.

Planned capital expenditure on the network is Rmb140-150bn in 2010. From 2011 to 2020, annual investment on the network will be around Rmb100bn. The government plans to finance this investment from taxes, municipal bonds, bank loans, and other capital sources.

This toll road network will cover all cities with populations of over 200,000 (in 2005), which together generate over 85% of GDP in China. It will connect all of the major ports, airports, and transportation hubs.

Exhibit 132

### China's National Expressway Network Blueprint



Source: Ministry of Communications

January 14, 2010

China Toll Roads

Exhibit 133

**'7918' Network Details Blueprint**

Code	Start / End	Name	Length (km)	Route
<b>Seven radiate from Beijing</b>				
G1	Beijing to Harbin	<b>Jing Ha</b>	1280	Beijing-Liaoning-Jilin-Heilongjiang
G2	Beijing to Shanghai	<b>Jing Hu</b>	1245	Beijing-Shandong-Jiangsu-Shanghai
G3	Beijing to Taipei	<b>Jing Tai</b>	2030	Beijing-Shandong-Anhui-Zhejiang-Fujian-Taiwan
G4	Beijing to Hong Kong & Macau	<b>Jing Gang Ao</b>	2285	Beijing-Henan-Hubei-Hunan-Guangdong-HK & Macau
G5	Beijing to Kunming	<b>Jing Kun</b>	2865	Beijing-Shanxi-Shaanxi-Sichuan-Yunnan
G6	Beijing to Lhasa	<b>Jing Zang</b>	3710	Beijing-Inner Mongolia-Ningxia-Gansu-Qinghai-Tibet
G7	Beijing to Urumqi	<b>Jing Xin</b>	2540	Beijing-Inner Mongolia-Gansu-Xinjiang
<b>Nine north-south arteries</b>				
G11	Hegang to Dalian	<b>He Da</b>	1390	Heilongjiang-Jilin-Liaoning
G15	Shenyang to Haikou	<b>Shen Hai</b>	3710	Liaoning-Shandong-Jiangsu-Shanghai-Zhejiang-Fujian-Guangdong-Hainan
G25	Changchun to Shenzhen	<b>Chang Shen</b>	3580	Liaoning-Hebei-Shandong-Jiangsu-Zhejiang-Fujian-Guangdong
G35	Jinan to Guangzhou	<b>Ji Guang</b>	2110	Shandong-Anhui-Jiangxi-Guangdong
G45	Daqing to Guangzhou	<b>Da Guang</b>	3550	Heilongjiang-Jilin-Inner Mongolia-Beijing-Henan-Hubei-Jiangxi-Guangdong
G55	Erliahaote to Guangzhou	<b>Er Guang</b>	3685	Inner Mongolia-Shanxi-Henan-Hubei-Hunan-Guangdong
G65	Baotou to Maoming	<b>Bao Mao</b>	3130	Inner Mongolia-Shanxi-Chongqing-Hunan-Guangdong
G75	Lanzhou to Haikou	<b>Lan Hai</b>	2570	Gansu-Chongqing-Guizhou-Guangxi-Hainan
G85	Chongqing to Kunming	<b>Yu Kun</b>	838	Chongqing-Yunnan
<b>18 east-west arteries</b>				
G10	Suifenghe to Manzhouli	<b>Sui Man</b>	1520	Inner Mongolia-Heilongjiang
G12	Huichun to Wulanhaote	<b>Hui Wu</b>	885	Inner Mongolia-Jilin
G16	Dandong to Xilinhaote	<b>Dan Xi</b>	960	Inner Mongolia-Liaoning
G18	Rongcheng to Wuhai	<b>Rong Wu</b>	1820	Inner Mongolia -Shanxi-Hebei-Shandong
G20	Qingdao to Yinchuan	<b>Qing Yin</b>	1600	Ningxia-Shaanxi-Shanxi-Hebei-Shandong
G22	Qingdao to Lanzhou	<b>Qing Lan</b>	1795	Gansu-Shaanxi-Shanxi-Hebei-Shandong
G30	Lianyungang to Huoerguosi	<b>Lian Huo</b>	4280	Xinjiang-Gansu-Shaanxi-Henan-Jiangsu
G36	Nanjing to Luoyang	<b>Ning Luo</b>	712	Jiangsu-Anhui-Henan
G40	Shanghai to Xian	<b>Hu Shan</b>	1490	Shanghai-Jiangsu-Anhui-Henan-Shanxi
G42	Shanghai to Chengdu	<b>Hu Rong</b>	1960	Shanghai-Jiangsu-Anhui-Hubei-Sichuan
G50	Shanghai to Chongqing	<b>Hu Yu</b>	1900	Shanghai-Zhejiang-Anhui-Hubei-Chongqing
G56	Hangzhou to Ruili	<b>Hang Rui</b>	3405	Zhejiang-Jiangxi-Hunan-Guizhou-Yunnan
G60	Shanghai to Kunming	<b>Hu Kun</b>	2370	Shanghai-Jiangxi-Hubei-Hunan-Guizhou-Yunnan
G70	Fuzhou to Yinchuan	<b>Fu Yin</b>	2485	Ningxia-Shanxi-Hubei-Jiangxi-Fujian
G72	Quanzhou to Nanning	<b>Quan Nan</b>	1635	Guangxi-Hunan-Jiangxi-Fujian
G76	Xiamen to Chengdu	<b>Xia Rong</b>	2295	Sichuan-Guizhou-Hunan-Jiangxi-Fujian
G78	Shantou to Kunming	<b>Shan Kun</b>	1710	Yunnan-Guizhou-Guangxi-Guangzhou
G80	Guangzhou to Kunming	<b>Guang Kun</b>	1610	Yunnan-Guangxi-Guangdong

Source: Ministry of Communications, Morgan Stanley Research

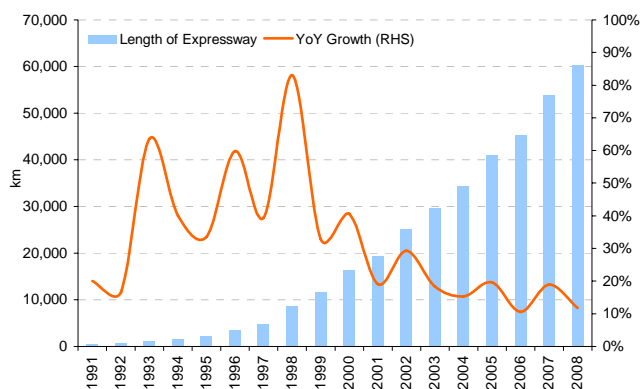
## Appendix 2: China Toll Road Industry Background

### A Short History, But Very Rapid Growth

By the end of 2008, China's highway network covered 3.73mnm, with expressway roads accounting for only 2% or 60,300km. Despite the small percentage, the combined length of China's expressway roads is roughly equal to those in Canada, Germany, and France combined, and second only to those in the US.

Exhibit 134

### Fast Growth of Expressway Network in China



Source: CEIC, Morgan Stanley Research

In 1998, China built its first expressway. Since then, as a result of fast development, road transport has gained significance in China at the expense of rail, water, and air transportation. Compared with other modes of transport, road transport offers a higher degree of scheduling flexibility. It also provides door-to-door service, with accompanying time savings, particularly for journeys of short and medium duration.

### Ownership and Concession Management

In China, the toll road industry consists of government, public, and private companies. The government controls an estimated over 80% of the toll road assets through 100%-controlled companies, usually the holding companies of the public toll road companies. In tendering for any new projects, the public companies usually enjoy priority versus private companies because of the first offer rights granted by their parents. The government companies will then be responsible for the projects not taken up by public and private companies.

The public and private companies are awarded contracts for the construction and management of toll roads, tunnels, or bridges for a concession period. A concession holder recovers its heavy investment in the asset construction through tolls charged to users during the concession period.

Generally, to allow for more rapid profit recognition, even in the early stages of operation, companies use unit-of-usage method to depreciate the capital on the basis of the traffic projection carried out by an independent traffic consultant. However, some of the listed toll road companies, such as Anhui Expressway, apply straight-line depreciation

Concession contracts range between 20 and 35 years. The company usually hands the asset over to the state free of charge at the expiration of the concession. For this reason, a distinction is made between revertible assets (the ones the concession holder must turn over to the state on expiration) and non-revertible assets (offices and buildings not required to be handed over).

### Regulatory Structure of Expressways in China

The National Development and Reform Commission (NDRC) and the Ministry of Communications (MoC) are responsible for the overall planning of the various means of transportation, including highways, in China. The MoC is the administrative department responsible for the planning, development, construction, and management aspects of highways in China. It mainly provides guidelines regarding national development policies, regulations, and standards for the design, construction, and maintenance of highways. The MoC is responsible for preparing and presenting the proposals to the State Council and the NDRC for examination and approval of major national highway projects that form part of the trunk highway system. Local communication bureaus are responsible for the planning and development of highways in their respective province.

The MoC and the NDRC are together responsible for setting and regulating toll tariffs. At the local level, the provincial Development and Reform Commission is responsible for approving applications to increase toll rates. The bodies are also responsible for setting up other road laws, for example, the expressway speed limit is 110-120km/hour, while a minimum speed limit of 70km/hour is also applied.

### Tariff Policy and Billing Method

Concession holders are usually empowered to revise tolls every 3-5 years and submit recommendations for local government approval. The governments review any toll rate adjustment proposals in light of the compound inflation rates in the preceding 3-5 years. The last round of toll rate hikes was in the late 1990s, when toll rates in general increased 13-20%. In

early 2005, tariffs for heavy trucks declined 16-18% following a government crackdown on overloading.

Toll tariffs vary by province. The expressways in Guangdong are more expensive than those in Anhui and Sichuan. However, cheaper expressways do not necessarily mean poorer roads or a greater risk of traffic congestion.

The billing process for most expressways is straightforward. Upon entering an expressway (or a toll portion thereof), an entry card is handed over to the driver. The tolls to be paid are determined from the distance traveled when the driver hands the entry card back to the exit toll gate when leaving the expressway. A few expressways use sensor systems, where one sensor is at the toll gate and the other is on the passing vehicle. At present, only cash is accepted as payment for tolls.

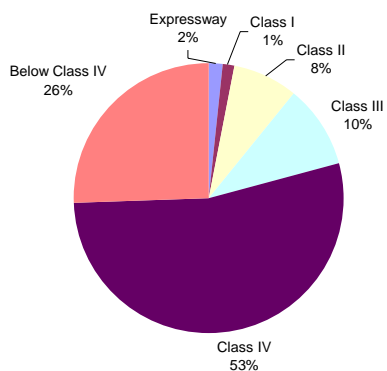
### Classification of Highways

In China, highways can be classified into six categories. Expressways, Class I and some Class II highways are toll roads while the rest (Class III, Class IV, below Class IV) are free of charge. By the end of 2008, expressways, Class I and Class II highways accounted for 2%, 1%, and 8%, respectively, of the country's highways by length.

Despite the low proportion of the highway network, expressways' combined length has increased more than that of other classes of roads, as shown in Exhibit 136. In our report, we equate toll roads to expressway as over 95% of the assets in listed companies are expressways. Also, as China has gradually revoked the fee charges on Class II highways, we think the toll tariffs on Class I highways might also be cancelled in the coming decade. As a result, expressways might become the only roads with tolls in China.

Exhibit 135

### Expressways Make Up Just 2% of China's Highways



Source: CEIC, Morgan Stanley Research

Exhibit 136

### China Highway's Growth by Class

Unit: km	1995	2008	95-08 CAGR
Expressway	2,141	60,302	29%
Class I	9,580	54,216	14%
Class II	84,910	285,226	10%
Class III	207,282	374,200	5%
Class IV	606,841	2,004,600	10%
Below Class IV	246,255	951,642	11%
<b>Total</b>	<b>1,157,009</b>	<b>3,730,186</b>	<b>9%</b>

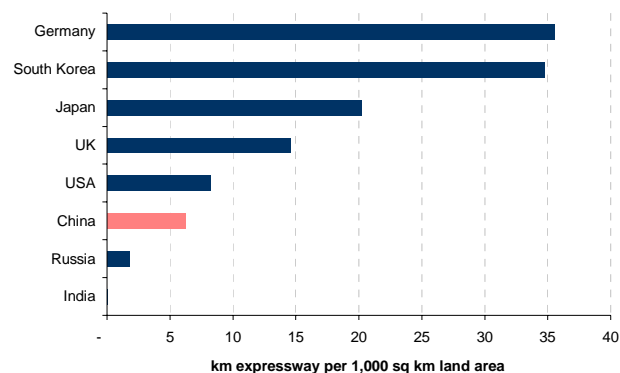
Source: CEIC, Morgan Stanley Research

### China's Expressway Density Lags Developed Countries'

Although China's expressway network has expanded rapidly in the past 20 years, it remains relatively underdeveloped in terms of land area and on a per capita basis, as shown in Exhibits 137 and 138. As the car penetration ratio in China rises, we expect expressway density to increase.

Exhibit 137

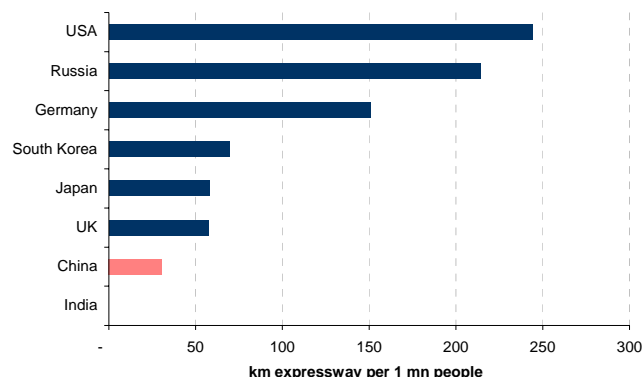
### Expressway Density by Land Area



Source: CIA World Factbook, Morgan Stanley Research

Exhibit 138

### Expressway Density by Population



Source: CIA World Factbook, Morgan Stanley Research

## Appendix 3: Economic Growth Outlook of Five Key Provinces

### Economic Growth Outlook

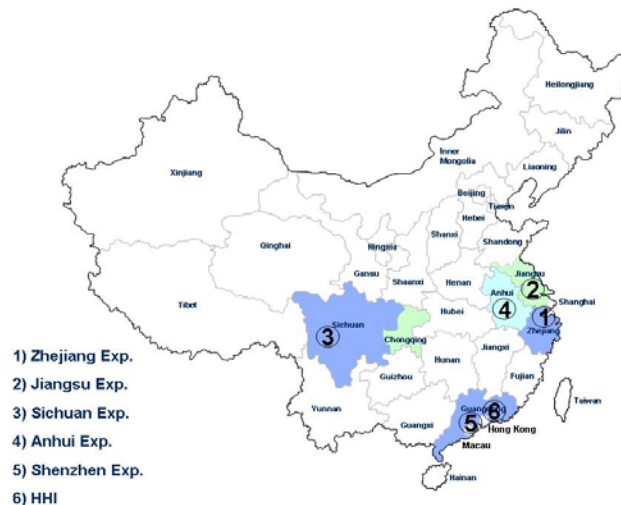
As the six toll-road companies are located in five different provinces, we believe the local economic growth will be critical to each company's long-term development. In Exhibit 140, our comparison of key economic indicators suggests that:

- Anhui and Sichuan provinces had the lowest GDP in 2008. However, with large populations, these two provinces should have larger growth potential once industrial relocation starts.
- Zhejiang and Jiangsu provinces consistently achieved above-average GDP growth from 2003 to 2008. Higher GDP per capita suggests to us better consumption power in coming few years.

We are most bullish on the economic outlook in Sichuan and Anhui, as they are underdeveloped provinces and have higher growth potential for the coming decade. We are positive on the economic growth in Zhejiang and Jiangsu over the next 3-5 years as this region continues to benefit from urbanization and industrialization. We are less bullish on Guangdong, as this region, having been at the forefront of China's industrialization will enter the mature phase of the industry life cycle and have relatively lower growth potential, in our view.

Exhibit 139

### Location of the Six Toll Road Companies



Source: Company data, Morgan Stanley Research

Exhibit 140

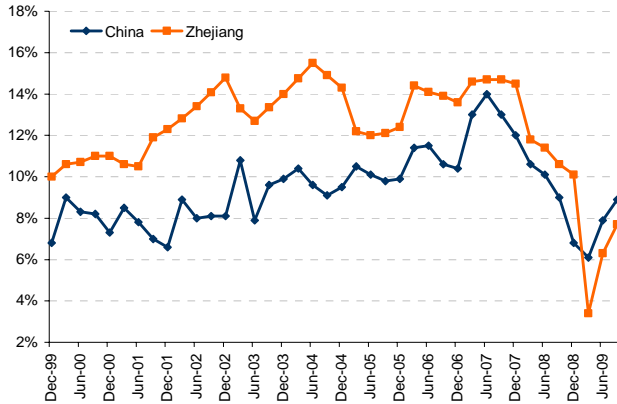
### Key Economic Indicators at Provincial Level

	Zhejiang Province	Jiangsu Province	Guangdong Province	Sichuan Province	Anhui Province
2008 GDP (Rmb bn)	2,149	3,031	3,570	1,251	887
2008 Population (mn people)	51	77	95	81	61
2008 GDP per Capita (Rmb)	41,967	39,483	37,402	15,368	14,465
2003-2008 GDP CAGR	13.4%	14.2%	13.8%	12.3%	12.3%
1Q-3Q09 GDP Growth	7.7%	11.7%	8.6%	13.5%	12.9%
2008 Land Area ('000 sq.kms)	102	103	180	485	140
2008 Length of expressway (km)	3,073	3,725	3,823	2,156	2,506
2008 Expressway Density	30.2	36.2	21.2	4.4	17.9
2008 Export / GDP	54%	57%	81%	6%	8%

Source: Company data, CEIC, Morgan Stanley Research

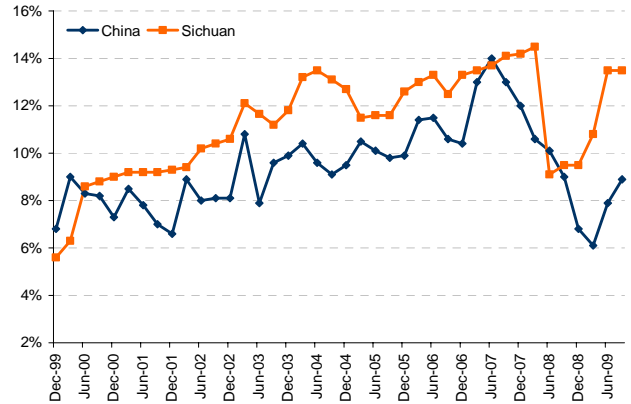
January 14, 2010  
China Toll Roads

Exhibit 141  
**Zhejiang GDP Growth versus National Average**



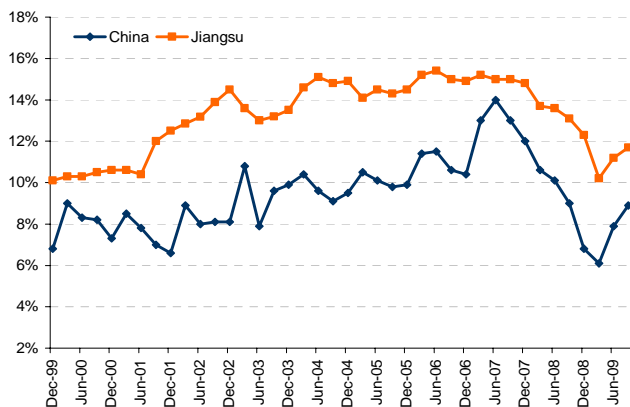
Source: CEIC, Morgan Stanley Research

Exhibit 144  
**Sichuan GDP Growth versus National Average**



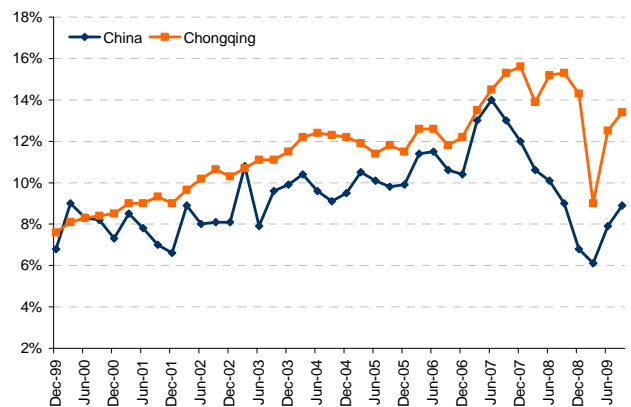
Source: CEIC, Morgan Stanley Research

Exhibit 142  
**Jiangsu GDP Growth versus National Average**



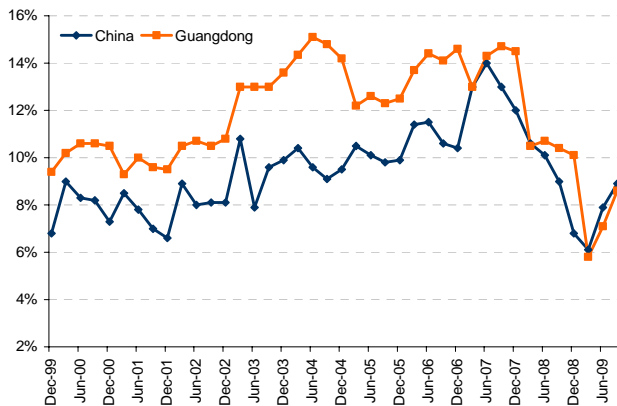
Source: CEIC, Morgan Stanley Research

Exhibit 145  
**Chongqing GDP Growth versus National Average**



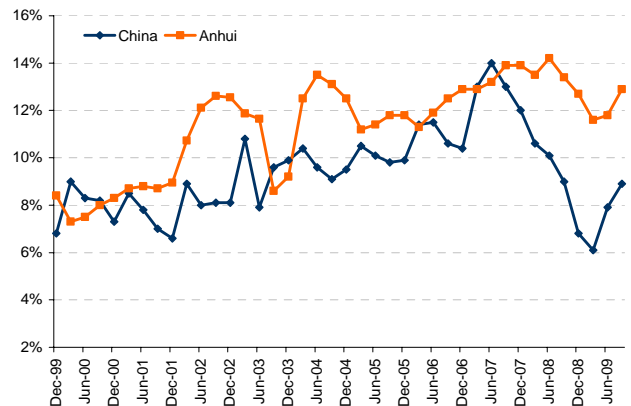
Source: CEIC, Morgan Stanley Research

Exhibit 143  
**Guangdong GDP Growth versus National Average**



Source: CEIC, Morgan Stanley Research

Exhibit 146  
**Anhui GDP Growth versus National Average**



Source: CEIC, Morgan Stanley Research

## Appendix 4: Peer Comparison with Overseas Toll Road Companies

### Global Peer Comparison Summary

We separate the overseas peers into two categories: those in developed countries and other emerging markets. Compared with toll road peers in developed countries, Chinese toll road companies are offering: 1) higher margins; 2) better EPS growth; 3) similar ROE, but much higher ROA (because of lower assets/equity ratio); and 4) much higher interest coverage. We expect Chinese toll road companies to continue to deliver better growth in the coming decade, backed by stronger GDP growth, and we believe they offer better

investment value than do toll road peers in developed countries.

Compared with toll road peers in other emerging markets, Chinese toll road companies deliver similar margins, growth, and dividend yield. They also offer similar ROA, but their ROE is much lower, mainly because of the low assets/equity ratio. The interest coverage ratios of Chinese toll road companies are also much higher, implying lower financial risk.

Exhibit 147

### Global Peer Comparison: OP Margin, Net Margin and Assets Turnover

Company	OP Margin (%)			Net Margin (%)			Asset Turnover		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
<b>H-share Toll Road Companies</b>									
Zhejiang Expressway Co. Ltd.	57.5	61.4	45.6	34.7	34.4	29.9	0.2	0.3	0.3
Jiangsu Expressway Co. Ltd.	53.2	55.7	49.8	29.9	32.4	31.2	0.1	0.2	0.2
Sichuan Expressway Co. Ltd.	40.4	50.6	53.4	27.1	35.5	38.0	0.1	0.2	0.2
Anhui Expressway Co. Ltd.	71.2	66.1	61.1	59.3	32.2	39.7	0.2	0.2	0.2
Shenzhen Expressway Co. Ltd.	68.5	61.7	50.3	75.3	56.4	47.3	0.1	0.1	0.1
Hopewell Highway Infrastructure Ltd.	76.2	54.8	44.7	51.7	63.0	33.2	0.1	0.2	0.2
<b>Median</b>	<b>63.0</b>	<b>58.5</b>	<b>50.0</b>	<b>43.2</b>	<b>34.9</b>	<b>35.6</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>
<b>Mean</b>	<b>61.2</b>	<b>58.4</b>	<b>50.8</b>	<b>46.3</b>	<b>42.3</b>	<b>36.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Toll Road Peers in Developed Countries</b>									
Abertis Infraestructuras S.A.	39.0	41.0	38.1	16.3	18.8	17.3	0.2	0.3	0.2
Atlantia S.p.A.	43.4	50.8	46.7	24.6	11.3	21.3	0.2	0.2	0.2
Brisa-Autoestradas de Portugal S/A	48.2	21.4	35.3	29.8	41.7	24.0	0.1	0.1	0.1
Ferrovial S.A.	40.6	49.5	n.a.	17.6	(2.6)	n.a.	0.1	0.1	n.a.
Macquarie Infrastructure Group	59.7	n.m.	n.m.	55.4	n.m.	n.m.	0.0	0.1	0.0
Transurban Group	n.a.	6.0	2.4	n.m.	n.m.	n.m.	0.1	0.1	n.a.
Autostrada Torino-Milano S.p.A.	37.2	36.9	14.2	30.0	21.0	5.7	0.2	0.2	0.2
<b>Median</b>	<b>42.0</b>	<b>39.0</b>	<b>35.3</b>	<b>27.2</b>	<b>18.8</b>	<b>19.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
<b>Mean</b>	<b>44.7</b>	<b>34.3</b>	<b>27.3</b>	<b>28.9</b>	<b>18.0</b>	<b>17.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
<b>Toll Road Peers in Other EM Countries</b>									
Companhia Concessoes Rodoviaras	40.1	47.9	50.0	25.5	24.8	26.1	0.7	0.6	0.5
Macquarie Korea Infrastructure Fund	n.a.	n.a.	78.1	n.a.	n.a.	78.1	n.a.	n.a.	n.a.
Obrascon Huarte Lain Brasil S.A.	37.4	35.3	42.6	23.1	12.2	14.5	0.3	0.4	0.3
PLUS Expressways Bhd	70.8	68.2	68.2	52.8	54.7	36.4	0.2	0.2	0.2
Bangkok Expressway PCL	n.a.	45.8	45.5	22.2	19.4	20.8	0.1	0.2	0.2
Lingkaran Trans Kota Holdings Bhd	77.4	75.4	n.a.	32.8	39.3	n.a.	0.1	0.1	n.a.
<b>Median</b>	<b>55.4</b>	<b>47.9</b>	<b>50.0</b>	<b>25.5</b>	<b>24.8</b>	<b>26.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>
<b>Mean</b>	<b>56.4</b>	<b>54.5</b>	<b>56.9</b>	<b>31.3</b>	<b>30.1</b>	<b>35.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>

Source: Company data, FactSet, Morgan Stanley Research



Exhibit 148

**Global Peer Comparison: ROE, ROA and Assets / Equity Ratio**

Company	ROE (%)			ROA (%)			Assets / Equity		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Zhejiang Expressway Co. Ltd.	13.9	18.3	13.8	8.4	8.8	7.5	1.6	2.1	1.8
Jiangsu Expressway Co. Ltd.	8.6	11.5	10.9	4.7	6.7	6.8	1.8	1.7	1.6
Sichuan Expressway Co. Ltd.	5.9	9.4	9.4	3.9	6.5	6.8	1.5	1.4	1.4
Anhui Expressway Co. Ltd.	17.8	10.7	13.5	12.6	7.1	8.2	1.4	1.6	1.7
Shenzhen Expressway Co. Ltd.	8.8	9.0	7.1	5.9	4.2	2.8	1.5	2.1	2.6
Hopewell Highway Infrastructure Ltd.	12.4	9.7	12.7	7.7	6.4	7.3	1.6	1.5	1.7
<b>Median</b>	<b>10.6</b>	<b>10.2</b>	<b>11.8</b>	<b>6.8</b>	<b>6.6</b>	<b>7.0</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>
<b>Mean</b>	<b>11.2</b>	<b>11.4</b>	<b>11.2</b>	<b>7.2</b>	<b>6.6</b>	<b>6.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>
<b>Toll Road Peers in Developed Countries</b>									
Abertis Infraestructuras S.A.	15.7	19.9	18.1	3.7	4.8	3.0	4.2	4.1	5.9
Atlantia S.p.A.	26.6	10.8	20.4	4.7	2.5	4.8	5.6	4.3	4.2
Brisa-Autoestradas de Portugal S/A	11.4	16.0	10.5	3.8	5.6	3.1	3.0	2.9	3.4
Ferrovial S.A.	10.0	(2.4)	(1.3)	1.5	(0.2)	(0.1)	6.6	9.9	14.8
Macquarie Infrastructure Group	5.1	26.4	11.9	2.7	15.6	6.9	1.9	1.7	1.7
Transurban Group	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.7	2.9	n.a.
Autostrada Torino-Milano S.p.A.	16.6	15.3	4.8	6.0	3.8	1.3	2.8	4.0	3.6
<b>Median</b>	<b>13.5</b>	<b>15.7</b>	<b>11.2</b>	<b>3.8</b>	<b>4.3</b>	<b>3.1</b>	<b>3.0</b>	<b>4.0</b>	<b>3.9</b>
<b>Mean</b>	<b>14.2</b>	<b>14.3</b>	<b>10.8</b>	<b>3.8</b>	<b>5.4</b>	<b>3.2</b>	<b>3.8</b>	<b>4.2</b>	<b>5.6</b>
<b>Toll Road Peers in Other EM Countries</b>									
Companhia Concessionarias Rodovias	41.4	39.0	45.4	16.6	15.4	14.2	2.5	2.5	3.2
Macquarie Korea Infrastructure Fund	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Obrascon Huarte Lain Brasil S.A.	19.1	11.4	14.3	7.1	5.0	4.7	2.7	2.3	3.0
PLUS Expressways Bhd	27.6	26.3	21.2	9.5	9.0	7.3	2.9	2.9	2.9
Bangkok Expressway PCL	10.3	9.1	9.1	3.3	3.1	3.2	3.1	2.9	2.8
Lingkar Trans Kota Holdings Bhd	9.1	11.5	n.a.	3.9	4.9	n.a.	2.4	2.3	2.3
<b>Median</b>	<b>19.1</b>	<b>11.5</b>	<b>17.7</b>	<b>7.1</b>	<b>5.0</b>	<b>6.0</b>	<b>2.7</b>	<b>2.5</b>	<b>2.9</b>
<b>Mean</b>	<b>21.5</b>	<b>19.4</b>	<b>22.5</b>	<b>8.1</b>	<b>7.5</b>	<b>7.4</b>	<b>2.7</b>	<b>2.6</b>	<b>2.8</b>

Source: Company data, FactSet, Morgan Stanley Research



Exhibit 149

## Global Peer Comparison: EPS Growth, Dividend Yield and Interest Coverage

Company	EPS Growth				Dividend Yield			Interest Coverage		
	2006	2007	2008	06-08 CAGR	2006	2007	2008	2006	2007	2008
Zhejiang Expressway Co. Ltd.	15%	46%	-22%	10%	4.1%	2.5%	7.7%	36.3	62.5	40.6
Jiangsu Expressway Co. Ltd.	76%	40%	-3%	34%	3.4%	2.9%	5.4%	4.9	5.8	4.9
Sichuan Expressway Co. Ltd.	18%	69%	10%	30%	2.7%	1.2%	3.1%	3.8	8.1	6.2
Anhui Expressway Co. Ltd.	31%	-45%	23%	-4%	5.2%	3.1%	9.0%	12.6	n.m.	15.8
Shenzhen Expressway Co. Ltd.	5%	7%	-19%	-3%	2.7%	1.9%	5.4%	8.7	5.7	3.2
Hopewell Highway Infrastructure Ltd.	19%	46%	-46%	-2%	4.5%	5.2%	7.0%	4.3	7.3	8.8
<b>Median</b>	<b>19%</b>	<b>43%</b>	<b>-11%</b>	<b>4%</b>	<b>3.8%</b>	<b>2.7%</b>	<b>6.2%</b>	<b>6.8</b>	<b>7.3</b>	<b>7.5</b>
<b>Mean</b>	<b>28%</b>	<b>27%</b>	<b>-9%</b>	<b>11%</b>	<b>3.8%</b>	<b>2.8%</b>	<b>6.3%</b>	<b>11.8</b>	<b>17.9</b>	<b>13.2</b>

### Toll Road Peers in Developed Countries

Abertis Infraestructuras S.A.	30%	6%	3%	12%	2.2%	2.4%	4.6%	2.7	2.9	2.3
Atlantia S.p.A.	20%	3%	-35%	-7%	2.7%	2.6%	5.4%	3.2	3.6	3.3
Brisa-Autoestradas de Portugal S/A	49%	-37%	31%	7%	2.9%	3.0%	5.8%	3.8	3.0	1.9
Ferrovial S.A.	-88%	941%	-96%	-64%	0.7%	0.9%	1.7%	1.2	0.8	n.a.
Macquarie Infrastructure Group	-70%	398%	-53%	-11%	6.1%	6.6%	11.7%	4.2	12.3	(12.9)
Transurban Group	n.m.	n.m.	n.m.	n.m.	6.6%	8.0%	9.0%	0.7	0.9	0.7
Autostrada Torino-Milano S.p.A.	85%	-52%	6%	-2%	2.6%	4.0%	9.6%	8.0	4.5	2.1
<b>Median</b>	<b>25%</b>	<b>5%</b>	<b>-16%</b>	<b>-4%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>5.8%</b>	<b>3.2</b>	<b>3.0</b>	<b>2.0</b>
<b>Mean</b>	<b>4%</b>	<b>210%</b>	<b>-24%</b>	<b>-11%</b>	<b>3.4%</b>	<b>3.9%</b>	<b>6.8%</b>	<b>3.4</b>	<b>4.0</b>	<b>(0.4)</b>

### Toll Road Peers in Other EM Countries

Companhia Concessoes Rodoviaras	5%	46%	-3%	14%	16.6	15.4	14.2	2.5	2.5	3.2
Macquarie Korea Infrastructure Fund	620%	-92%	n.m.	n.m.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Obrascon Huarte Lain Brasil S.A.	76%	-31%	10%	10%	7.1	5.0	4.7	2.7	2.3	3.0
PLUS Expressways Bhd	-5%	13%	2%	3%	9.5	9.0	7.3	2.9	2.9	2.9
Bangkok Expressway PCL	0%	-16%	6%	-4%	3.3	3.1	3.2	3.1	2.9	2.8
Lingkaran Trans Kota Holdings Bhd	17%	66%	-10%	21%	3.9	4.9	n.a.	2.4	2.3	2.3
<b>Median</b>	<b>11%</b>	<b>-2%</b>	<b>2%</b>	<b>10%</b>	<b>7.1</b>	<b>5.0</b>	<b>6.0</b>	<b>2.7</b>	<b>2.5</b>	<b>2.9</b>
<b>Mean</b>	<b>119%</b>	<b>-2%</b>	<b>1%</b>	<b>9%</b>	<b>8.1</b>	<b>7.5</b>	<b>7.4</b>	<b>2.7</b>	<b>2.6</b>	<b>2.8</b>

Source: Company data, FactSet, Morgan Stanley Research

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<b>Underweight/Sell</b>	<b>376</b>	<b>15%</b>	<b>82</b>	<b>12%</b>	<b>22%</b>
<b>Total</b>	<b>2,445</b>		<b>693</b>		

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January 14, 2010  
China Toll Roads

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**Industry Coverage:China Transportation**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price* (01/13/2010)</b>
<b>Sophie Loh</b>		
China COSCO (1919.HK)	E (10/08/2009)	HK\$10.62
China Shipping CL (2866.HK)	E (07/23/2009)	HK\$3.25
<b>Edward H Xu, CFA</b>		
Beijing Capital Int'l Airport (0694.HK)	E (01/06/2009)	HK\$5.1
COSCO Pacific (1199.HK)	E (01/20/2009)	HK\$12.46
China Merchants Hldg Intl (0144.HK)	O (02/08/2007)	HK\$28
China Shipping Development (1138.HK)	O (06/18/2009)	HK\$13.5
Guangzhou Baiyun Int'l Airport (600004.SS)	O (04/10/2007)	Rmb10.31
Hainan Meilan Int'l Airport (0357.HK)	O (02/20/2008)	HK\$10.7
Shanghai International Airport (600009.SS)	O (10/30/2008)	Rmb18.41
Shenzhen Airport Company Ltd (000089.SZ)	E (10/30/2008)	Rmb7.46
Sinotrans Limited (0598.HK)	O (03/26/2008)	HK\$2.22
TravelSky Technology (0696.HK)	O (11/05/2008)	HK\$7.85
Xiamen Airport (600897.SS)	O (06/19/2007)	Rmb18.67
<b>Andy Meng, CFA</b>		
Anhui Expressway (0995.HK)	E (01/14/2010)	HK\$5.35
Hopewell Highway Infrastructure (0737.HK)	E (01/14/2010)	HK\$4.98
Jiangsu Expressway (0177.HK)	E (01/14/2010)	HK\$6.96
Shenzhen Expressway (0548.HK)	E (01/14/2010)	HK\$4.19
Sichuan Expressway (0107.HK)	O (01/14/2010)	HK\$4.10
Zhejiang Expressway (0576.HK)	O (01/14/2010)	HK\$7.40

Stock Ratings are subject to change. Please see latest research for each company.  
\* Historical prices are not split adjusted.